

MARKET SENSITIVE INFORMATION

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S&P Global Flash Australia Composite PMI®

Growth in output slows, amid fresh record selling price inflation

Key findings:

Flash Australia PMI Composite Output Index at 50.6 (Jun: 52.6). 6-month low.

Flash Australia Services PMI Activity Index at 50.4 (Jun: 52.6). 6-month low.

Flash Australia Manufacturing Output Index at 52.1 (Jun: 52.1). Unchanged.

Flash Australia Manufacturing PMI at 55.7 (Jun: 56.2). 2-month low.

Data were collected 11-19 July 2022.

Australia's private sector recorded a sixth straight month of growth in July, according to Flash PMI® data. Private sector output and new orders continued to increase, albeit at marginal rates as the pace of selling price inflation hit a fresh record high. July data also signalled an expansion in Australia's private sector workforce numbers and a first reduction in backlogged work in ten months. Overall business confidence remained positive but slipped to the lowest since April 2020.

The S&P Global Flash Australia Composite PMI Output Index* eased from 52.6 in June (final reading) to 50.6 in July. This marked a sixth consecutive month of Australian private sector growth, albeit one that was only mild and the slowest in the current sequence of expansion.

The overall slowdown mainly reflected a weaker improvement within Australia's service sector, while manufacturing output growth was unchanged.

New orders also recorded decelerated growth with anecdotal evidence suggesting that the effects of interest rate hikes and sustained inflationary pressures were beginning to be felt in the form of lower levels of demand.

Notably, foreign demand and staffing levels expanded at solid rates in July, with rising employment and slower new order growth enabling firms to deplete their backlogs of work for the first time in ten months. Despite greater capacity, some firms continued to report labour shortages.

Inflation rates remained severe in July. Survey respondents reported that wage rises, as well as rising supplier prices were primary drivers of input cost inflation. More notably, the rate of selling price inflation surged to a

S&P Global Flash Australia PMI Composite Output Index



fresh record high as firms continued to pass on higher input cost burdens.

Overall business sentiment across the Australian private sector remained positive but was the lowest since April 2020.

S&P Global Flash Australia Services PMI®

The S&P Global Flash Services Business Activity Index dipped to 50.4 in July down from a final reading of 52.6 in June, extending the current sequence of expansion in the Australian service sector to six months. That said, the pace of growth was the slowest in the current sequence and only marginal.

The upturns in business activity and new business weakened further in July. Anecdotal evidence suggested that recent interest rate hikes, inflationary pressures and staff shortages contributed to sluggish sector expansion. Similarly, growth in foreign market demand also decelerated in July. On the positive side, improving international travel volumes and new projects supported an overall improvement in the service sector. Solid growth in employment levels was also recorded in July, albeit at the slowest pace in six months. Firms reportedly faced difficulties in replacing voluntary leavers.

Notably, July data signalled a renewed deterioration in the levels of outstanding business amid reports of a market slowdown.

Severe inflationary pressures continued into July, according to latest survey data. The rate of input cost inflation remained historically elevated but more notably, selling price inflation hit a fresh record high. Survey respondents mentioned that recent wage reviews, interest

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rate hikes and rising supplier prices all contributed to higher input costs. As a result, firms continued to share part of the increased cost burdens with their clients.

S&P Global Flash Australia Manufacturing PMI®

The S&P Global Flash Manufacturing PMI® fell from a final reading of 56.2 in June to 55.7 in July. The growth rate was strong overall and also marked a twenty-sixth consecutive month of improvement within the manufacturing sector.

Amid reports of improved market demand and additional production capabilities, July data signalled a sixth successive month of growth in Australia's manufacturing production. In line with the aforementioned, solid expansions in new orders were recorded and underpinned by strong underlying demand conditions as well as expansions into new markets. Moreover, the rate of growth in foreign demand was the fastest in nine months.

Concurrently, employment levels across Australia's manufacturing sector improved for the twenty-first month running and at an accelerated rate. Anecdotal evidence suggested that firms increased their staffing levels to meet current demand levels. That said, of the firms who recorded a decline in employment, challenges around obtaining new staff were reported. Meanwhile, backlogs continued to accumulate at a historically elevated rate. Labour shortages and supply chain issues were suggested to have contributed to the growth in outstanding work.

Turning to prices, latest survey data revealed that rates of inflation remained elevated and among the highest on record. The rising costs of freight, raw materials and energy continued to be cited as factors to have driven up inflation rates. As a result, the 12-month outlook across the Australian manufacturing sector, albeit positive, dipped to the joint lowest in 27 months.

** Index is a GDP-weighted average of the S&P Global Flash Manufacturing Output Index and the S&P Global 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.*

S&P Global Flash Australia Manufacturing PMI



Commenting on the flash PMI data, Laura Denman, Economist at S&P Global Market Intelligence said:

“Australia’s private sector economy expanded for a sixth consecutive month in July, according to the S&P Global Flash Australia Composite PMI. However, latest survey data has pointed to a further deceleration in the rate of private sector growth. Panellists suggested that interest rate increases, alongside persistent inflationary pressures, have been a pivotal factor contributing to the weakened private sector improvement this month. Further interest rate increases by Australia’s central bank present a downside risk to the private sector, with sentiment slipping to a 27-month low.

“On the positive side, employment levels continue to rise at a solid pace. Firms also continue to report challenges in filling vacancies, indicating that we can hope to see continued improvement in workforce numbers in the coming months as staffing levels are rebuilt.”

-Ends-

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Note to Editors

The S&P Global Flash Australia Composite PMI[®] is compiled by S&P Global 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 S&P Global 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 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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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. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

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