

IHS Markit Australia Manufacturing PMI®

PMI signals strong expansion but input prices index hits new high amid supply delays

Key findings

Strong output and order book growth sustained despite subdued exports

Supply constraints drive survey record rise in input costs

Optimism wanes but hiring growth remains marked

Data were collected 12-25 March 2021.

Australia's manufacturers reported further strong output and order book growth in March as production and demand continued to recover from pandemic-related losses, although supply shortages and subdued exports meant the rate of expansion continued to run lower than January's recent peak. Cost pressures meanwhile hit a survey high amid widespread supply chain delays.

The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) recorded 56.8 in March, down from 56.9 in February and slipping further below January's recent peak. The latest reading was nevertheless amongst the highest since the survey began in May 2016, indicating a further marked improvement in business conditions. The PMI has now signalled expansion for ten successive months following a brief but steep downturn in activity between March and May of last year, at the height of the coronavirus disease 2019 (COVID-19) lockdowns.

Production and new orders both continued to rise at solid rates in March, both increasing for the ninth consecutive month. However, rates of growth remained lower than January's recent peaks, in part reflecting reports of bottlenecks in the supply of inputs and widespread shipping delays.

Suppliers' delivery times continued to lengthen at one of the sharpest rates seen in the history of the survey as firms reported supply hold-ups compared to February, notably in terms of shipping delays for imported goods. These supply constraints contributed to the second-largest increase in backlogs of work since January 2018, as firms often struggled to meet rising sales

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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:

"The PMI slipped slightly again in March but was still strong enough to round off the best quarter for manufacturing since the survey began almost five years ago. Given the headwinds of supply shortages, shipping delays, rising prices and ongoing COVID-19 restrictions in many markets, the strong performance is even more impressive."

"Both global trade should improve in coming months as lockdowns become increasingly less severe in many overseas markets, which should help not only boost exports but also alleviate the supply constraints. This will in turn help reduce some of the inflationary pressures we are seeing at the moment."

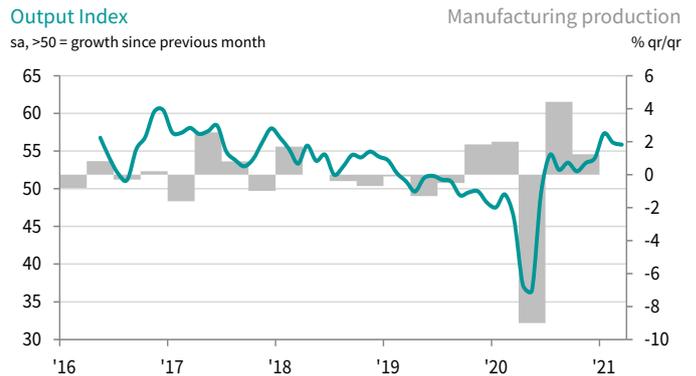
levels.

Many firms sought to build safety stocks in fear of further supply issues, adding to a broader trend towards restocking and contributing to the second-largest increase in input buying since the end of 2017. The upturn in buying culminated in a further rise in inventories of raw materials.

The increased price of shipping and wider reporting of price hikes from suppliers for a broad variety of inputs led to the steepest rise in manufacturers' costs yet recorded in the near-five-year history of the survey. Producers often sought to pass these costs on to customers, resulting in one of the sharpest ever rates of selling price inflation.

Logistics issues were also blamed on weak exports in some cases, although rising foreign demand helped drive a modest overall gain in export sales for the first time since September. COVID-19 related factors and tariffs nevertheless continued to be widely reported to have dragged on export order book growth.

Looking ahead, business expectations for the year ahead remained buoyant but slipped to the lowest since last July, reflecting worries about the ongoing impact of COVID-19 and export malaise, as well as fears that growth will weaken as stimulus is withdrawn over the course of the coming year. The overall degree of confidence nonetheless remained high enough to encourage further hiring, with the rate of job creation accelerating to a pace just shy of December's recent high.



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

March data were collected 12-25 March 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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