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IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

Private sector growth continues at strong pace amid growing price pressures

Key data

Flash Australia Composite Output Index
Dec: 54.9, 2-month low (Nov final: 55.7)

Flash Australia Services Business Activity Index
Dec: 55.1, 2-month low (Nov final: 55.7)

Flash Australia Manufacturing Output Index
Dec: 53.6, 3-month low (Nov final: 55.3)

Flash Australia Manufacturing PMI
Dec: 57.4, 3-month low (Nov final: 59.2)

Data were collected 6-14 December 2021.

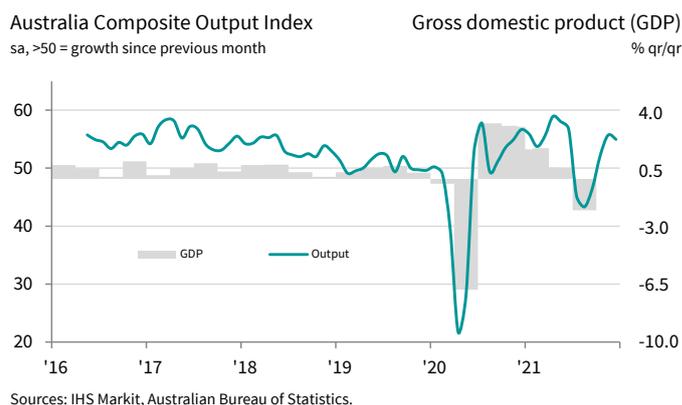
Australia's private sector growth continued for a third straight month, according to Flash PMI® data, supported by the continued easing of COVID-19 restrictions. Private sector output and demand growth both sustained at solid levels but eased slightly from November. Employment levels meanwhile rose at a faster rate, though backlogged work continued to accumulate. At the same time, price pressures swelled with both input cost and output price inflation seen at record rates.

The IHS Markit Flash Australia Composite Output Index* fell from 55.7 in November (final reading) to a two-month low of 54.9 in December. This nevertheless marks a third consecutive month in which the Australian private sector registered growth.

Private sector firms saw business activity and new orders expand at solid rates in December as COVID-19 restrictions continued to ease. The rates of growth slowed from November, however, with some pent-up demand having been previously met and with supply constraint issues affecting output according to panellists. Growth in foreign demand for Australian private sector exports, however picked up into the year-end.

Overall employment conditions meanwhile improved with private sector firms hiring at faster rates across both the manufacturing and service sectors to meet the growth in demand. This helped to see backlogged work accumulate at a slower rate, though supply issues continued to contribute to the growth in work outstanding.

Amid the array of supply constraints, price pressures increased



Comment

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

“The Australian economy maintained growth at a strong rate in December, according to the IHS Markit Flash Australia Composite PMI, though the growth momentum eased from November with some pent-up demand having been unleashed.

“Supply issues meanwhile persisted, with lead times continuing to lengthen and reports of shortages persisting. This led to a surge in price pressures for private sector firms and affected business confidence alongside lingering COVID-19 concerns for private sector firms. While some of the inflationary pressures may be attributed to the reopening effect, it will be worth watching for any drag on business activity into the new year.

“The climb in employment levels was also a positive sign with private sector firms across both the manufacturing and service sectors hiring at faster rates in December. That said, instances of labour shortages had continued to surface while service providers also widely cited rises in wages contributing to higher input costs.”

continued...

in December. Both input costs and output prices rose at unprecedented rates in the final month of 2021. Higher costs across input materials, shipping and wages contributed to the surge in input prices according to panellists, which private sector firms continued to pass on to their customers, leading to the record output price inflation.

Sentiment in the Australian private sector nevertheless remained positive in December with hopes that the economic recovery post the latest COVID-19 Delta wave will continue. The level of business confidence fell to the lowest level since July, however, with some lingering concerns over COVID-19 and supply issues hampering future output.

IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index eased from 55.7 in November to 55.1 in December, marking the third straight month of expansion.

Solid demand and business activity growth was seen amid the further easing of COVID-19 restrictions in Australia, even though the rates of growth softened from November.

Service providers also expanded their workforce capacity at a faster rate to meet the rise in demand. As a result, backlogged work built at a slower rate. That said, anecdotal evidence suggested that issues of supply shortages persisted.

Cost pressures meanwhile remained elevated with input price inflation climbing to a fresh record on the back of higher costs such as wages and fuel prices. Output prices likewise rose as firms passed on their costs to clients. Overall optimism nevertheless sustained but had eased to the lowest level in over a year-and-a-half.

IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® declined from a final reading of 59.2 in November to 57.4 in December. Despite being the lowest reading in three months, it was comparable with the average for 2021 as a whole.

Growth of manufacturing output and new orders both decelerated in December but remained at marked levels amid the further easing of COVID-19 restrictions in Australia. In turn, both employment levels and buying activity continued to expand with the former rising at a faster pace.

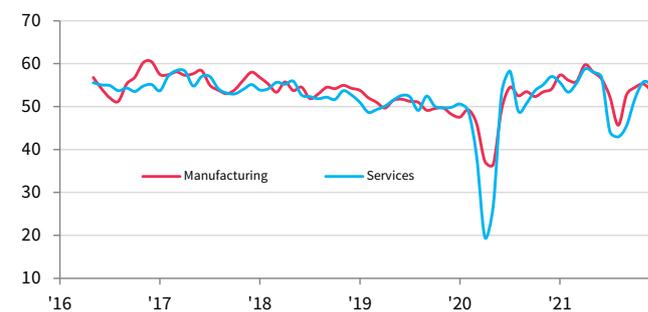
Supply constraints persisted in the manufacturing sector with suppliers' delivery times continuing to lengthen amid shortages and shipping delays, according to panellists. This caused backlogged work to accumulate, though the situation eased slightly from November.

As a result, price pressures remained elevated with input costs rising at the fastest pace on record. Manufacturers also continued to share their cost burdens with their customers.

**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

December 2021 data were collected 6-14 December 2021.

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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