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# IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

## Private sector recovery gains pace at start of fourth quarter

### Key data

Flash Australia Composite Output Index  
Oct: 53.6, 3-month high (Sep final: 51.1)

Flash Australia Services Business Activity Index  
Oct: 53.8, 3-month high (Sep final: 50.8)

Flash Australia Manufacturing Output Index  
Oct: 52.3, 4-month low (Sep final: 53.5)

Flash Australia Manufacturing PMI  
Oct: 54.2, 2-month low (Sep final: 55.4)

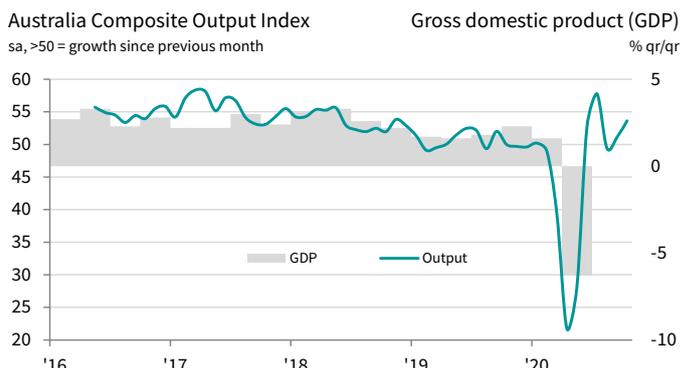
Data were collected 12-20 October 2020.

The recovery in the Australian private sector economy gathered momentum during October amid a further easing of containment measures, according to the latest PMI data. Business activity growth accelerated at the start of the fourth quarter, led by the service sector. The upturn in output was accompanied by a further rise in new business inflows. Business confidence was the strongest for over two years amid further expectations of market conditions returning to normal. However, the survey continued to indicate a surplus in operating capacity, which weighed on the labour market. Employment subsequently contracted. Meanwhile, input cost inflation accelerated sharply while output charges were unchanged.

The headline figure derived from the survey is the *IHS Markit Flash Australia Composite Output Index*, which is designed to provide timely indications of changes in output in the Australian private sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration. The 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, published approximately one week after the flash release.

Growth in business activity across the Australian private sector gained pace in October as restrictions designed to contain the coronavirus disease 2019 (COVID-19) were relaxed further. The rate of increase was solid and the fastest for three months. The faster upturn in overall activity was driven by a stronger recovery in services business activity, which more than offset slower growth in

*continued...*



Sources: IHS Markit, Australian Bureau of Statistics.

### Comment

Bernard Aw, Principal Economist at IHS Markit, said:

*"Further easing of virus containment measures provided a further boost to Australia's private sector business conditions in October, according to the latest PMI data. The service sector particularly benefited from loosening restrictions. Consequently, business confidence also strengthened to the strongest for just over two years as firms expect the eventual return of normal market conditions to underpin output growth over the coming year.*

*"An area of concern, however, was the subdued growth in new business, casting doubt on the durability of the current upturn in private sector activity. Furthermore, lacklustre sales meant that firms continued to be saddled with unused capacity. In response to rising costs and a further development of spare capacity, companies reduced their workforce numbers again in October, with lower employment seen in both the manufacturing and service sectors."*

manufacturing production.

Demand conditions continued to improve in October, with new order intakes up for a second straight month, albeit modestly. In contrast to output, growth in new work was led by the manufacturing sector while service providers continued to see only a marginal rise in new business. External demand weakened again, with new export orders falling for the ninth month running.

With sales growth still relatively subdued, operating capacity remained in surplus, as reflected by a further decline in backlogs, albeit one that was only marginal. Consequently, firms continued to shed their workforce numbers in October, with reduced employment reported in both manufacturing and services. That said, the reduction in staff numbers was the weakest for three months and modest overall.

Australian firms continued to face rising input costs, with inflation accelerating to the sharpest for nearly a year. Greater prices for raw materials, increased freight fees and higher wage costs all pushed expenses higher. Firms kept their selling prices unchanged.

Finally, business sentiment regarding the year ahead improved to the strongest for just over two years. Optimism was seen across both sectors, with services firms particularly positive about prospects. Expectations of a further easing in COVID-19 restrictions continued to underpin confidence.

### IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index is designed to provide a timely indication of changes in business activity in the Australian service sector economy as a whole. Readings above 50.0 signal an improvement in business activity on the previous month, while readings below 50.0 show deterioration.

Services activity rose solidly in October, building on a mild gain in September. Inflows of new work also increased further, though at a pace insufficient to put pressure on capacity in the service sector. Firms consequently reduced their workforces further, but at a rate noticeably slower than in September. Meanwhile, output charges were broadly unchanged in October despite input cost inflation accelerating sharply.

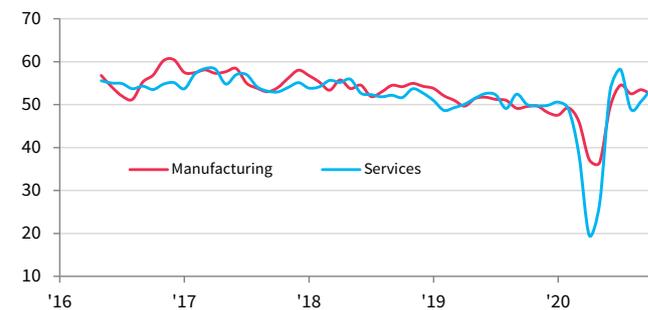
### IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration. The PMI is calculated from five indices for output, new orders, employment, suppliers' delivery times and stocks of purchases.

The upturn in the Australian manufacturing sector lost some momentum in October, with production and sales both increasing at slower rates. Exports fell back into decline, albeit only marginally. Job shedding returned in October after a rise in employment in September as firms sought to reduce costs. Meanwhile, supply conditions continued to deteriorate at a severe rate, with the time taken for delivering inputs to manufacturers increasing at the fastest rate since the height of the pandemic during April and May. Firms pointed to logistical issues, freight delays, workers' strikes at ports and border restrictions as factors behind delivery delays.

Output Index by sector

sa, >50 = growth since previous month



Source: IHS Markit.

Australia Manufacturing PMI®

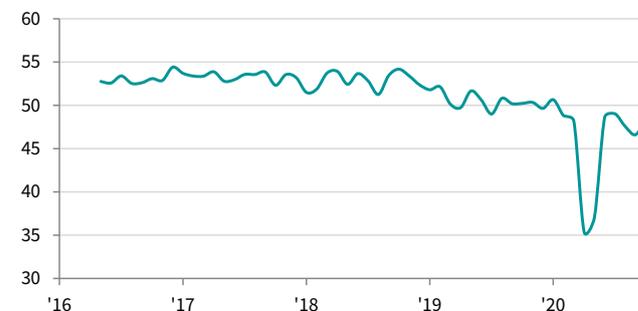
sa, >50 = improvement since previous month



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 = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.1 (absolute difference (0.7)

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

October 2020 data were collected 12-20 October 2020.

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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