

MARKET SENSITIVE INFORMATION

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S&P Global Flash Australia Composite PMI®

Australian private sector expands, but at a mild pace overall

Key findings:

Flash Australia PMI Composite Output Index at 50.8 (Aug: 50.2). 2-month high.

Flash Australia Services PMI Activity Index at 50.4 (Aug: 50.2). 2-month high.

Flash Australia Manufacturing Output Index at 53.5 (Aug: 50.7). 5-month high.

Flash Australia Manufacturing PMI at 53.9 (Aug: 53.8). 2-month high.

Data were collected 9-20 September 2022.

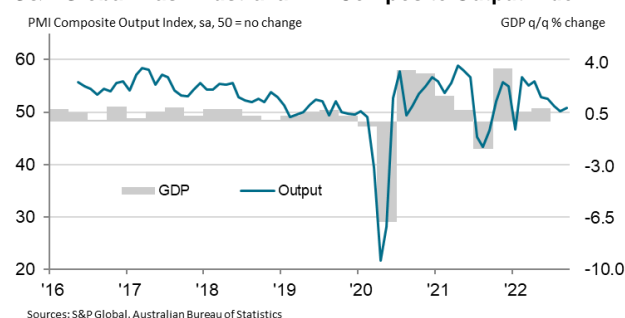
Latest 'flash' PMI™ data from S&P Global signalled an uptick in output growth across Australia's private sector economy in September. The rate of expansion, however, remained mild overall with demand conditions subdued, particularly in the service sector. On the positive side, price pressures continued to ease from the survey peaks recorded earlier this year.

The S&P Global Flash Australia Composite PMI Output Index* rose from 50.2 in August (final reading) to 50.8 in September. Latest survey data indicated that the manufacturing sector was the primary driver of Australia's private sector growth during September. The service sector, though expanding more quickly than in August, saw activity rise only marginally with activity and new business growth rates remaining below the historical averages. Panel members frequently mentioned weaker demand conditions following recent interest rate hikes and sustained inflationary pressures.

Workforces across the Australian private sector expanded in September thereby extending the current sequence of job creation to just over a year. That said, the rate of hiring softened to an eight-month low amid sustained reports of labour shortages. Meanwhile, backlogs of work decreased for the third month running in September. Softer new order growth reportedly allowed firms to work through outstanding work successfully.

At the same time, price pressures eased further in September, as signalled by rates of input cost and output price inflation dipping to seven-month lows. Rising prices across a broad range of inputs continued to be mentioned by panellists, however, with costs of labour, energy, freight and raw materials all specifically cited.

S&P Global Flash Australia PMI Composite Output Index



Finally, overall business sentiment across the Australian private sector weakened further in September dipping to the third lowest level in almost six-and-a-half years of data collection. Anecdotal evidence suggested that firms were anticipating an overall market slowdown following the ongoing cost of living crisis and recent interest rate hikes.

S&P Global Flash Australia Services PMI®

The S&P Global Flash Services Business Activity Index posted at 50.4 in September, up from a final reading of 50.2 in August. Despite marking eight consecutive months of service sector expansion, the rate of growth was only slight, remaining below the series average. Panel members suggested that output growth was reflective of overall demand conditions, with the rise in activity broadly similar to that seen for new business.

Latest survey data signalled an eighth consecutive month of increasing service sector new orders, but the pace of growth was only mild overall. Anecdotal evidence suggested that some firms benefited from higher market activity while other firms mentioned that recent interest rate hikes and sustained inflationary pressures dampened demand. At the same time, foreign demand contracted for the first time in eight months amid reports of declining order volumes from key overseas export markets.

Service sector firms increased their workforces for the thirteenth month running in September. The rate of job creation, however, was the slowest in eight months amid sustained reports of labour shortages. Meanwhile, backlogs of work declined for a third consecutive month.

Inflationary pressures remained historically sharp in September but eased further from the survey peaks recorded earlier this year. Rates of both input and output

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price inflation were the slowest in seven months. That said, panel members frequently mentioned that higher wages, along with rising costs of energy and fuel, continued to contribute to price pressures.

Notably, the degree of optimism across the Australian service sector continued to deteriorate in September weakening to the third lowest on record.

S&P Global Flash Australia Manufacturing PMI®

At 53.9 in September, up from 53.8 in August, the S&P Global Flash Australia Manufacturing PMI indicated an improvement in operating conditions across the goods-producing sector. Solid expansions in output and new orders supported the overall upturn.

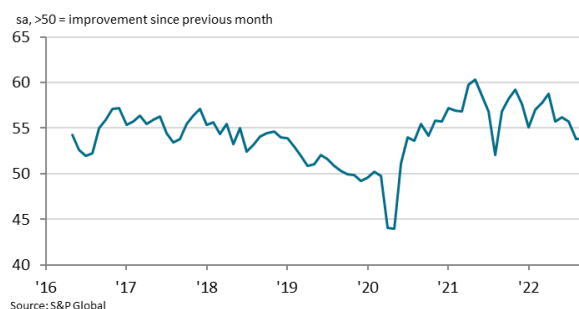
Production levels expanded for an eighth successive month in September and at the sharpest pace since April. Accelerated output growth reportedly stemmed from strengthening demand conditions within the sector. In line with the aforementioned, new orders increased at a solid pace. Anecdotal evidence suggested that manufacturing firms benefitted from clients wins and higher sales volumes. Similarly, accelerated growth in overseas demand was recorded.

To meet current demand requirements, manufacturing firms expanded their workforces at a pace which remained historically elevated. September data also signalled further growth in levels of outstanding work. That said, the rate of accumulation was the slowest in the current 22-month positive sequence.

In terms of prices, inflationary pressures eased significantly within the manufacturing sector. Notably, rates of input and output price inflation dropped to 19- and 13-month lows, respectively. Some firms mentioned that a recent dampening of demand conditions had put some downwards pressure on price levels, though higher costs for energy, freight and raw materials continued to be cited.

** 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:

“Latest S&P Global PMI Flash data brought about mixed feelings towards the current and future health of Australia’s private sector economy. September data indicated that the recent interest rate hikes made by the RBA have begun to have the desired effect in terms of prices. Inflationary pressures have eased significantly, with rates of input and output cost inflation both dipping to seven-month lows. At the same time, the private sector has remained in expansion territory with the pace of growth even accelerating very slightly from August.”

“On the negative side, the full effects of recent interest rate hikes will be lagged - taking a while to feed through onto consumer demand patterns and subsequent economic data. Should the RBA continue to increase the base rate further, the private sector economy may be at risk of heading into contraction territory in the future as disposable incomes across the nation tighten and overall demand conditions remain subdued. Latest survey data has already provided some evidence of this with the rates of expansion in output and demand only mild in September, and business confidence the lowest since the outbreak of the COVID-19 pandemic.”

-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 = 0.1 (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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