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IHS Markit Australia Manufacturing PMI®

PMI rises to near three-year high in November

Key findings

Faster increases in output and new orders

Jobs growth strongest for two years

Supply chains remain under severe pressure

Data were collected 12-24 November 2020.

The upturn in the Australian manufacturing sector gained pace in November, supported by faster growth in both production and sales. Jobs growth also resumed and was the strongest for two years. Firms stepped up purchasing activity in response to a sustained rise in demand. Business confidence maintained at a high level. Meanwhile, supply chains remained under severe pressure.

The headline index from the survey, the seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) rose from 54.2 in October to 55.8 in November, indicating a marked improvement in the health of the sector. The latest reading not only marked the fifth straight month of expansion, but was also the highest for nearly three years. At an average PMI of 55.0 so far in the fourth quarter, the sector is set to see its strongest quarterly expansion since Q1 2018.

A sustained recovery in both production and new orders drove the manufacturing upturn. Output rose for a fifth straight month, with producers of consumer and intermediate goods reporting growth. Similar to output, intakes of new business increased for a fifth month running, with the rate of expansion the fastest since January 2019. Underlying data showed sales was driven largely by domestic demand as export orders fell further in November, albeit marginally. Respondents noted that pent-up demand following an easing in COVID-19 measures boosted sales.

Australia Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Latest PMI data showed the Australian manufacturing sector regained recovery momentum midway through the fourth quarter, with output and new orders rising at faster rates in November.

"Reduced restrictions on business operations and personal mobility boosted business activity, with makers of consumer goods reporting particularly strong growth in production.

"With a sustained recovery in output and sales, the survey also indicated a return of jobs growth in November, with the rate of job creation the strongest for two years.

"That said, the manufacturing upturn may be constrained in the months ahead by the reduced availability of input materials due to local logistical issues and global freight capacity disruptions."

continued...

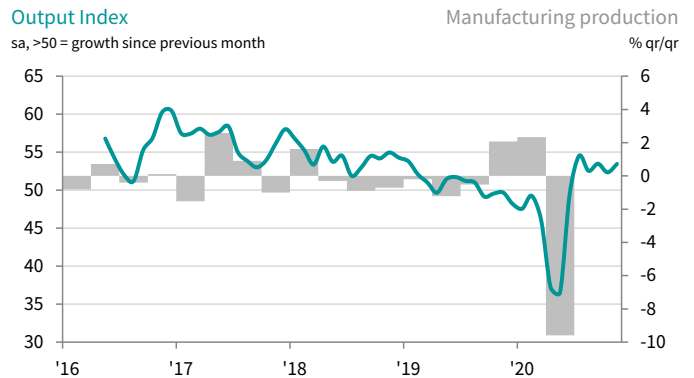
With the upturn extending into the middle of the fourth quarter, firms stepped up hiring in November. Employment rose at the fastest pace for two years after a modest decline in October. The rise in staff numbers enabled firms to work through additional workloads, resulting in a drop in backlogs of work for the first time in three months.

Purchasing activity was again scaled up in response to greater production requirements. Input purchases rose at the quickest pace since December 2018. Input inventories were broadly unchanged, however, with panel members highlighting shipping delays and stock adjustments. Meanwhile, post-production inventories were down for the tenth month in a row during November amid reports of firms trying to keep up with demand.

The survey showed the time taken to distribute inputs lengthened severely again in November as freight issues, port congestion and border closures reportedly hindered vendors' ability to make timely deliveries

On the price front, inflationary pressures intensified in November. Input prices rose sharply, with the rate of increase the fastest for five months. Firms pointed to increased freight costs and greater prices for raw materials, such as steel and copper, as drivers of inflation. Consequently, output charges were raised further and at the quickest rate since March.

Finally, expectations about output over the coming year remained positive in November, with confidence based on planned capacity increases, a further recovery in market conditions and development of new products.



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

November data were collected 12-24 November 2020.

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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