

News Release

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S&P Global Australia Manufacturing PMI®

Manufacturing PMI drops to four-month low

Key findings

New orders and output growth slow...

...as supply issues persist with lead times lengthening

Business confidence eases in May

The expansion of Australia's manufacturing sector slowed in May, according to the latest S&P Global PMI® data. Manufacturing output and orders grew at softer rates with foreign demand shrinking. This was amid persistent supply issues manifesting in the form of longer lead times and higher prices. Sustained demand growth nevertheless led to increased hiring and purchasing activities. Overall business optimism eased in May.

The seasonally adjusted S&P Global Manufacturing Purchasing Managers' Index™ (PMI®) posted above the 50.0 no-change mark at 55.7 in May, down from 58.8 in April, to signal an expansion of the Australian manufacturing sector. The marked the twenty-fourth consecutive month in which the sector has grown.

Manufacturing production continued to expand in May though the rate of expansion paled in comparison to April amid supply and flooding issues affecting production according to panellists. Overall new orders continued to expand, supported by better market conditions. Foreign demand contracted in May, however, weighed down by the effects of higher costs of shipping, the Ukraine war and COVID-19 disruptions in China.

Higher demand nevertheless drove Australian manufacturers to expand their workforce capacity in May though some firms continued to experience difficulties in hiring. Concurrently, purchasing activity increased in the Australian manufacturing sector in line with the growth of new orders. Interests in safety stock building to safeguard against shortages and price increases also contributed to the rise in buying activity according to panellists. This led to the accumulation of pre-production inventories in May.

Indeed supply issues lingered with longer vendor delivery times observed in May. Panellists frequently linked the deterioration of vendor performance to flooding and supply constraints, aggravated by the Ukraine war and COVID-19

Australia Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-25 May 2022.

Comment

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

"Australia's manufacturing sector continued to expand at a solid, but slower, rate according to the latest S&P Global Australia Manufacturing PMI. Manufacturing production growth eased to a marginal level midway into the second quarter. That said, supply issues were largely blamed for the slowdown and the sustained strong growth in new orders presented a comforting sign."

"Price pressures persisted for Australian manufacturers, though indications that price inflation have started to ease suggest we may have already seen a peak. The trend here will be worth monitoring moving forward."

"Business sentiment in the Australian manufacturing sector remained positive, but overall confidence declined again with concerns over costs and supply-side constraints, issues that have the potential to limit future output."

PMI®

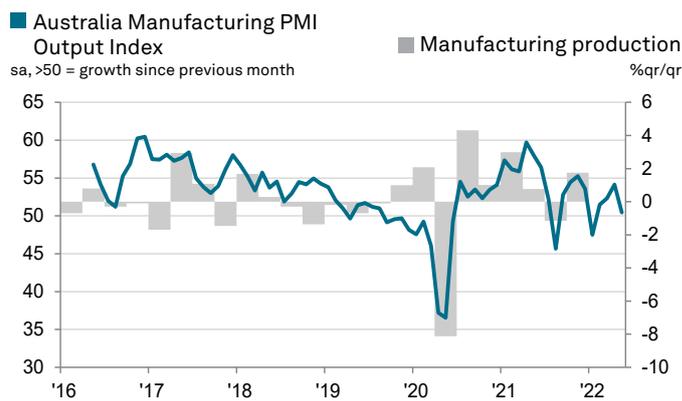
by S&P Global

restrictions in China.

As a result of higher demand and supply issues, backlogged work accumulated in May. Stocks of finished goods also increased, underpinned by delays in outbound deliveries.

Overall price pressures eased since April. That said, both input costs and output prices continued to rise at rates amongst the fastest in their respective survey histories. Higher raw material, energy and transportation costs were some of the items contributing to the increase in overall input costs, according to panellists, which led to the sharing of these cost burdens with clients.

Sentiment in the Australian manufacturing sector remained positive in May, but the overall level of business confidence slipped to the lowest since July 2021 amid concerns over inflationary pressures and capacity issues.



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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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