

# IHS Markit Australia Manufacturing PMI®

## Manufacturing upturn loses pace in October

### Key findings

Slower increases in output and new orders

Employment falls back into decline

Supply chains remain under severe pressure

Data were collected 12-26 October 2020.

The recovery in the Australian manufacturing sector lost momentum at the start of the fourth quarter, with the sector recording softer increases in both production and sales. Ongoing COVID-19 restrictions and shortages of input materials reportedly weighed on manufacturing activity. Suppliers' delivery times continued to lengthen substantially. Inventories of inputs and finished goods were consequently depleted even as firms stepped up purchasing activity.

The headline index from the survey, the seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index™ (PMI®) fell from 55.4 in September to 54.2 in October and indicated a solid improvement in the health of the sector.

The manufacturing upturn was driven by further growth in both output and new orders during October, albeit at slower rates. Production volumes rose further, but the pace of growth was the weakest in the current four-month period of expansion and modest overall. Similar to output, inflows of new orders rose for a fourth straight month, though the increase was only modest. A decline in export sales partially weighed on overall order volumes. Respondents highlighted that social distancing restrictions and a reduced availability of inputs constrained the extent of growth. Backlogs of work rose only marginally while employment fell back into decline.

Demand for manufacturing inputs remained solid, with purchasing activity rising for a fourth month running and at the fastest pace since July. Despite stronger buying levels, input inventories were down for the first time since June during

*continued...*

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:

*"The Australian manufacturing upturn lost some momentum at the start of the fourth quarter, with slower increases in output and new orders, according to the latest PMI survey data.*

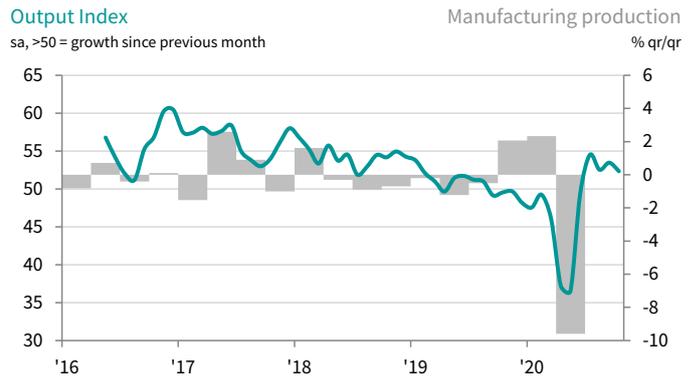
*"While ongoing pandemic measures continued to weigh on manufacturing activity, logistical issues associated with global freight capacity disruptions and industrial actions at Australian docks also led to a reduced availability of input materials, which disrupted the production process.*

*"A further disruption to the distribution of manufacturing inputs may therefore affect output growth in the coming months. That said, longer-term prospects remained upbeat as Australian goods producers expect a further easing of coronavirus restrictions and government's stimulus spending on infrastructure spending to drive output higher over the coming year."*

October amid reports of shipping delays and difficulties in sourcing materials. The survey showed suppliers' delivery times lengthened severely again in October, with vendors' ability to make timely deliveries adversely affected by industrial action at Australian seaports, border restrictions and global freight delays. Meanwhile, post-production inventories fell sharply in October, with the latest decrease marking the ninth month of decline.

On the price front, inflationary pressures persisted in October, with input prices rising solidly. Increased freight fees, material shortages and greater costs for raw materials, such as base metals, reportedly drove expenses higher. Firms passed on partially the higher costs to customers by raising their selling prices. Output charges rose at the fastest rate since March, albeit still modest overall.

Finally, business sentiment about the year-ahead outlook strengthened further in October, to its strongest since February 2019 during October. Firms that anticipated a rise in output over the coming year highlighted expectations that market conditions will return to normal, a further easing of COVID-19 restrictions, and government's stimulus spending on infrastructure.



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](mailto:economics@ihsmarkit.com).

### Survey dates and history

October data were collected 12-26 October 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.

### About IHS Markit

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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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