Australian private sector output returns to growth in September

Key data

Flash Australia Composite Output Index
Sep: 50.5, 2-month high (Aug final: 49.4)

Flash Australia Services Business Activity Index
Sep: 50.0, 2-month high (Aug final: 49.0)

Flash Australia Manufacturing Output Index
Sep: 53.6, 2-month high (Aug final: 52.5)

Flash Australia Manufacturing PMI
Sep: 55.5, 29-month high (Aug final: 53.6)

The Australian private sector economy returned to growth in September amid an easing of coronavirus disease 2019 (COVID-19) restrictions. Business activity rose following a decline in August, although the rate of increase was marginal. The recovery in overall activity was driven by further manufacturing production growth as services business activity was unchanged from August.

Comment

Bernard Aw, Principal Economist at IHS Markit, said:

"The latest PMI data showed signs of stabilisation in Australia’s private sector business conditions during September, with activity and sales increasing marginally after falling in August amid tightening containment measures to contain a surge in new infection cases. However, other survey indicators suggest that the rebound may lack legs going forward. The absence of capacity pressure led to a further and sharper decline in workforce numbers, highlighting the prospect of rising unemployment.

"The survey also showed a divergence in the sectors participating in the economic recovery. Services business activity remained subdued, coinciding with weak sales as the sector was more adversely hit by COVID-19 restrictions. Meanwhile, manufacturing output continued to increase, supported by renewed growth in export sales.

"Government spending on public works and expectations of an eventual easing of containment measures, including cross-border restrictions, boosted business sentiment, which rose to the highest for just over two years."
The rise in private sector activity was accompanied by renewed sales growth. New order inflows increased in September after a solid contraction in August, albeit mildly. As was the case with output, growth was led by the manufacturing sector. Meanwhile, the level of services new orders was broadly unchanged from August. External demand weakened further, with new export orders falling for an eighth straight month, though at the softest rate in the current sequence of decline.

The increase in new business intakes, however, put little pressure on operating capacity. On the contrary, backlogs of work fell for a second month running in September, with the rate of decline the steepest since the height of the pandemic during April and May. Employment consequently fell further and sharply in September as firms sought to control costs. Cuts to workforce numbers were limited to the service sector, while manufacturers added more workers in September. The picture for prices was mixed in September. Input prices rose further, with inflation underpinned by greater costs for raw materials, increased transportation fees and higher wages. On the other hand, output prices decreased slightly.

Finally, the longer-term outlook remained positive. In fact, sentiment regarding the year ahead improved to the strongest for just over two years. Optimism was seen across both sectors, with service providers particularly upbeat about prospects. Firms expect output to rise in the coming months as containment measures are relaxed and market conditions return to normality.

IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index is designed to provide a timely indication of changes in business activity in the Australian service sector economy as a whole. Readings above 50.0 signal an improvement in business activity on the previous month, while readings below 50.0 show deterioration.

Services activity was unchanged in September following a drop in August. Demand conditions were also broadly stable. The survey however indicated a further development of spare capacity in the service sector, which led to a sharper fall in employment. Meanwhile, input cost inflation persisted for the fourth straight month in September, but output charges fell as firms offered discounts to stimulate sales.

IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration. The PMI is calculated from five indices for output, new orders, employment, suppliers’ delivery times and stocks of purchases.

The upturn in the Australian manufacturing sector continued in September, supported by further increases in production and sales. Notably, export orders rose for the first time in eight months, albeit modestly. Job creation was also reported for the first time since November 2019 as capacity pressures rose. Meanwhile, supply chains remained under severe pressure amid freight delays, import restrictions and transport capacity issues.
Survey methodology
The IHS Markit Flash Australia Composite PMI® is compiled by IHS Markit from responses to questionnaires sent to survey panels of around 400 manufacturers and 400 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined by IHS Markit as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.


A diffusion index is calculated for each manufacturing and services 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.

Composite indices are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the ‘Composite PMI’ but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing 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.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Business Activity Index is comparable to the Manufacturing Output Index. It may be revised to as the ‘Services PMI’ but is not comparable with the headline Manufacturing PMI.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average differences between final and flash index values for the headline indices are:

Composite Output Index 0.0 (absolute difference 0.6)
Services Business Activity Index 0.0 (absolute difference 0.7)
Manufacturing PMI 0.1 (absolute difference 0.4)

Underlying final 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.

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