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IHS Markit Flash Australia Composite PMI®

Including IHS Markit Flash Australia Manufacturing and Services PMI®

Australian private sector growth eases from record but remains elevated

Key data

Flash Australia Composite Output Index
May: 58.1, 2-month low (April final: 58.9)

Flash Australia Services Business Activity Index
May: 58.2, 2-month low (April final: 58.8)

Flash Australia Manufacturing Output Index
May: 57.5, 2-month low (April final: 59.7)

Flash Australia Manufacturing PMI
May: 59.9, survey record (since May 2016) (April final: 59.7)

Data were collected 12-19 May 2021.

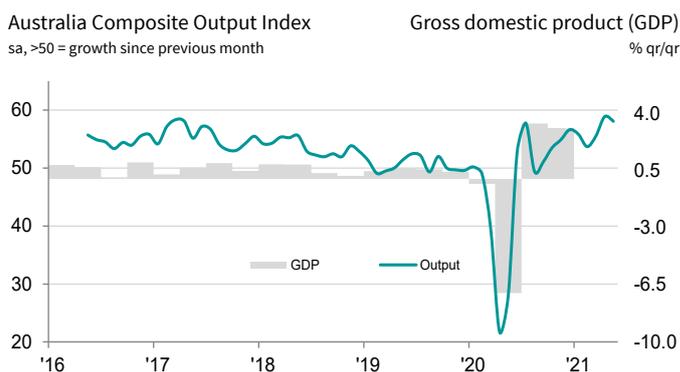
Private sector growth in Australia remained strong in May according to Flash PMI® data. Survey participants reflected that easing COVID-19 restrictions helped to boost confidence and supported demand in May. The rate of business activity expansion eased only slightly from that seen in April, when growth was the strongest since the survey began in May 2016. Demand continued to improve markedly, encouraging companies to hire additional workers at a survey record pace. Price pressures remained elevated in May as input cost and output charge inflation both reached new records.

Easing from 58.9 in April (final reading) to 58.1 in May, the IHS Markit Flash Australia Composite Output Index* nevertheless printed its ninth consecutive month in expansion. The continued expansion of the private sector was supported by improved client confidence, buoyant market conditions, strengthening demand, the easing of COVID-19 restrictions and low interest rates. Sharp increases in activity were recorded across both the manufacturing and service sectors.

Aggregate new order growth slowed from April's survey record but remained elevated. According to panellists, supply constraints including shortages of input materials had affected demand, but this was outweighed by the easing of COVID-19 restrictions which continued to encourage greater confidence among clients.

New export orders rose as international demand for both Australian goods and services expanded at accelerated rates. Specifically, overseas demand for services increased at the

continued...



Sources: IHS Markit, Australian Bureau of Statistics.

Comment

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

"Australia's private sector growth eased from April's survey record. That said, growth remained sharp to affirm the continued improvement in economic conditions following the easing of COVID-19 restrictions.

"Export orders notably continued to improve, reflecting the robust external demand despite concerns of rising COVID-19 cases in the region. In turn, this filtered through to the labour market with employment improving at the fastest pace in the survey's five-year history.

"The outlook for activity over the coming year remained optimistic, particularly in the service sector in May. Ongoing supply-chain disruptions, however, continued to impact private sector firms, pushing up input cost inflation and thereby output prices."

fastest pace on record.

With the strong demand being sustained in May, companies also saw their backlogs of work increase. The rise was the fourth in successive months and the steepest in the survey history.

Additional capacity pressures led firms to continue expanding their workforces midway through the second quarter. Private sector employment increased at a sharp rate that was the strongest seen since the inception of the survey in May 2016. A record rise in services employment was accompanied by ongoing marked job creation at manufacturers.

Input prices rose sharply in May, which panel members attributed to supply shortages, difficulties in international shipping and increased employment costs. The overall rate of inflation reached a survey peak.

Prices charged also rose at the fastest pace on record as companies sought to protect their margins by passing on to their clients part of the additional cost burden.

Looking ahead, firms were strongly confident that output will increase in the coming 12 months. The overall level of positive sentiment rose from April and was above the series average.

IHS Markit Flash Australia Services PMI®

The IHS Markit Flash Services Business Activity Index printed 58.2 in May, from a final reading of 58.8 in April, showing only a slight easing in the rate of expansion from the previous month's survey record. Demand continued to improve and supported the expansion of business activity for a ninth straight month.

To accommodate for the improvement in demand conditions, businesses hired extra staff at a fresh record pace. Another contributing factor to job creation was an intensification of capacity pressures. Outstanding business growth accelerated in May to the second fastest on record.

Anecdotal evidence suggested that supply-chain constraints, as well as increases in fuel costs pushed up input prices in April. Input costs rose for the twelfth consecutive month.

IHS Markit Flash Australia Manufacturing PMI®

The IHS Markit Flash Manufacturing PMI® rose to 59.9 in May from 59.7 in April to its highest mark in the five-year survey history.

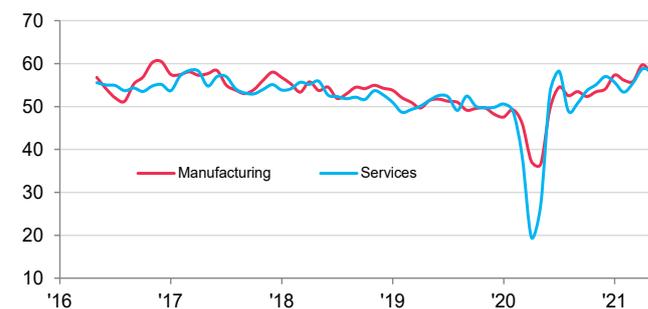
Factory orders saw the eleventh consecutive month of expansion, with growth moderating only marginally from April's record high. Supporting the increase in total new orders was a third straight month of growth in new business from abroad.

Strengthening demand conditions encouraged goods producers to continue increasing output. The pace of expansion moderated from April with supply constraints affecting some firms. In fact, suppliers' delivery times lengthened to a greater extent than in the previous month. Manufacturing sector employment growth slowed from last month's survey record but remained strong by historical standards. Finally, rates of both input cost and output charge inflation reached new records.

*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.

Contact

Jingyi Pan
Economics Associate Director
IHS Markit
T: +65 6439 6022
jingyi.pan@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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

May 2021 data were collected 12-19 May 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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