

Embargoed until 0900 AEST 23 Aug 2021 (2300 UTC 22 Aug 2021)

IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

Australian private sector output contracts at faster rate in August

Key data

Flash Australia Composite Output Index
Aug: 43.5, 15-month low (Jul final: 45.2)

Flash Australia Services Business Activity Index
Aug: 43.3, 15-month low (Jul final: 44.2)

Flash Australia Manufacturing Output Index
Aug: 44.5, 15-month low (Jul final: 52.3)

Flash Australia Manufacturing PMI
Aug: 51.7, 14-month low (Jul final: 56.9)

Data were collected 12-19 Aug 2021.

Business activity across Australia's private sector declined for the second month running in August, according to Flash PMI® data, with the rate of contraction quickening since July. Survey respondents signalled that the increase in COVID-19 cases, underpinned by the Delta variant, and the corresponding lockdowns across various Australian states in August continued to dampen demand and output. Consequently, employment conditions worsened in the country. At the same time, the rate of input price inflation remained historically elevated, while output charges rose at a faster pace in August.

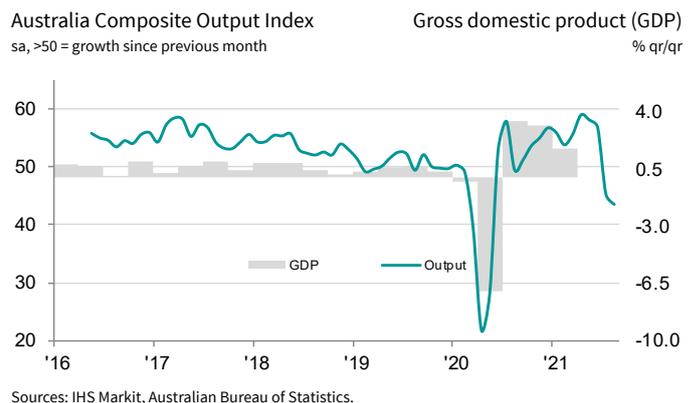
The IHS Markit Flash Australia Composite Output Index* fell from 45.2 in July (final reading) to a 15-month low of 43.5 in August, to signal a second consecutive month of contraction. The latest reading reflected the continued toll that the Delta COVID-19 wave is taking on Australia's private sector economy.

New orders, both domestic and foreign, continued to decline from the previous month though at a marginally slower rate compared to July. Anecdotally, survey respondents continued to blame the lockdowns for the deterioration of demand conditions.

As a result, both output and outstanding work declined in August. Manufacturing sector output notably fell for the first time since June 2020, joining the service sector in contraction as the COVID-19 wave worsened in Australia.

Private sector firms also lowered their staffing levels for the first time since October 2020, albeit marginally. Survey respondents

continued...



Comment

Jingyi Pan, Economics Associate Director at IHS Markit, said:

"Australia's private sector remained stuck in decline in August, according to the latest IHS Markit Flash Australia Composite PMI data, as activity remained heavily impacted by current mobility restrictions brought about by the spread of the COVID-19 Delta variant."

"Not only were demand and business activity hit, employment conditions also deteriorated, with private sector staffing levels falling for the first time since October 2020. The labour market situation had been made worse on both ends of supply and demand amid the latest COVID-19 disruptions."

"The one bright spot had been an improvement in the outlook amongst Australian private sector firms in August, with hopes of an improvement in the COVID-19 situation expected to spark an eventual rebound for the Australian economy."

reported the reduction of operating capacity alongside weaker demand conditions, although some also continued to cite shortages of skilled labour.

Price pressures for private sector firms eased marginally in August, though the overall rate of cost inflation remained well above the series long-run average. Output price inflation however accelerated in August to a two-month high with firms reported to have passed on higher costs to clients.

Overall business sentiment improved again in August, despite the deterioration of economic conditions in the month, as private sector firms pinned their hopes on the recovery from the latest COVID-19 wave amid vaccination progress and the eventual decline of infections.

IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index fell further to 43.3 in August from a final reading of 44.2 in July, indicating the second consecutive month of service sector contraction. August's reading was also the lowest since May 2020.

The extension of mobility restrictions including lockdowns for more than half of Australia's population into August had continued to take its toll on the Australian service sector. Domestic and foreign demand both fell for a second consecutive month though at slower rates compared to July. Job shedding in the service sector was also seen for the first time since October 2020.

Cost pressures meanwhile eased only slightly compared to July, while output price inflation accelerated as service providers continued to pass on higher cost burdens to customers. Amid hopes that the vaccine rollout will enable further reopening of the economy, overall service sector optimism regarding the year-ahead improved to a four-month high in August.

IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® fell from a final reading of 56.9 in July to 51.7 in August, which marked the lowest figure since June 2020.

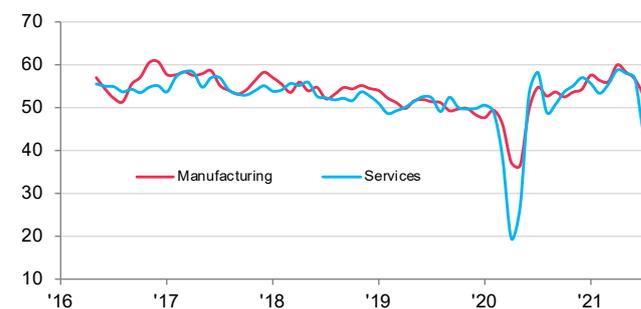
New orders and output both fell into contraction territory, ending the 13-month growth streaks across both indices. While the lingering disruptions from the COVID-19 pandemic affected both demand and production, firms also reported that supply issues had constrained output. Indeed, suppliers' delivery times continued to lengthen, and at the most severe pace since April 2020.

Price pressures eased slightly in August, though both input costs and output charges continued to increase at rates well above their respective survey averages. Firms were generally cautious with regards to their input inventories, which were broadly unchanged from July, but held a slightly more positive view towards output in the next 12 months.

**The IHS Markit Flash Australia Composite Output Index is a GDP-weighted average of the IHS Markit Flash Manufacturing Output Index and the IHS Markit Flash Services Business Activity Index. Flash indices are based on around 85% of final survey responses and are intended to provide an advance indication of the final indices.*

Output Index by sector

sa, >50 = growth since previous month



Source: IHS Markit.

Australia Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

Composite Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

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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.

Services: Business activity, new business, new export business, outstanding business, employment, input prices, prices charged, future activity.

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 referred 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 0.6)

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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Survey dates and history

August 2021 data were collected 12-19 August 2021.

Survey data were first collected May 2016.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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.

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