

IHS Markit Australia Manufacturing PMI®

Manufacturing sector growth accelerates in October as restrictions ease

Key findings

Demand and output growth improve

Input cost and output price inflation accelerate to record levels

Supply constraints persist

Data were collected 12-25 October 2021.

Growth of the Australia manufacturing sector further accelerated in October amid the easing of COVID-19 restrictions in many parts of the country. Demand and production expanded at faster rates, driving higher levels of employment and purchasing activity. Suppliers' delivery times however continued to worsen sharply, contributing to an accumulation of backlogged work and price pressures. That said, overall business confidence continued to improve in the latest survey.

The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) posted above the 50.0 no-change mark at 58.2 in October, up from 56.8 in September, to signal an expansion of the Australian manufacturing sector. This marks the seventeenth straight month in which the sector grew and at the fastest rate seen since June.

Demand and production both expanded at faster rates compared to September. Manufacturers highlighted the easing of COVID-19 restrictions underpinning the rise in new orders and output. Foreign demand was also no exception, rising in October following September's contraction to the fastest since May.

To meet higher demand and production requirements, Australian manufacturers ramped up their purchasing activity in October. This had led to higher levels of pre-production inventory with some manufacturers reported to be stockpiling to safeguard against shipping delays.

Indeed, suppliers' delivery times continued to lengthen and at the most severe rate in one-and-a-half years. Both supply

continued...

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:

“The easing of COVID-19 restrictions triggered an improvement in manufacturing sector conditions in October according to the latest IHS Markit Australia Manufacturing PMI.

“The gradual normalisation of economic conditions from a state of widespread lockdowns in Australia had inspired better confidence among manufacturers, as evident across their hiring and purchasing activity, and also measured through the Future Output index which reflects business sentiment.

“That said, supply constraints remained severe while price pressures and labour issues persisted which remain issues worth monitoring. As demand eases following the post-lockdown surge, the demand-supply imbalance is expected to improve. Until then, the Backlogs of Work Index may remain a good indication to the extent at which capacity constraints are accumulating in the Australian manufacturing sector.”

shortages and shipping issues were reported to have led to the deterioration in delivery times.

In turn, stocks of finished goods continued to accumulate as outbound shipping issues persisted and while production levels rose.

Meanwhile, workforce expansion continued in the Australian manufacturing sector though the rate of expansion eased from September. Where lower levels of employment were seen, difficulties in hiring coupled with vaccination policies which caused lower staffing levels were often reported by panellists.

As a result of supply and labour constraints, levels of outstanding work continued to climb and at the fastest ever rate in October. These constraints also led to greater price pressures. Input cost and output price inflation both accelerated to survey record rates in October. Output charges increased as firms reported having to share the sharp increase in cost burdens with clients.

Overall business confidence nevertheless improved in October as survey respondents grew more hopeful that economic conditions will continue to improve as COVID-19 restrictions are gradually lifted.



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

October data were collected 12-25 October 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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