

News Release

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Judo Bank Australia Manufacturing PMI®

Australian manufacturing sector remains in downturn during May

Key findings

Demand and output both fall

Record improvement in suppliers' delivery times

Jobs growth continues, but softens

The latest PMI® data from Judo Bank pointed to a sustained downturn in the Australian manufacturing sector as new orders remained in contraction, leading to lower levels of production midway in May. As a result, firms remained careful with their hiring activity, expanding workforce capacity at a slower rate. Supply constraints showed signs of easing, however, enabling firms to further clear their backlogs. Meanwhile, price pressures intensified from April but remained relatively subdued compared to historical averages. The level of business confidence in the manufacturing sector also improved in May.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 48.4 in May, up from 48.0 in April. This signalled a third straight month-on-month deterioration in overall business conditions, albeit at a softer pace.

Sales for Australian manufactured goods fell again midway into the second quarter. Tighter global monetary policies and weak underlying demand undermined buying interest, according to panellists. That said, the pace at which new orders declined was softer than in April. Foreign demand likewise contracted at a shallower pace in May.

The fall in new orders meant that production levels were reduced for a sixth straight month in May. Labour constraints were also mentioned by panellists as a reason for reduced output. As such, manufacturers continued to hire additional workers during May, although given the challenging economic backdrop, growth was only marginal and the weakest in over two-and-a-half years.

Firms were hesitant to acquire additional inputs, lowering their purchasing at among the fastest rates on record. With concerns over the production outlook and the slowdown in input replenishment, the level of pre-production inventories dipped within the manufacturing sector for the third straight month. Likewise, the average level of finished goods holdings also receded in the goods producing sector and at the fastest pace since July 2022.

Supply conditions improved in May on the back of lower demand and an improvement in general global supply chain conditions. Lead times shortened for a third consecutive month and at the fastest pace in the seven years since data collection began for the survey (May 2016). Better component availability from vendors coupled with lower new work intakes led to a further clearance of backlogs in May. This was highlighted by a decline in backlogged work at the quickest rate in three years.

Meanwhile price pressures remained broadly subdued after falling sharply at the start of the second quarter. Input cost inflation rose slightly from April, due to faster increases in raw material, labour and transport costs, but remained well below the series average. In turn Australian manufacturers passed on these cost increases at a marginally faster rate in May, but likewise kept selling price inflation at around its lowest level in two-and-a-half years.

While business confidence remained well below its series average in May, weighed down by concerns over higher interest rates and weak economic conditions, it had nevertheless improved to the highest level in three months. Hopes for better sales in the 12-months ahead helped to lift optimism in the Australian manufacturing sector midway into Q2.

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 PMI reading below 50 in May. Even though the May PMI is up slightly from April, 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 rose in May although this series remains below 50 in contractionary territory. This suggests that the sector is experiencing a normal cyclical slowdown with few signs of a more severe downturn typical of a recession in the broader economy.

"Input prices increased in May but are well below the elevated levels we have seen over the past three years. The manufacturing sector is no longer a source of significant inflationary pressure within the Australian economy, however, we are far from seeing deflation in manufactured goods.

"Supply chains have normalised in 2023 and continue to be operating in an orderly fashion - a 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 now easing at the fastest rate in a decade while the backlog of work is at the lowest level since the initial pandemic lockdowns in 2020.

"The employment index is falling and is now only just in expansionary territory, the lowest since late 2020. The cyclical slowdown in manufacturing activity, coupled with a big reduction in the backlog of work over the past six months, appear to be reducing the demand for labour.

"These developments in the manufacturing sector will likely be welcomed by policymakers, particularly the RBA. The economic policy priority 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 pick-up in service sector activity could be problematic for the RBA."

Judo Bank Australia Manufacturing PMI

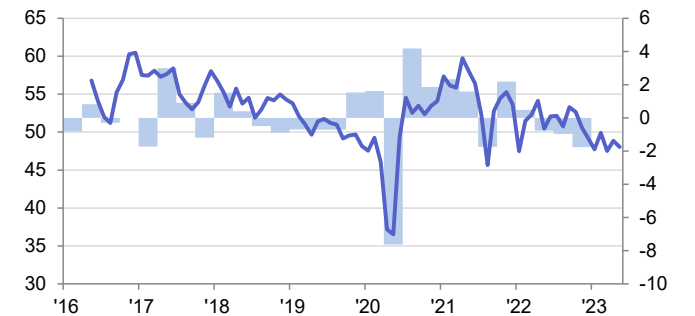
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.
Data were collected 11-24 May 2023.

Australia Manufacturing PMI Output Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

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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@ihsmarkit.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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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. www.spglobal.com/marketintelligence/en/mi/products/pmi.html