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IHS Markit Australia Manufacturing PMI®

PMI holds close to survey high but price gauges also hit new peaks

Key findings

Output growth and order book expansion remain sharp

Supply shortages and shipping delays drive survey record rise in prices

Optimism improves to two-year high

Data were collected 11-22 February 2021.

Australia's manufacturers reported further strong output and order book growth in February. Although supply shortages and a further drop in exports meant the rate of expansion slowed slightly compared to January's recent peak, optimism about the year ahead improved to the highest for two years. Price pressures meanwhile hit a survey high.

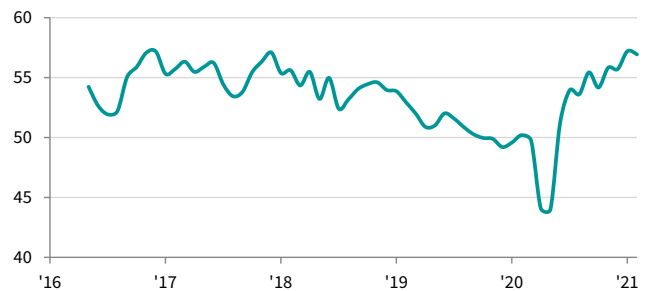
The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) recorded 56.9 in February. Although down from 57.2 in January, the latest reading was among the highest recorded since the survey began in May 2016, indicating a further marked improvement in business conditions.

Output rose for an eighth straight month in February. Although the rate of expansion cooled compared to January, the start to the year has so far seen the strongest production growth phase for three years as firms have boosted output in line with resurgent demand.

February saw new orders increase for an eighth successive month, attributed by manufacturers to reviving demand and inventory building, albeit mainly from domestic customers and with the rate of increase slipping from January's three-year peak. Although rising demand was reported from some overseas markets, notably the US, ongoing coronavirus disease 2019 (COVID-19) lockdowns in other countries and a shortage of shipping were seen as inhibiting export growth. Overall new export orders consequently fell for a fifth month in a row to act as an overall drag on order book growth.

The moderation in output and order book growth compared to
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:

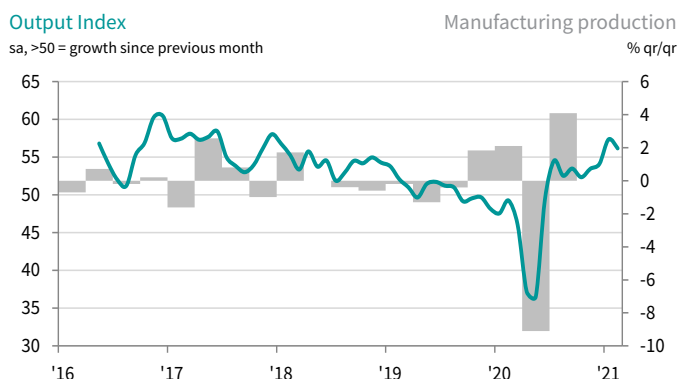
"Australia's manufacturing sector reported further solid gains in production and order books in February, adding to signs of a strong start to the year and setting the scene for the sector's best quarter for three years. Businesses have also become more optimistic about the year ahead, with sentiment hitting a two-year high as hopes build of an impressive post-COVID recovery, with the release of pent-up demand."

"Companies continue to take a cautious approach to hiring, however, in many cases remaining concerned over rising costs. One of the most concerning aspects of the February surveys was a fresh record rate of input cost inflation, linked to higher shipping and raw material prices as demand often outstripped supply. These higher costs were often pushed on to customers in the form of higher selling prices, suggesting that consumer price inflation could lift higher in coming months alongside the broader economic recovery."

January's highs was in part linked to supply shortages of both inputs and shipping. The incidence of delays in the supply of inputs to manufacturers consequently hit the highest since last May, as reflected in a further marked lengthening of average supplier delivery times. These shortages often led to lower than planned purchases of inputs. Inventories of inputs nevertheless rose to the greatest extent for just over two years as companies built safety stocks.

Many companies also reported a lack of transport and shipping capacity to move both inputs and finished products, with the price of shipping often rising and contributing to a further steep rise in manufacturers' costs. Measured overall, input prices rose at the sharpest rate recorded since the survey began, feeding through to a similar record rate of selling price inflation.

Looking ahead, business expectations for the year ahead improved to a two-year high in February amid growing hopes of a robust post-COVID economic recovery as the year proceeds, and the release of pent-up demand. This improvement in optimism helped drive a further increase in hiring, with manufacturing payroll numbers rising for the fifth time in the past six months.. However, the overall net increase remained relatively modest.



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

February data were collected 11-22 February 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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