Private sector returns to expansion in October, price pressures intensify

**Key data**

- Flash Australia Composite Output Index: Oct: 52.2, 4-month high (Sep final: 46.0)
- Flash Australia Services Business Activity Index: Oct: 52.0, 4-month high (Sep final: 45.5)
- Flash Australia Manufacturing Output Index: Oct: 53.2, 4-month high (Sep final: 52.8)
- Flash Australia Manufacturing PMI: Oct: 57.3, 4-month high (Sep final: 56.8)

Business activity in the Australian private sector returned to growth in October, according to Flash PMI® data, following three months of contraction. The easing of COVID-19 restrictions enabled a marked improvement in demand and activity which translated to sustained employment growth. In turn, accumulation of backlogged work was seen and private sector firms continued to expect activity to increase over the coming 12 months. Price pressures, however, continued to intensify for firms.

The IHS Markit Flash Australia Composite Output Index* rose from 46.0 in September (final reading) to a four-month high of 52.2 in October. This marks the first expansion of the private sector since June, prior to when the Australian economy was hard hit by the latest COVID-19 Delta wave.

The easing of COVID-19 restrictions across various Australian states in October played a key part in returning service sector demand and activity to growth, thereby boosting the overall performance. Although services exports remained weak, foreign demand for Australian manufactured goods increased, helping to see overall export business rise for the first time in four months.

In line with higher demand, the level of outstanding business rose in October. Supply issues contributed to the rise in backlogged work as well with panelists across both manufacturing and service sectors reporting shortages of inputs and labour constraints. Indeed, while employment levels continued to rise in October, anecdotal evidence pointed to limitations in hiring.

**Comment**

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

“Following the turnaround in September, the IHS Markit Flash Australia Composite PMI indicated that the Australian economy is back in expansion in October as the easing of COVID-19 restrictions and plans for further opening up of the Australian economy restored confidence and rejuvenated economic activity in the country.

“The return to growth for demand and backlogged work likewise reflected the improvement in overall confidence, with business sentiment rising to the highest level since February.

“Higher demand however translated to greater strains on the supply chain as we saw vendor performance deteriorate and price pressures further accumulate in October. Meanwhile employment levels rose at a slower rate with reports of constraints when trying to hire staff. These are issues that may persist in the short- to medium-term for firms as they take their time to clear.”

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On prices, pressures had sustained. Input price inflation rose to a fresh survey record, with firms reporting higher costs across a variety of categories including wages. Meanwhile, output charges continued to rise at September’s near-record pace.

Overall business sentiment was solid as confidence improved to the strongest since February. Survey respondents expressed optimism for better economic conditions ahead amid the easing of COVID-19 disruptions to the Australian economy.

**IHS Markit Flash Australia Services PMI®**

The IHS Markit Flash Services Business Activity Index increased from 45.5 in September to 52.0 in October, indicating a return to expansion following three months of contraction.

The further easing of restrictions in Australia enabled service sector business activity to be rejuvenated in October. New business likewise saw growth for the first time since June, although foreign demand remained subdued amid the persistent closure of international borders.

Hiring activity was seen in the service sector for a second straight month, just as backlogged work started to build again after three months of decline. This was also as service providers’ business confidence improved to the highest level since February with firms cheering the easing of lockdown restrictions and the ensuing improvement to consumer confidence and demand.

Cost pressures however persisted as service sector firms experienced a surge in input cost pressures while output charges continued to increase at a rate comparable to September.

**IHS Markit Flash Australia Manufacturing PMI®**

The IHS Markit Flash Manufacturing PMI® rose from a final reading of 56.8 in September to 57.3 in October, printing a four-month high.

Output and new order growth accelerated in their second consecutive months of expansion amid reports of better economic conditions and confidence by survey respondents. As a result, employment levels and buying activity continued to expand.

Vendor performance however continued to deteriorate and at a more severe rate in October, affected by supply chain issues which were aggravated by current COVID-19 conditions. This led to a faster rate of backlogged work accumulation. The mismatch in supply and demand meanwhile continued to drive up price pressures with both input price and output charge inflation seen at survey record levels.

Overall optimism nevertheless improved to a level comparable with April with hopes that the easing of restrictions will continue to help drive demand and economic recovery.

*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.*
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.


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.

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