

News Release

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S&P Global Australia Manufacturing PMI®

Weaker expansion of Australia's manufacturing sector in October

Key findings

Demand and output growth slows

Inflation pressures ease visibly at the start of fourth quarter

Business confidence improves

Australia's manufacturing sector continued to expand in October though the rate of expansion slowed according to the latest survey data. Both demand and output growth eased from September which led to a slower rise in employment levels while purchasing activity declined for the first time since June 2020. Amid supply issues, stocks of purchases also fell in October. Overall sentiment in the sector meanwhile showed improvement.

The headline seasonally adjusted S&P Global Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 52.7 in October, down from 53.5 in September. Posting above the 50.0 no-change mark, the PMI was consistent with a twenty-ninth consecutive month of improvement in overall operating conditions, although the rate of expansion eased to the slowest since August 2021.

Production at Australia's manufacturing firms rose for a ninth consecutive month in October, driven by an expansion in new orders as underlying demand rose. Improvements in factory performance were also reported to have supported the solid expansion in output. That said, both new orders and production increased to weaker degrees in October. Foreign demand likewise expanded at a slower rate.

Amid higher overall demand and output, firms continued to expand their workforce capacity. The rate at which employment levels grew was slower, however, with survey respondents reported to have faced difficulties in acquiring skilled labour.

Meanwhile buying activity shrank for the first time in over two years. Anecdotal evidence suggested that while some firms held adequate pre-production inventories to pare back their buying activity, others faced supply issues, leading to the contraction in purchasing. As a result, stocks of purchases also declined in October.

Indeed, suppliers' delivery times continued to lengthen in October amid reports of manpower shortages and flooding

Australia Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-25 October 2022.

Comment

Jingyi Pan, Economics Associate Director at S&P Global Market Intelligence, said:

"The latest Australian Manufacturing PMI reflected continued expansion at the start of the fourth quarter, though the rate of growth slowed from September. Foreign demand for Australian manufactured goods notably saw growth slow to almost a halt in the latest survey."

"Positively, suppliers' delivery times lengthened at the slowest rate since before the COVID-19 pandemic hit while prices also increased to the weakest degree since early 2021. This suggested the easing of these manufacturing sector constraints, although there remained some reports that purchasing activity remained mildly affected by supply issues."

"Business sentiment meanwhile showed signs of a turnaround with the uplift in business confidence from the September low, which was a positive sign for sector growth in the near-term."

PMI®

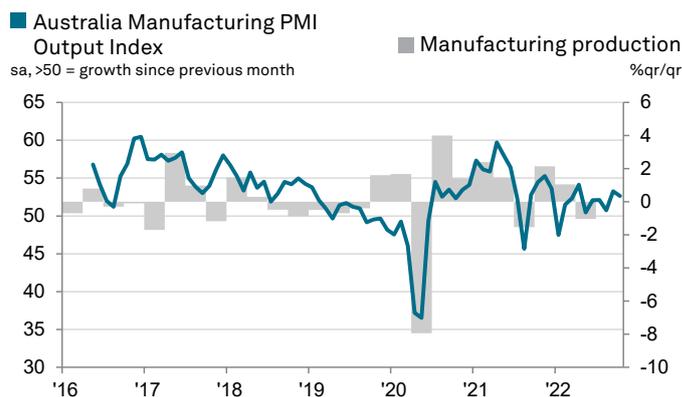
by S&P Global

weighing on vendor performance. The rate at which lead times lengthened was the slowest since August 2019, however.

Growth of backlogged work meanwhile accelerated at the start of the fourth quarter. Higher order book volumes, labour and supply constraints contributed to the increase in outstanding work according to survey respondents.

Turning to prices, October data signalled a further easing of inflationary pressures. Although both input costs and output prices increased, inflation rates were the weakest in 20- and 18 months respectively. Anecdotal evidence suggested that firms continued to pass on to clients their increasing input cost burdens, underpinned by higher wages, raw material and transport costs.

Finally, sentiment in the Australia manufacturing sector remained positive in October improving on September's recent low. Firms were generally hopeful that demand conditions will improve over the coming 12 months.



Sources: S&P Global, Australian Bureau of Statistics.

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Survey methodology

The S&P Global Australia Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in May 2016.

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.

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