

Embargoed until 0900 AEDT 1 June 2021

IHS Markit Australia Manufacturing PMI®

Manufacturing PMI reaches new high amid marked rise in new orders

Key findings

Growth of new business hits record level

Hiring conditions remain robust

Price pressures intensify to reach fresh record high

Data were collected 12-24 May 2021.

Australia's manufacturing sector grew at a new survey record rate in May as the economy continued to recover from the COVID-19 pandemic. Strong demand, supported by foreign customers, encouraged firms to expand output further and sustain hiring at a record pace. That said, backlogs continued to build amid supply delays which also caused Australian manufacturers to experience record input price inflation, with many partially passing on higher costs to their clients as charges rose markedly.

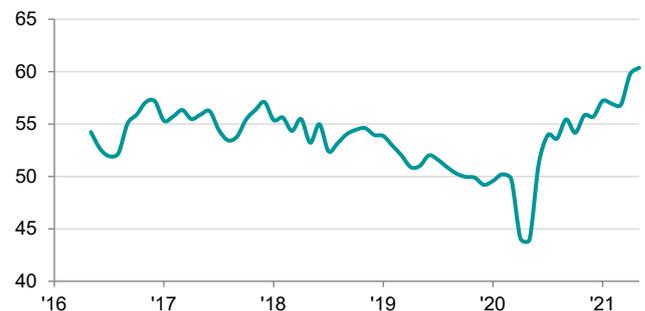
The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) recorded 60.4 in May, up from 59.7 in April to signal the steepest rate of expansion seen in the survey history. Operating conditions improved for the twelfth straight month, as the sector moved towards recovery from the COVID-19 pandemic.

Demand growth gained momentum in May as new orders rose at the fastest pace since the data collection for the series began in May 2016. Government stimulus and improved market confidence following the COVID-19 lockdowns reportedly contributed to the increase in order book volumes. Meanwhile, foreign demand improved in May, concurrently helping to drive the rise in total sales.

Backlogs of work rose in line with a pick-up in new order growth in May, despite manufacturers continuing to expand their workforce at a record pace. Survey respondents overwhelmingly cited that supply constraints caused the rise in work outstanding.

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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 continued to expand at a record pace in May with strong demand driving output growth. The sustained expansion of hiring activity at a record clip was also an encouraging sign for the Australian economy.”

“That said, supply constraints continued to feature strongly in the latest PMI survey. Alongside the pickup in demand for inputs across the manufacturing sector, delivery delays contributed to marked overall price inflation for both manufacturers and their end customers.”

“With no sign of a turning point in price inflation for Australia’s manufacturing sector, based on forecasts both consumer and wholesale price inflation are expected to accelerate in 2021 compared to last year.”

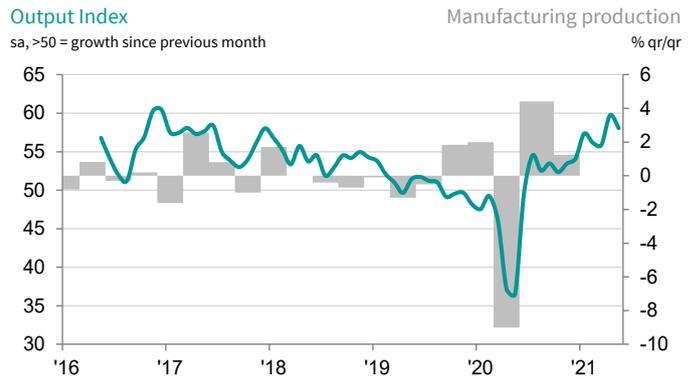
Indeed, delivery lead times worsened in May and to a more severe extent compared to April. Both shipping delays and shortages of supplies aggravated the situation. Domestic port congestion and other COVID-19 related logistics issues also reportedly prolonged average lead times..

Meanwhile, some firms also reported that transportation delays had impacted the sending of finished goods, leading to a further accumulation of post-production inventories.

As a result of longer lead times for inputs, Australian manufacturers continued to increase purchasing activity in May. The rise reportedly stemmed from efforts both to meet current demand and stockpile in reaction to severe supply constraints. The pace of accumulation of stocks of purchases quickened in May, and was the fastest on record.

The resulting impact from supply-chain issues was the fastest rise in input prices in the survey's five-year history. Firms continued to reportedly pass on higher cost burdens as well, leading output charge inflation to also accelerate to a fresh record.

Overall, firms remained broadly positive with regards to the outlook for the manufacturing sector in Australia, despite the degree of optimism slipping to a ten-month low.



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

May data were collected 12-24 May 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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