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IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

Private sector output shrinks amid COVID-19 hit

Key data

Flash Australia Composite Output Index
Jan: 45.3, 5-month low (Dec final: 54.9)

Flash Australia Services Business Activity Index
Jan: 45.0, 5-month low (Dec final: 55.1)

Flash Australia Manufacturing Output Index
Jan: 47.7, 5-month low (Dec final: 53.6)

Flash Australia Manufacturing PMI
Jan: 55.3, 5-month low (Dec final: 57.7)

Data were collected 12-20 January 2022.

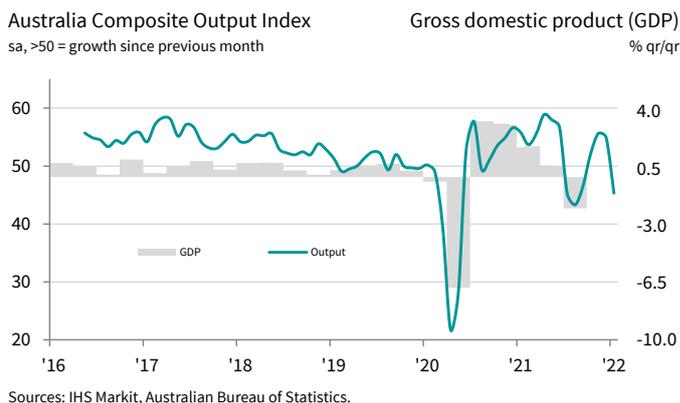
Australia's private sector shrank for the first time in four months, according to Flash PMI® data, affected by the latest surge in COVID-19 infections. Private sector output and demand both declined in January which led to employment growth grinding to a halt. Meanwhile, amid the disruptions backlogged work continued to build while input price inflation rose. Business optimism was likewise affected, falling sharply at the start of the year.

The IHS Markit Flash Australia Composite Output Index* fell from 54.9 in December 2021 (final reading) to a five-month low of 45.3 in January. This marks the first contraction for Australia's private sector following three consecutive months of growth.

Private sector firms saw business activity shrink amid the climb in COVID-19 cases in Australia with operations disrupted. While manufacturing sector new orders persisted in growth, that had not been enough to keep overall new orders in expansion as demand for services was badly affected by the COVID-19 Omicron variant's impacts. Foreign demand for Australian manufactured goods also declined at the start of the year.

As a result, employment levels were unchanged in January following four months of solid growth. Anecdotal evidence suggested that both the slowdown in demand and difficulties in hiring, across both the manufacturing and service sectors, led to the stagnation.

Backlogged work meanwhile continued to increase in January, most prominent in the manufacturing sector amid COVID-19



Comment

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

"The Australian economy had slipped from a state of strong recovery in end-2021 to being affected by the surge in COVID-19 infections at the start of 2022 according to the IHS Markit Flash Australia Composite PMI.

"Supply issues meanwhile remained prevalent, with lengthening of lead times, reports of supply shortages and labour constraints persisting and made worse by the latest surge in COVID-19 cases. This had led to input price inflation worsening which may well lead to further selling price pressures, especially when demand later recovers. Employment levels were unchanged in January, affected by both COVID-19 disruptions and difficulties in hiring.

"That said, there have been some early positive signs of COVID-19 infections peaking in Australia which may offer some hopes for a turnaround in the situation absent any further restrictions imposed."

continued...

disruptions to supply and labour. Panellists continued to report a host of supply shortages and the lengthening of lead times, contributing to the increase in work outstanding.

On prices, input price inflation was seen climbing to a record in January, likewise implicated by the array of supply chain issues. The softer demand conditions however led to private sector firms passing on these costs to clients at a slower rate in January.

Overall business sentiment in the Australian private sector remained positive in January with hopes that economic recovery will continue amid the easing of restrictions. The level of business confidence however fell to the lowest since April 2020 with concerns reported surrounding the elevated COVID-19 infections and lingering supply chain issues.

IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index eased from 55.1 in December 2021 to 45.0 in January, marking the first contraction of services business activity in four months.

Amid the surge in COVID-19 infections in Australia, both services demand and activity declined at the start of the year. New export orders slipped at a sharper rate in tandem.

Employment levels similarly fell in January, albeit marginally. Anecdotal evidence suggested that both COVID-19 disruptions and hiring difficulties contributed to the drop.

Cost pressures meanwhile persisted for Australian service providers with input price inflation climbing to a record. Selling price inflation however eased as demand dropped.

Overall optimism nevertheless sustained but had eased to the lowest level since April 2020.

IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® declined from a final reading of 57.7 in December 2021 to 55.3 in January. Despite remaining in expansion territory, the reading was the lowest since August 2021 when the COVID-19 Delta wave hit.

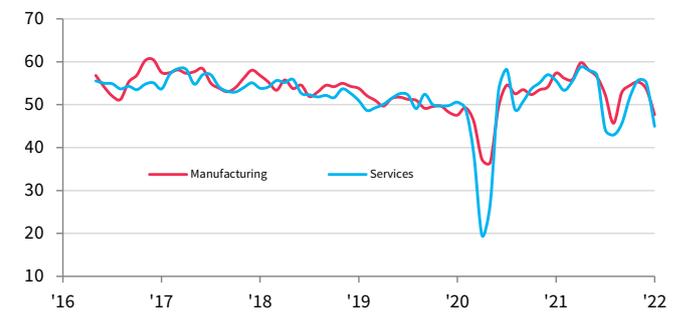
New order growth eased at the start of the year while manufacturing output slipped into contraction for the first time in five months. Although demand persisted in growth, Australian manufacturers reported a slowdown in production, affected by the shortages of inputs, labour constraints and other COVID-19 disruptions.

Suppliers' delivery times lengthened at a more severe rate, implicated by the worsening of COVID-19 conditions. This led to firms ramping up their input purchases with intentions of safety stock building. Meanwhile hiring activities decelerated with panellists reporting difficulties in securing labour.

Despite the host of supply issues, price pressures showed signs of easing across both input costs and output prices in January. Overall sentiment amongst manufacturers, while positive, fell with panellists citing concerns over COVID-19 and supply chain issues.

**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.

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Survey dates and history

January 2022 data were collected 12-20 January 2022.

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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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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