

IHS Markit Australia Manufacturing PMI®

Manufacturing sector growth slows amid virus disruption and supply constraints

Key findings

Demand and output growth slow in July

Employment levels rise despite shortages

Lead times worsen contributing to price pressures

Data were collected 12-26 July 2021.

Australia's manufacturing sector saw growth slow in July amid disruptions from a resurgence of COVID-19 cases and sustained supply constraints. The rate of growth for both demand and production eased further in July as COVID-19 lockdowns affected a greater number of Australian states. Production issues played a part as well with longer suppliers' delivery times and a shortage of labour, all while firms faced intensifying price pressures.

The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) posted 56.9 in July, from 58.6 in June, to signal the fourteenth consecutive month of growth. Although growth eased further since the May record, the rate of expansion remained well above the survey average.

Manufacturing output and new orders both increased for the thirteenth successive month in July but rates of growth declined, in line with the headline PMI index. Firms cited COVID-19 related disruptions having caused the growth pace to moderate, though some firms also experienced an increase in demand as clients substituted Australian manufactured goods for foreign imports amid the disruptions. Volume of new work from abroad however fell after four months of growth.

Purchasing activity growth also shrank and contributed to a slowing of pre-production inventory accumulation. Manufacturers nevertheless reported interests to continue stockpiling to meet anticipated demand and mitigate against the effects of rising prices and lengthy lead times for inputs.

This was as the rate at which delivery times worsened to the
continued...

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

“Australia’s manufacturing sector sustained in growth despite the renewed lockdowns affecting a larger proportion of the population in July.

“Meanwhile, the average Australian manufacturing firm also appear to be facing issues of supply constraints and price pressures to a greater extent in July as lead times lengthened and price inflation heightened. These constraints may well worsen in the event movement restrictions are prolonged.

“While hiring conditions remained positive in the manufacturing sector, some firms continued to report difficulties in recruiting staff to meet production requirements.

“Firms remained generally optimistic in July, though notably less so compared to June given the COVID-19 uncertainties. IHS Markit forecasts the Australian economy to grow 3.4% in 2021.”

greatest extent since April 2020. Anecdotal evidence suggested COVID-19 related disruptions further led to the lengthening of lead times in July.

Turning to prices, both input costs and output charges rose at faster rates in July. Output price inflation notably surged to a survey record as manufacturers passed on higher costs from rising raw material prices, transport fees and wages.

Demand for labour remained strong as manufacturing sector firms expanded workforce numbers at a faster pace compared to June and also cited shortages of labour in some instances.

The array of constraints led to manufacturing backlogs to continue building for an eighth straight month, though the pace at which outstanding work grew eased amid the COVID-19 disruptions. The level of post-production inventory accumulation was also affected by both outbound shipping constraints and demand slowdown, growing at a faster rate in July.

Overall Australian manufacturers remained optimistic with regards to the outlook for the sector, though the degree of optimism was taken a notch lower by the uncertainty surrounding the latest rise in COVID-19 cases.



Sources: IHS Markit, Australian Bureau of Statistics.

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Survey methodology

The IHS Markit Australia Manufacturing PMI® is compiled by IHS Markit 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.

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.

Survey dates and history

July data were collected 12-26 July 2021.

Survey data were first collected May 2016.

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Flash vs. final data

Flash data were calculated from 80-90% of final responses. Since May 2016 the average difference between final and flash Manufacturing PMI values is 0.1, or 0.4 in absolute terms.

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About PMI

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.

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