

News Release

Embargoed until 0900 AEST 2 September 2024

Judo Bank Australia Manufacturing PMI®

Sharper contraction of manufacturing production signalled during August

Key findings

New orders fall at quicker pace though export growth renews

Vendor performance deteriorates at fastest pace in two years

Business confidence rises to one-year high

Australia's manufacturing sector conditions continued to deteriorate midway through the third quarter of 2024, according to the latest PMI® data from Judo Bank. Incoming new orders and production remained in contraction, though export orders expanded at the fastest pace in nearly two years. Sentiment meanwhile improved with confidence levels touching the highest level in one year.

Deterioration in overall demand nevertheless led to a reduction in purchasing activity, inventory holdings and headcounts in the manufacturing sector. Supply conditions also worsened, whilst firms raised selling prices at a faster pace to cover higher costs.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 48.5 in August, up from 47.5 in July. This indicated a seventh successive monthly deterioration in manufacturing sector conditions, albeit at the softest pace since May.

Manufacturing production contracted in August and at the fastest pace since March amidst another marked reduction in new orders. Australian manufacturers often linked the fall in new work to the adverse impact of high interest rates and subdued demand conditions. That said, foreign-demand conditions improved with new orders from abroad rising for the first time since May. Moreover, the rate at which export orders increased was the most pronounced since September 2022. Sources of export orders included mainland China and Southeast Asian economies according to Australian manufacturers.

The reduction in overall new orders led to a further depletion of backlogged work in August. A lack of capacity pressure resulted in headcounts being cut for a third successive month. The pace of job shedding eased to the slowest in the current sequence, however, and was marginal. This was amid reports of some firms hiring additional staff in anticipation of higher future output.

Indeed, the Future Output Index posted its highest reading in a year to reflect heightened optimism among goods producers in August. Firms were generally hopeful that economic conditions will improve, and business development efforts will bear fruit and lead to higher output in the next 12 months.

Turning to inventory levels, both stocks of purchases and finished goods fell in the latest survey period with firms indicating hesitancy to accumulate inventories during a period of falling new orders. This was further reflected by another reduction in purchasing activity during August.

Supply constraints were observed in August, with lead times worsening at the sharpest pace in two years. Disruptions in the Red Sea region and port congestions in Southeast Asia mainly underpinned the lengthening of lead times in August according to panellists.

As a result, higher transport costs stemming from supply disruptions and rising raw material costs led to another round of cost inflation in August. Australian manufacturers also raised selling prices at a faster pace to cover the increase in costs. That said, rates of input cost and output price inflation remained below their respective series averages in August.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"While slightly below the neutral level, the Australian Manufacturing PMI rose in August and is now at the highest level in three months. Australia's manufacturing industries have been in an extended soft patch for 18 months with the PMI readings and activity indicators moving around between index levels of 45.0 and 50.0.

"This is not a manufacturing recession, but an extended soft landing, consistent with the global slowdown in manufacturing activity since 2022. Capacity constraints across many parts of the Australian economy are acting as a headwind to growth for manufacturing.

"However, the August report shows some green shoots with a jump above the 50.0 mark for new export orders and a jump up in the future output index to the highest level in 18 months. But we saw a similar green shoot earlier this year that gave way to renewed weakness by June.

"New orders and output remain soft at readings below 50.0, while employment rose above 50 to signal an expansion in the demand for labour in manufacturing. The good news is that conditions in the manufacturing sector are not deteriorating, although a genuine recovery remains elusive.

"Inflation indicators in the sector worsened in August, with both the input price index (costs) and the output price index (final prices) rising during the month.

"Input prices have sustained index readings just under 60 over the past four months, which is a shift up from where they were for much of 2023. There have been no signs of easing manufacturing sector costs in recent months. Instead, the pick-up in cost pressure from earlier this year, presumably some of which is related to higher international transport and logistics costs, appears to be continuing into the new financial year.

"Final prices rose towards a 55.0 index reading in August, which, if sustained, will lead to the highest readings in more than a year. Manufacturing output prices can be volatile month-to-month, so this needs to be monitored in the months ahead.

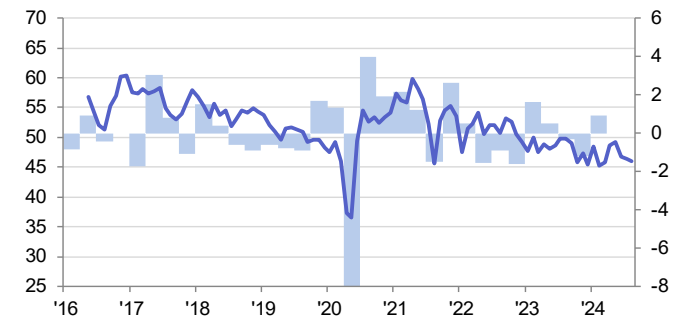
"Unfortunately, there are no signs of easing manufacturing price pressures coming through the survey in the middle of 2024. This is consistent with the rising Producer Price Index from the Australian Bureau of Statistics. The June quarter shows an increasing trend with a 4.8% annual rate recorded."

Judo Bank Australia Manufacturing PMI
 sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
 Data were collected 09-23 August 2024.

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: +81 3 6262 1757
sungha.park@spglobal.com

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

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).

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("Data") contained herein, any errors, inaccuracies, omissions or delays in the Data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the Data. Purchasing Managers' Index™ and PMI® are either trade marks or registered trade marks of S&P Global Inc or licensed to S&P Global Inc and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.

By providing this Content, Judo Bank Pty Ltd ABN 11 615 995 581 AFSL and Australian Credit Licence 501091 ("Judo Bank") does not intend to provide any financial or other advice or recommendation. This Content is of a general nature only and you should seek independent financial, legal, tax and other relevant professional advice having regard to your particular objectives, needs and circumstances. Judo Bank, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof ("Judo Group") does not warrant the information contained in the Content is accurate, reliable, complete or current, and shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Content. If any law prohibits the exclusion of such liability, the Judo Group's liability is limited to the re-supply of the Content. You should independently verify the information contained in the Content. It may not be reproduced or distributed without Judo Bank's consent. For further details of this disclaimer please go to www.judo.bank/disclaimer.