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IHS Markit Australia Manufacturing PMI®

Strongest manufacturing upturn for nearly 2½ years during September

Key findings

Further increases in output and new orders

First jobs growth in ten months

Sentiment at strongest since early 2019

Data were collected 11-24 September 2020.

The recovery in the Australian manufacturing sector gathered pace at the end of the third quarter, with the sector recording solid increases in both production and sales. The survey also showed export orders returning to growth in September. Firms added more workers for the first time in ten months amid a rise in capacity pressure. A sustained improvement in manufacturing conditions also boosted confidence, which rose to the highest since February 2019. Supply chains consequently came under greater pressure and inflationary pressures intensified.

The headline index from the survey, the seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) rose from 53.6 in August to 55.4 in September and indicated a marked improvement in the health of the sector. The average PMI reading for the third quarter (54.3) reflected a solid turnaround for manufacturing when compared to the second quarter (46.4).

The headline PMI is calculated from a weighted average of output, new orders, employment, input inventories and delivery times. Readings below 50.0 signal a deterioration in business conditions on the previous month while readings above 50.0 show improvement.

Driving the recovery was further growth in both output and new orders during September. Production volumes rose solidly for a third straight month amid greater demand for Australian manufactured goods. Inflows of new orders also increased for a third month in a row, with the rate of growth the strongest for over one-and-a-half years. This was partially lifted by a return to growth in export sales. Respondents highlighted that

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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 recovery in Australian manufacturing sector gaining pace in September, with output and sales increasing solidly. Other survey indicators suggest that the upturn has further room to continue.

"A renewed increase in backlogs of work, which reflected rising capacity pressure, led firms to expand their workforce numbers for the first time since late 2019. Purchasing activity was also up for a third straight month to meet higher production requirements.

"Business confidence consequently improved further, with optimism at its strongest for nearly one-and-a-half years, amid rising expectations of a sustained recovery from the pandemic.

"The survey also highlighted the severe pressure on supply chains due to limited freight capacity globally and import restrictions at home. The reduced availability of inputs may therefore limit output growth in the coming months even if demand continues to rise."

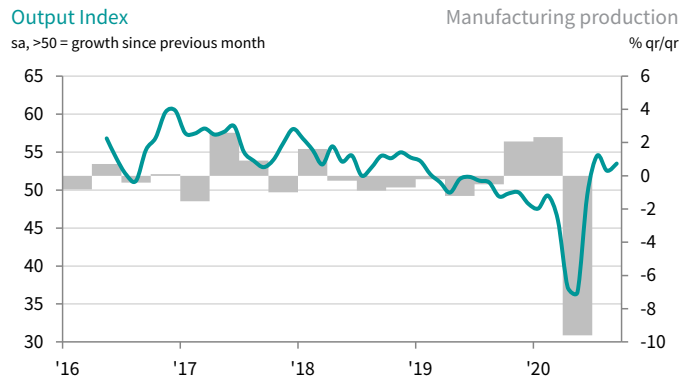
government infrastructure spending and market confidence improving contributed to higher sales.

The sustained upturn in sales added pressure on firms' operating capacity, resulting in a sharp rise in backlogs of work. This in turn led companies to invest in more workers to handle the additional workloads. Employment rose for the first time since November 2019, albeit modestly.

Australian goods producers also continued to increase their purchasing activity to meet higher production demand. Input purchases rose for a third month running. However, the strong usage of inputs for production saw the level of stocks of purchases remained broadly unchanged from the previous month. Meanwhile, post-production inventories fell again, but at the slowest pace in the current eight-month sequence of decline. Anecdotal evidence suggested that firms lagged behind the increase in orders despite ramping up production.

Delivery times continued to lengthen severely, with limited transport capacity and import restrictions noted as reasons for shipping delays. The tight supply of inputs contributed to a further rise in input prices. In response, firms raised their selling prices further.

Finally, business sentiment about the year-ahead outlook improved to its strongest since early 2019 during September. Optimism was mostly linked to expectations of a further recovery from the COVID-19 pandemic.



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

September data were collected 11-24 September 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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