

News Release

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Judo Bank Australia Manufacturing PMI® Manufacturing sector conditions soften in September

Key findings

Output fell modestly amid marked reduction in new orders

Staffing levels rose at the fastest rate since March

Selling price inflation accelerated to a four-month high

Australia's manufacturing sector remained in contraction during September, according to the latest PMI® data from Judo Bank. Central to the latest deterioration in conditions was a sharper fall in new orders, including from abroad. In turn, manufacturers worked through their existing orders, though still experienced a mild reduction in output. While employment levels rose in response to labour constraints, purchasing activity and inventory levels fell in tandem with lower new work intakes. Overall sentiment within the manufacturing sector remained positive in the latest survey period but the level of confidence declined.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 48.7 in September, down from 49.6 in August. The latest reading signalled a seventh monthly decline in manufacturing operating conditions. Although the pace of deterioration accelerated since August, it remained modest overall.

Incoming new orders within the manufacturing sector shrank for a tenth straight month in September, attributed to softer market conditions and high interest rates. Foreign demand likewise deteriorated as economic conditions in key export markets worsened.

Consequently, production levels fell at an accelerated rate in September and for the tenth consecutive month. The decline was only mild, however. This was partly reflective of manufacturers working through their backlogs, clearing work-in-hand at a faster pace in the latest survey period.

Purchasing activity fell on the back of lower new business and production, leading to reduced pre-production inventory holdings in September. Anecdotal evidence suggested that firms were cautious about holding additional input stocks while new orders declined. Stocks of finished goods likewise declined modestly.

In contrast, employment levels rose again within the manufacturing sector. Staffing levels have consistently increased since November 2020, with the latest growth part of efforts to alleviate labour shortages, according to panellists. Similarly, vendor performance was also impacted by a lack of staff and lead times lengthened for a third straight month in September, albeit only marginally.

Average input prices meanwhile continued to climb at the end of the third quarter, with higher raw material, labour and financing costs being listed by panellists as contributors. The rate of inflation eased, however, amid reports of softening demand. That said, manufacturers opted to share their increased cost burdens with clients at a faster rate in the latest survey period. Rates of inflation for both input costs and output prices remained below their respective series averages, however.

Overall sentiment within the Australian manufacturing sector remained positive just before the final quarter of 2023. The level of confidence was slightly lower compared to August, and below the long-run average. Concerns over softer demand conditions and increased competition were reported to have dampened sentiment.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Australian manufacturing sector is on track for a soft landing in 2023, with another soft PMI in September at 48.7, down slightly from August. The underlying trend is consistent with a gradual slowdown in activity across the manufacturing sector.

"The slowdown in manufacturing sector activity in Australia is consistent with a cyclical slowdown in global manufacturing activity, as well as weaker demand for consumer goods in the domestic market and challenging conditions in the construction sector.

"New orders were weak in September, down 1.9 points to the equally lowest reading since the initial pandemic lockdowns of 2020. Although the seasonally adjusted New Orders index remains well below 50 in contractionary territory, the Australian manufacturing sector is experiencing a normal cyclical slowdown with few signs of a more severe downturn typical of a recession in the broader economy.

"Input price inflation was down in September but remain elevated compared to pre-pandemic norms. Indeed, input prices, a reflection of manufacturers' cost pressures, are showing signs of gradually rising again since the middle of the year, snapping the disinflation trend of 2022/23.

"Final prices remained steady in September at somewhat elevated levels but are well off the highs of 2022.

"The manufacturing sector is no longer a source of significant inflationary pressure within the Australian economy, although we are far from seeing deflation in manufactured goods.

"Supply chains have normalised in 2023 and continue to be operating in an orderly fashion, in sharp contrast to what we saw in the pandemic years. If anything, the slowdown in manufacturing activity over the past year has seen capacity restored. Suppliers' delivery times are at what should be considered a normal level while the backlog of work is near the long-run average, in contrast to the massive build-up through the pandemic years.

"The employment index remains in expansionary territory and has shown signs of improvement over the past three months. While activity in the Australian manufacturing sector is undergoing a cyclical downturn, businesses do not appear to be prepared to shelve hiring plans just yet.

"Policymakers, particularly the RBA Board, will most likely welcome these developments in the manufacturing sector. The priority for the economy in 2023 is to get inflation back down to the RBA's 2% to 3% target, which will require a slowdown in economic activity. This is precisely what we are seeing in the manufacturing sector in 2023.

"The recent PMI results suggest that a soft landing is progressing for the Australian manufacturing sector, with few signs of a deeper downturn ahead. The RBA Board would like to see cost pressures ease further and final prices come down towards levels consistent with the RBA inflation target."

Judo Bank Australia Manufacturing PMI

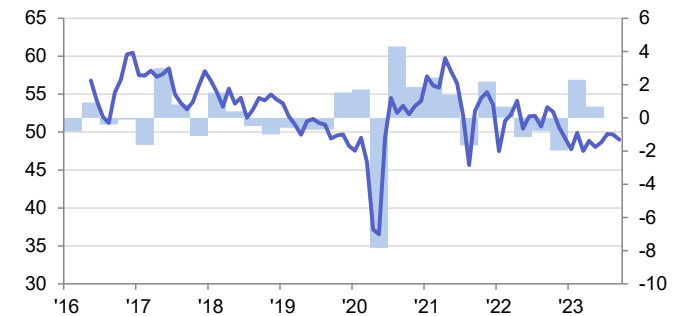
sa, >50 = improvement since previous month



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

Contact

Warren Hogan
Chief Economic Advisor
Judo Bank
T: +61 414 498 675
warren.hogan@judo.bank

Casey Van Liessum
Director, Corporate Affairs
Judo Bank
T: +61 403 119 671
casey.vanliessum@judo.bank

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
T: +65 6439 6022
jingyi.pan@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82 2 6001 3128
sungha.park@spglobal.com

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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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