

# IHS Markit Australia Manufacturing PMI®

## PMI rises to joint-survey high as recovery moves up a gear

### Key findings

Output growth accelerates sharply as new order inflows hit four-year high

Purchasing activity and employment rise as firms become more optimistic

Supply shortages and shipping delays linked to record rise in input prices

Data were collected 12-25 January 2021.

The New Year saw a major step forward for Australia's manufacturing recovery, with output, new orders and purchasing all rising at sharply increased rates in January. However, the upturn was accompanied by further supply shortages and a survey record jump in raw material prices, causing producers to raise their selling prices again.

The headline index from the survey, the seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) rose from 55.7 in December to 57.2 in January, indicating an increased rate of improvement of manufacturing sector business conditions. The rise lifted the PMI to its joint-highest since the survey began in May 2016, matching the prior peak recorded in December 2016.

Output growth accelerated to the fastest in just over three years as the economic recovery gained traction, the rate of increase far outpacing anything seen over the prior six months of recovery from the initial impact of the coronavirus disease 2019 (COVID-19) lockdowns.

The surge in production was fueled by the largest inflow of new orders recorded over the past three years. New orders showed the largest gain since December 2017, buoyed primarily by rising demand from domestic customers. While new export orders continued to fall, the rate of decline moderated to one of the lowest seen since the pandemic began, suggesting that the global trade drag has also moderated. Rising orders were seen for all main types of product.

Input buying rose to an extent not seen for three-and-a-half  
*continued...*

Australia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

### Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

*“Australia’s manufacturing recovery moved up a gear in January, with output and order book growth hitting multi-year highs. Firms also grew more optimistic about the outlook, rebuilding warehouse inventories and taking on more staff.*

*“However, the burgeoning expansion was accompanied by a survey record increase in raw material costs, as increasing numbers of suppliers hiked prices amid the surge in demand and shipping costs jumped higher. Hopefully the supply and demand imbalance will prove short-lived as more capacity comes on stream, allowing price pressures to cool again, but there remains some uncertainty as to how much pent-up demand exists, and how far prices might rise.*

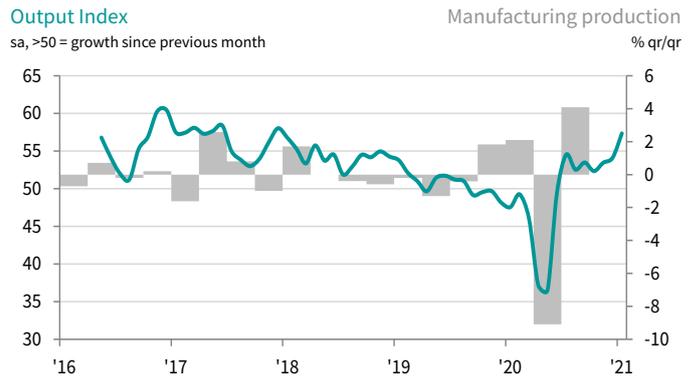
*“More encouragingly, firms reported brighter future prospects linked to expectations of the successful vaccine roll-out boosting demand, notably from export markets, setting the scene for the recovery to build further in 2021 from January’s solid start.”*

years to meet rising production requirements and rebuild inventories, but the swelling demand for supplies resulted in further shortages. Average supplier delivery times lengthened markedly again during the month, albeit to a lesser extent for six months, with the imbalance of supply and demand exacerbated by shipping delays and shortages of containers.

Inventories of both inputs and finished goods meanwhile rose to the greatest extents since the pandemic despite the shortages of inputs, as firms sought to rebuild stock levels and refill warehouses to meet future demand.

However, the restocking of warehouses at a time of constrained supply came at a cost of higher input prices, which rose to the greatest extent recorded in the survey's history. Average selling prices also increased, the rate of inflation gathering pace slightly to register the largest monthly rise since March, as producers sought to pass these higher costs on to customers.

Looking ahead, business expectations for the year ahead perked up slightly during the month, with some 56% of firms expecting output to rise in the coming year against just 5% expecting a decline. Employment was consequently boosted again in response to the need to rebuild capacity in the light of improved prospects, marking the fourth rise in headcounts recorded over the past five months.



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](mailto:economics@ihsmarkit.com).

### Survey dates and history

January data were collected 12-25 January 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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