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IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

Private sector growth accelerates in November, led by services

Key data

Flash Australia Composite Output Index
Nov: 54.7, 4-month high (Oct final: 53.5)

Flash Australia Services Business Activity Index
Nov: 54.9, 4-month high (Oct final: 53.7)

Flash Australia Manufacturing Output Index
Nov: 53.3, 2-month high (Oct final: 52.3)

Flash Australia Manufacturing PMI
Nov: 56.1, 35-month high (Oct final: 54.2)

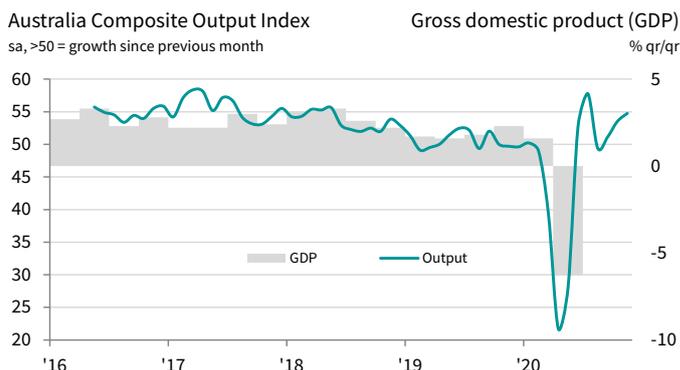
Data were collected 12-18 November 2020.

Latest PMI data showed the expansion in the Australian private sector economy strengthened midway through the fourth quarter as containment measures were eased further. Business activity growth accelerated in November, led again by the service sector. Inflows of new business rose further, but at a noticeably slower rate when compared to output. Business sentiment continued to improve and was the strongest for over two years as more firms anticipated further recovery momentum to boost business activity. However, operating capacity remained in surplus, partially linked to renewed jobs growth. Employment rose for the first time in ten months. On the price front, input cost inflation accelerated, contributing to a renewed rise in output charges.

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.

The upturn in business activity across the Australian private sector gathered momentum in November after a further relaxation of measures designed to curb the spread of the coronavirus disease 2019 (COVID-19) outbreak. The rise in private sector output was the fastest since July, with both manufacturing and service sectors

continued...



Sources: IHS Markit, Australian Bureau of Statistics.

Comment

Bernard Aw, Principal Economist at IHS Markit, said:

"Latest PMI data showed the recovery in the Australian private sector economy gained pace during November, setting the scene for a stronger GDP performance during the final quarter of 2020. A further easing of virus containment measures particularly benefited the services sector, which saw business activity growth accelerate in November. Manufacturing output also rose at a faster pace.

"A sustained increase in business activity saw firms boost their headcounts for the first time since January, with factory hiring particularly robust. Business confidence also improved to the strongest for over two years as firms were optimistic about market conditions returning to normal in a year's time.

"That said, the subdued rise in new business remains a concern. Renewed lockdown measures in parts of the world due to second waves of infections may keep border controls and travel restrictions in place for a longer period, thereby dampening external demand. If Australian sales growth continues to lag behind the rise in business activity in the months ahead, the current economic recovery could risk losing momentum."

registering solid growth. Greater business activity was accompanied by a renewed rise in employment during November. Jobs growth was reported for the first time since January, and the rate of increase was the quickest for one-and-a-half years, albeit modest overall. Job creation was led by manufacturers, which reported a particularly solid rate of increase in headcounts.

Demand for Australian goods and services rose for a third straight month in November. Though quickening from October, the rate of expansion in overall new business remained modest and continued to run far slower than the rise in output. This was in part linked to a further decline in export orders amid ongoing border controls and travel restrictions. Subdued sales growth and a larger workforce saw firms reporting a surplus in operating capacity in the middle of the fourth quarter, as reflected by a further decline in backlogs.

Australian firms continued to face rising input costs amid reports of increased freight fees, greater prices for raw materials and higher wage costs due to the expiry of government subsidies. Input price inflation accelerated to the highest for just over two years. Meanwhile, firms raised their output charges for the first time since August, with the rate of increase the fastest for nine months.

Finally, business sentiment regarding the year ahead was the strongest since August 2018. Optimism was seen across both sectors, with services firms particularly positive about prospects.

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 rose at a faster rate in November, extending the current sequence of expansion to three months. The sustained rise in output contributed to a renewed growth in employment. Inflows of new work also increased further, but the pace of growth remained marginal. Meanwhile, input cost inflation accelerated to the fastest for just over two years, with widespread reports of higher wage bills. Consequently, output charges rose in November, the first time in three months, and at the fastest rate since February.

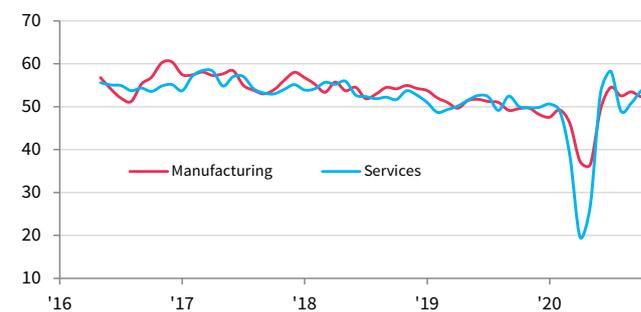
IHS Markit Flash Australia Manufacturing PMI®

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 regained some momentum in November, with production and sales both increasing at faster rates. New orders in particular rose at the quickest rate for nearly two years despite a further decline in export sales. Jobs growth consequently resumed, with the rate of increase the fastest since early 2018. Meanwhile, supply conditions continued to deteriorate at a severe rate, with reduced shipping capacity, industrial action at ports and limited stock availability cited as reasons for delivery delays. Inflationary pressures intensified amid greater freight fees and higher raw material costs.

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 = 0.1 (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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Survey dates and history

November 2020 data were collected 12-18 November 2020.

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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