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# IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

## Output growth slows amid softer rise in services activity

### Key data

Flash Australia Composite Output Index  
Jan: 56.0, 2-month low (Dec final: 56.6)

Flash Australia Services Business Activity Index  
Jan: 55.8, 2-month low (Dec final: 57.0)

Flash Australia Manufacturing Output Index  
Jan: 57.2, 37-month high (Dec final: 54.1)

Flash Australia Manufacturing PMI  
Jan: 57.2, 49-month high (Dec final: 55.7)

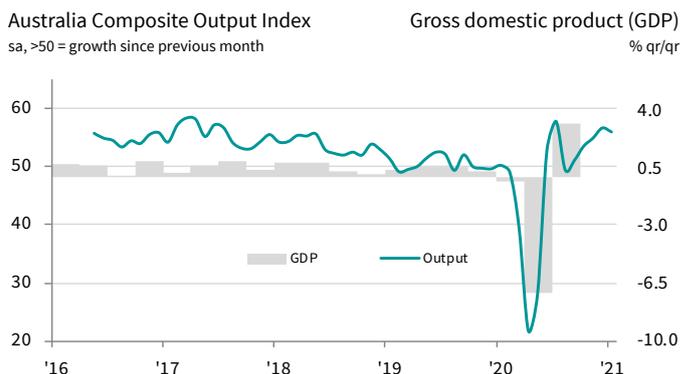
Data were collected 12-19 January 2021.

Flash PMI data for Australia indicated a marked increase in private sector output at the start of 2021, but growth softened due to a slowdown in the service sector. Aggregate new orders expanded for the fifth consecutive month, while job creation was sustained in January. Although companies remained upbeat of a rise in business activity over the course of the coming 12 months, the overall degree of business confidence waned to the lowest since August. Concerns over the lasting effects of the coronavirus disease 2019 (COVID-19) epidemic on the economy dampened positive sentiment. At the same time, selling prices rose at the quickest rate in over two years as firms sought to share additional cost burdens with their clients.

The headline figure derived from the survey is the *IHS Markit Flash Australia Composite Output Index*, which is designed to provide timely indications of changes in output in the Australian private sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration. The 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, published approximately one week after the flash release.

A further increase in new work intakes underpinned another rise in Australian private sector output during January. In both cases, rates of expansion moderated from December, but were marked and above their respective long-run averages.

*continued...*



Sources: IHS Markit, Australian Bureau of Statistics.

### Comment

Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

*"The Australian private sector remained resilient at the start of the year, despite the COVID-19 pandemic, with the flash PMI showing sustained growth of new orders, output and employment. Companies suggested that sales were supported by pent-up demand, particularly in the manufacturing industry."*

*"While this boost in demand is welcome, inflationary pressures seem to be mounting. Manufacturers saw the sharpest increase in their cost burdens since data collection started in 2016. Material shortages and restricted freight capacity remained key themes of the survey. With pricing power enhanced by recovering demand, selling charges across the private sector rose at the sharpest rate in nearly two-and-a-half years."*

*"Businesses were upbeat towards the year-ahead outlook for output, with hopes pinned on vaccine developments and the eventual lifting of restrictions globally. However, optimism weakened in January, dampened by concerns over the long-term effects of the COVID-19 pandemic on the economy."*

Underlying data indicated that the domestic market was the key source of new work, as new orders from abroad decreased further at the start of the year. The contraction in exports was moderate, however, and the weakest seen since September.

For the third month in succession, private sector employment increased in January. The pace of job creation was modest and in line with those seen over the current period of expansion.

Parallel to sustained sales growth, the rise in headcounts was supported by predictions of output expansion in the year ahead. The overall degree of optimism was strong and outpaced the series average, but weakened to a five-month low.

Additional resources enabled companies to reduce their backlogs of work in January. The latest fall in unfinished business was the sixth in consecutive months, albeit only slight.

As has been the case since last June, input costs facing private sector firms in Australia increased during January. The rate of inflation accelerated from December and was sharp overall.

In response to rising expenses, private sector companies increased their own fees in January. The rate of charge inflation was solid and quickened to the strongest since October 2018.

### 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.

While the recovery of the Australian service sector continued, some momentum was lost in January. Firms recorded slower increases in both new orders and business activity. According to survey participants, growth was stymied by the COVID-19 pandemic and border restrictions. Although job creation was sustained, expansions at some establishments were partly offset by resignations, restructuring moves and layoffs at other firms.

On the price front, sharp increases in operating expenses in recent months led service providers to hike their fees in January. The rise in charges was the third in successive months and the strongest since April 2018.

### IHS Markit Flash Australia Manufacturing PMI®

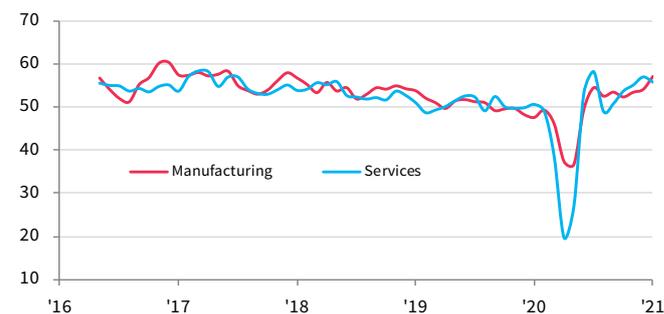
The IHS Markit Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration.

In contrast to the trend seen in the service economy, growth accelerated in the manufacturing industry. Goods producers enjoyed the fastest expansions in both sales and production in over three years. In some cases, monitored firms suggested that pending 2020 projects had been authorised. There remained signs of export weakness, however, with new orders from abroad down for the fourth straight month.

The upturn seen in January was accompanied by a pick-up in inflationary pressures. Input costs rose at the quickest pace since data collection started in early 2016, while the increase in charges was the strongest since last March.

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 for 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](mailto:economics@ihsmarkit.com).

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### Survey dates and history

January 2021 data were collected 12-19 January 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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### 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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