

MARKET SENSITIVE INFORMATION

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S&P Global Flash Australia Composite PMI®

First contraction in private sector output since January

Key findings:

Flash Australia PMI Composite Output Index at 49.8 (Jul: 51.1). 7-month low.

Flash Australia Services PMI Activity Index at 49.6 (Jul: 50.9). 7-month low.

Flash Australia Manufacturing Output Index at 51.5 (Jul: 52.1). 3-month low.

Flash Australia Manufacturing PMI at 54.5 (Jul: 55.7). 12-month low.

Data were collected 11-18 August 2022.

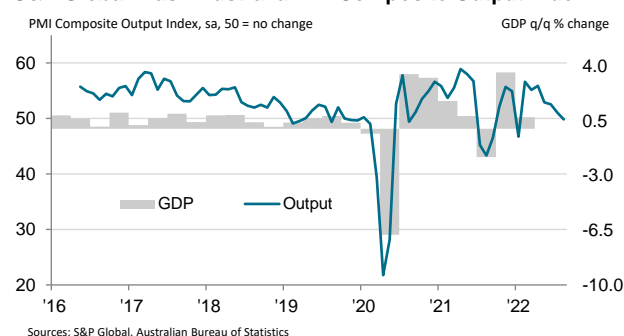
Australia's private sector economy shrank for the first time in seven months in August, according to Flash PMI® data. A renewed contraction in private sector output was recorded as demand expanded at the joint-slowest pace in seven months. Despite this, August data marked a year-long sequence of increasing workforce numbers, with additional staff contributing to a further decline in backlogged work. Elsewhere, both input and selling price inflation eased to six-month lows but remaining historically severe. Overall business sentiment remained in optimistic territory in August but fell to its lowest level since April 2020.

The S&P Global Flash Australia Composite PMI Output Index* dropped from 51.1 in July (final reading) to 49.8 in August. Overall, this marked a renewed contraction within the Australian private sector and followed on from six consecutive months of growth. The overall decline in Australia's private sector economy was primarily a reflection of declining service sector activity, although weaker manufacturing output growth was also recorded.

New order growth continued in August as some respondents linked new client wins and a recovery in the tourism industry to the uptick in demand. However, the expansion was only mild and level with July's six-month low as inflationary pressures and interest rate hikes acted as drags on sales. Similarly, growth in new export orders slowed.

Job creation continued into August and extended the current sequence of workforce expansion to a year. That said, firms in both sectors continued to report difficulties in hiring, partly due to labour shortages. Nevertheless, amid slowing demand growth, levels of outstanding work declined for a second consecutive month.

S&P Global Flash Australia PMI Composite Output Index



On the prices front, although inflationary pressures remained substantial, they eased from the recent survey peaks. Increasing costs of fuel, energy, labour and raw materials continue to be listed as key contributors of input price inflation, with firms in turn choosing to pass greater cost burdens to clients in the form of higher charged prices.

Lastly, business confidence slumped to its lowest level since April 2020 as optimism at both manufacturers and service providers weakened.

S&P Global Flash Australia Services PMI®

The S&P Global Flash Services Business Activity Index fell to 49.6 in August, down from a final reading of 50.9 in July. This marked the first contraction in the Australian service sector in seven months.

Inflationary pressures and recent interest rate hikes reportedly contributed to the renewed decline in business activity. Panellists also linked deteriorating consumer confidence and uncertainty to the contraction. A seventh consecutive month of expansion in new business was recorded in August, although the upturn was only marginal and well below those seen earlier in the year. Anecdotal evidence suggested that the recovery of the tourism industry amid the easing of COVID-19 policies partly drove the uptick in demand. In line with the aforementioned, growth in foreign demand accelerated from July, extending the current sequence of export expansion to six months.

Notably, a solid expansion in staffing levels was registered in August, marking a year-long sequence of job creation. That said, the rate of growth was the slowest in seven months amid reports of staff shortages and resignations. Backlogged work also declined for a second consecutive

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month due to a reduction in domestic orders and general market slowdown, according to firms.

In terms of prices, rates of inflation within the service sector remained severe but eased from the survey peaks recently recorded. Input cost inflation remained sharp but was the slowest in six months. Survey respondents reportedly experienced inflation across a broad range of inputs with higher costs of energy, labour and fuel all mentioned. Firms continued to pass on increasing cost burdens to clients, as evidenced by a steep rise in selling prices.

S&P Global Flash Australia Manufacturing PMI®

The S&P Global Flash Manufacturing PMI® dipped from a final reading of 55.7 in July to 54.5 in August and was the lowest in a year. That said, the growth rate was solid overall and extended the current sequence of sector improvement to 27 months.

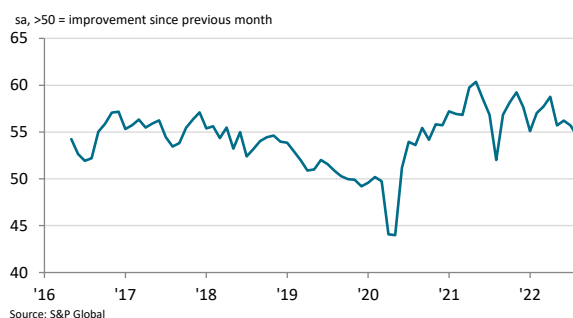
Manufacturing production expanded in August, extending the current sequence of output growth to seven months. Panellists linked increased output to an uptick in sales and staff returning to work. August data also marked a year of sustained growth in new orders amid reports of strong underlying demand for goods. That said the strength of the upturns in both production and new orders weakened from July. Similarly, demand from overseas markets grew for a third consecutive month, but at the slowest rate in the current positive sequence. The 12-month outlook across the manufacturing sector sunk to the lowest in 28 months.

Moreover, workforce numbers rose for a twenty-second successive month and at the quickest rate since April. Levels of outstanding work expanded in August but at the slowest rate in eleven months amid a softening in new order growth and rising staffing levels.

Severe inflationary pressures continued into August with selling price inflation at the second-strongest on record. Anecdotal evidence suggested that input price inflation continued to be primarily driven by the increasing costs of raw materials, freight, fuel and energy.

** 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:

“A renewed contraction in Australia’s private sector economy indicates that recent interest rate hikes made by the RBA, as well as sustained inflationary pressures, have begun to take a toll on overall demand levels. Should new order growth remain subdued, this may help reduce demand-pull inflation factors, but survey data continue to highlight the supply issues that remain prevalent globally, which will continue to keep price levels elevated for the foreseeable. As such, the RBA will likely continue along its rate-hiking path, which bodes ill for the wider economy given the latest survey data highlight clear signs of underlying weakness.”

-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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