

News Release

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Judo Bank Australia Manufacturing PMI® Manufacturing sector contracts again in October

Key findings

Fastest fall in new orders since May 2020

Employment rose at most modest pace in three years

Input cost inflation accelerates to seven-month high

Australia's manufacturing sector further contracted at the start of the fourth quarter, according to the latest PMI® data from Judo Bank. Demand conditions worsened, leading to a sharper fall in new orders. Even with firms working through existing orders, production levels fell at a marked rate in October. This resulted in manufacturers reducing their inventory holdings while job creation decelerated despite labour constraints. Furthermore, manufacturers limited the degree to which they increased their charges, despite input costs rising at the fastest rate in seven months.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 48.2 in October, down from 48.7 in September. The latest reading signalled an eighth monthly decline in manufacturing sector conditions. The pace of deterioration was among the fastest rates in the current sequence and moderate overall.

Incoming new orders for Australian manufactured goods fell for the eleventh month in a row and at one of the fastest rates on record. This was amid softening economic conditions and shrinking customer bases according to survey respondents. Foreign demand likewise deteriorated at a quicker rate in October as business conditions worsened at key export destinations.

Reflective of the fall in new work, manufacturing production declined in October and at the quickest pace since August 2021. Firms also worked through their existing orders, leading to the most pronounced fall in the level of outstanding work since June.

As a result of lower new orders and production, purchasing activity was reduced. This resulted in reduced input inventory holdings among Australian manufacturers. Stocks of finished goods simultaneously declined and at a solid pace with firms reluctant to hold additional goods against a backdrop of falling demand.

Concurrently, employment levels rose at the slowest rate in three years even as reports of labour constraints continued to be reported. Australian manufacturers indicated greater caution with taking on additional staff as new work inflows slowed. This cautiousness was also reflected in the Future Output Index, which slipped to its lowest level in four months. Heightened concerns over domestic and external conditions dampened hopes for sales growth. Reports of higher prices and an increasingly competitive environment also led to the paring of business sentiment.

Meanwhile, supply constraints coupled with transport delays contributed to deteriorating vendor performance in October. The rate at which lead times lengthened was also the sharpest in just over a year. These supply issues further led to rising input cost inflation at the start of the fourth quarter, though higher energy, raw material, and labour costs also contributed, according to panellists. Overall, input cost inflation accelerated to the fastest since March, but fell short of the series average.

Finally, selling prices also increased in line with input costs. That said, in contrast to the rising inflation trend for costs, average selling prices rose at the weakest pace in three months. Australian manufacturers opted to share their cost burdens with clients at a slower rate with the intention to boost sales against a backdrop of falling demand.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Manufacturing activity weakened and remained below the neutral 50 index level in October, extending the soft landing that commenced early in 2023. The slight decline in the PMI index to 48.2 masks a more profound fall in the key output and new orders indexes.

"The output and new orders indexes fell to concerning levels in October, lower than what would normally be associated with a soft patch.

"It is too early to suggest that the Australian manufacturing sector is heading for a hard landing. All monthly economic data needs to be viewed cautiously, but we will watch these indicators closely over the final months of 2023.

"The employment index fell to the lowest level since the 2020 lockdowns, although the index level remains above the 50 index level. This points to a slowdown in hiring across Australia's manufacturing sector rather than outright contraction.

"The solid employment result also cautions against reading too much into the falls in output and new orders in October.

"Cost pressures increased further in October, with the input price index rising to the highest level since March. There has been a clear upward trend for costs since the June low point, which is indicative of an intensification of business cost pressures in the current financial year.

"Contrary to rising input prices, there has been another fall in the output price index. Output prices remain above the neutral 50 level, indicative of low inflation of manufactured goods. Output prices are now back down to what would be considered normal prior to the pandemic.

"Rising cost pressures and low final price inflation do not bode well for manufacturers' margins and profitability. If margin pressures are sustained, businesses will eventually need to pull back on investment and hiring to protect profitability.

"We will be watching the manufacturing PMI closely over the months ahead. Manufacturing is a highly cyclical sector and often a reliable indicator of broader economic trends.

"So far, the Australian PMIs are consistent with a soft landing for the broader economy and a gradual reduction in inflation back to the RBA's target of 2% to 3% by 2025."

Judo Bank Australia Manufacturing PMI

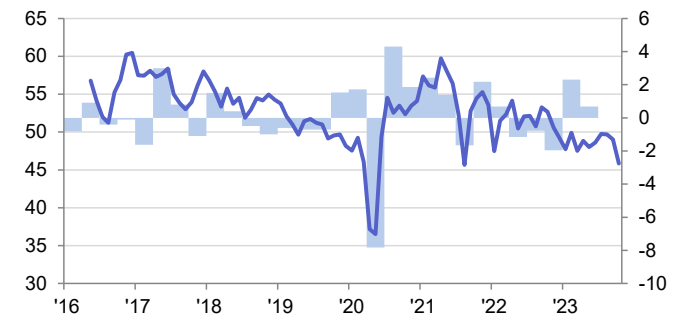
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 11-25 October 2023.

Australia Manufacturing PMI Output Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

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Survey methodology

The Judo Bank Australia Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 2016.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Flash vs. final data

Since May 2016 the average difference between final and flash Services PMI values is 0.0 (0.6 in absolute terms).

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