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# IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

## Private sector sinks into contraction as new virus wave hits

### Key data

Flash Australia Composite Output Index  
Jul: 45.2, 14-month low (Jun final: 56.7)

Flash Australia Services Business Activity Index  
Jul: 44.2, 14-month low (Jun final: 56.8)

Flash Australia Manufacturing Output Index  
Jul: 51.8, 13-month low (Jun final: 56.4)

Flash Australia Manufacturing PMI  
Jul: 56.8, 4-month low (Jun final: 58.6)

Data were collected 12-21 Jul 2021.

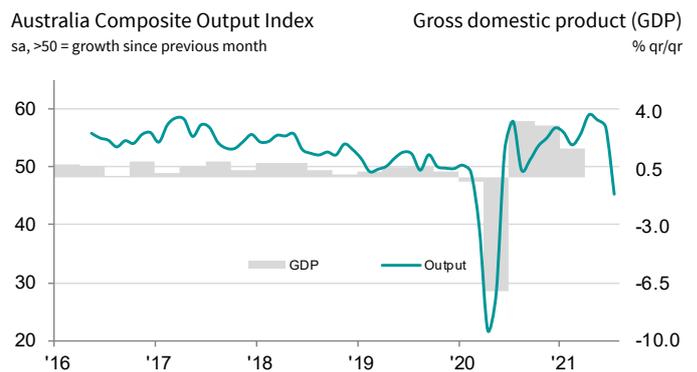
The growth streak for the Australian private sector ended in July according to Flash PMI® data which showed business activity in contraction. Survey respondents signalled that renewed restrictions, brought about by the spread of the Delta variant of the COVID-19 virus, affected demand and output in the country. Business sentiment likewise softened in the month. That said, employment and price gauges remained in growth, albeit showing softer readings compared to June.

Plunging from 56.7 in June (final reading) to 45.2 in July, the IHS Markit Flash Australia Composite Output Index\* fell to a 14-month low and pointed to the first contraction seen since August 2020. While heightened COVID-19 restrictions in Victoria had weighed on Australia's economic performance in June, the extension of the movement restrictions to a greater number of states into July further affected overall private sector output.

Demand conditions softened significantly in July, particularly for services as order book volumes slipped into contraction. While manufacturing new orders managed to remain in growth, anecdotal evidence suggested that the COVID-19 movement restrictions contributed to the rate of expansion easing to the slowest since last November.

With the easing of demand, private sector firms saw a drop in work outstanding. Once again, this was driven by the service sector with firms reported to have cleared some outstanding business. Manufacturers reported supply constraints contributing to the eighth consecutive month in which work outstanding rose, albeit at a slower pace.

continued...



Sources: IHS Markit, Australian Bureau of Statistics.

### Comment

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

*"Latest indications from the IHS Markit Flash Australia Composite PMI suggested that Australia's growth streak had been brought to a halt in July, and perhaps no surprise given the renewed lockdowns aimed to bring the COVID-19 situation under control."*

*"While demand and output had evidently been badly affected in July, they are expected to improve once the restrictions are once again lifted. That said, the current COVID-19 disruption's effect on the supply chain remained evident. Manufacturing input costs continued to rise even as overall price pressures eased, which is an area to watch."*

*"On the outlook, private sector firms were less optimistic given uncertainties surrounding the more infectious Delta variant and the supply situation. Firms however continued hire across both manufacturing and services, speaking to the robust labour market conditions."*

Employment conditions remained positive, although the pace of job creation slowed sharply from June. Firms across both the service and manufacturing sectors continued to increase their operating capacity with manufacturers doing so at a survey record rate.

Price pressures meanwhile eased in July across both input prices and output charges, though both remained above their respective survey averages. Notably, manufacturing input cost inflation accelerated in July, moving against the broad trend of easing price pressures. Firms in the manufacturing sector highlighted higher costs across an assortment of categories, exacerbated by the current COVID-19 disruptions.

Overall, Australian private sector firms remained optimistic with regards to output for the coming 12 months, though the optimism eased to the lowest in just under a year.

### IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index slipped to 44.2 in July, from a final reading of 56.8 in June. This marks the first service sector contraction in 11 months. July's reading was also the lowest since May 2020.

Various Australian states experienced increased movement restrictions in July, leading to the sharp contraction of both domestic and foreign demand for services. As a result, overall business activity plunged, although employment remained in growth albeit at a much lower rate compared to June.

Input cost pressures eased marginally for firms in the service sector, but output price inflation slowed at a sharper rate, reflecting a squeeze on margins. Overall service sector optimism eased again to an 11-month low.

### IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® fell to 56.8 in July from a final reading of 58.6 in June.

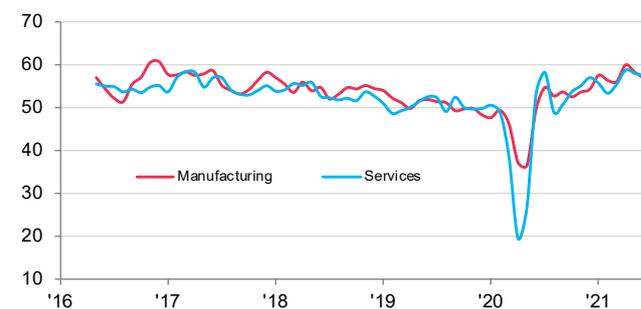
New orders and output both expanded for the thirteenth month running, though the rates of growth eased significantly from June. Bucking the trend, however, was employment growth which accelerated to a survey record.

Lead times meanwhile continued to lengthen at a marginally slower, but still severe, rate. Concurrently, price pressures sustained for Australian manufacturers with input price inflation accelerating. Over and above the disruption of renewed COVID-19 restrictions, firms highlighted supply constraints weighing on their outlook for 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](mailto:economics@ihsmarkit.com).

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### Survey dates and history

July 2021 data were collected 12-21 July 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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