Job creation at 28-month high amid sustained increases in workloads

Key data

Flash Australia Composite Output Index
Feb: 54.4, 4-month low (Jan final: 55.9)

Flash Australia Services Business Activity Index
Feb: 54.1, 4-month low (Jan final: 55.6)

Flash Australia Manufacturing Output Index
Feb: 55.9, 2-month low (Jan final: 57.3)

Flash Australia Manufacturing PMI
Feb: 56.6, 2-month low (Jan final: 57.2)

Further increases in new work in February and signs of emerging pressure on capacity led Australian companies to raise employment to the greatest extent since October 2018. Business confidence improved to a two-and-a-half year high on the back of hopes that the coronavirus disease 2019 (COVID-19) pandemic will come to an end, leading to further expansions in activity. Sharp inflationary pressures were signalled, with input costs increasing at the quickest rate in nearly five years of data collection and selling price inflation at a 28-month high.

The headline figure derived from the survey is the IHS Markit Flash Australia Composite Output Index, which is designed to provide timely indications of changes in output in the Australian private sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration. The 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, published approximately one week after the flash release.

At 54.4 in February from 55.9 in January, the headline index signalled a further solid increase in business activity across the Australian private sector. Output has now risen in six successive months, although the latest expansion was the softest since last October. Growth was recorded across both the manufacturing and service sectors.

A similar picture was seen with regards to new orders, with a solid

Comment

Andrew Harker, Economics Director at IHS Markit, said:
“A key positive from the flash PMI data for Australia is the strongest pace of job creation since late-2018. This was a response not only to sustained growth of new orders, but also signs of capacity pressures returning and greater confidence in the future outlook.

“On a less positive note, growth in the economy has been accompanied by stronger inflationary pressures. Input costs rose at the sharpest pace in almost five years of data collection, with output price inflation also quickening. This has the potential to limit the pace of the recovery going forward.

“Another factor potentially putting the brakes on growth, particularly in the manufacturing sector, is the ongoing disruption to supply chains amid global shipping problems which showed no sign of letting up. Supplier lead times lengthened to the greatest extent in three months in February.”

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but slower expansion seen during February. The rise in overall new orders was recorded in spite of a further drop in exports. Sustained growth of new work started to impart pressure on firms' capacity, as shown by a first increase in backlogs of orders in seven months.

Sustained new order growth, rising backlogs of work and stronger confidence - expectations hit their highest for two-and-a-half years in February - led companies to expand their staffing levels. Moreover, the rate of job creation was the sharpest since October 2018. Employment rose across both monitored sectors, with jobs growth in the service sector the joint-fastest in nearly five years of data collection.

The rate of input cost inflation quickened to the steepest since data collection began in May 2016, with marked increases in input prices seen in both sectors. Manufacturers in particular continued to be affected by severe supply-chain disruption.

Companies meanwhile raised their own selling prices, extending the current sequence of inflation to four months. The rate of inflation was solid, and the fastest since October 2018. Manufacturing charge inflation hit a new record high.

IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index is designed to provide a timely indication of changes in business activity in the Australian service sector economy as a whole. Readings above 50.0 signal an improvement in business activity on the previous month, while readings below 50.0 show deterioration.

Australian service providers saw sustained growth of business activity and new orders in February, while confidence in the 12-month outlook strengthened. Increasing new business volumes contributed to a first rise in backlogs of work in seven months, in turn prompting job creation. In fact, the rate of employment growth was solid and the joint-fastest in close to five years of data collection, equal to that seen in December 2016.

The rate of input cost inflation accelerated to the fastest in just over three-and-a-half years, often due to higher staff costs but with increased fuel prices also mentioned. Output prices were raised at a solid pace, albeit one that was fractionally softer than in January.

IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration.

Although growth in manufacturing production softened from January’s 37-month high, the rate of expansion remained marked in February. Further growth of new orders was also recorded, although total new business continued to be undermined by falling exports. Staffing levels were raised for the fourth month running.

Suppliers' delivery times lengthened substantially again amid global shipping issues. Supply problems led to a near-record rise in input costs, while the pace of output price inflation was the fastest since data collection began in May 2016.
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 for 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 to 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.

Survey dates and history
Survey data were first collected May 2016.

February 2021 data were collected 11-17 February 2021.

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