

MARKET SENSITIVE INFORMATION

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S&P Global Flash Australia Composite PMI®

Private sector expansion slows in May as manufacturing output contracts

Key findings:

Flash Australia PMI Composite Output Index at 52.5 (Apr: 55.9). 4-month low.

Flash Australia Services PMI Activity Index at 53.0 (Apr: 56.1). 4-month low.

Flash Australia Manufacturing Output Index at 49.3 (Apr: 54.1). 4-month low.

Flash Australia Manufacturing PMI at 55.3 (Apr: 58.8). 4-month low.

Data were collected 12-20 May 2022.

Australia's private sector recorded a fourth straight month of growth, according to Flash PMI® data. Both demand and output expanded at solid rates in May, contributing to higher employment levels. Supply constraints persisted, however, leading to an accumulation of backlogged work while prices continued to rise. Overall business confidence improved.

The S&P Global Flash Australia Composite Output Index* declined from 55.9 in April (final reading) to 52.5 in May. This marked a fourth consecutive month of expansion for Australia's private sector but at the slowest pace in the current sequence.

Private sector output growth eased in May, weighed by a contraction of manufacturing output while services business activity remained in expansion. Although the easing of COVID-19 restrictions continued to support private sector output expansion, issues around a COVID-19 related labour and supply crunch and domestic flooding affected manufacturing production in May.

Overall demand nevertheless remained in growth across both the manufacturing and service sectors, supporting private sector workforce expansion in May. The rate of expansion eased marginally from April with firms continuing to report difficulties in acquiring skilled labour.

Amid disruptions from the Ukraine war, lockdowns in China and flooding in Australia, supply chain issues persisted, contributing to a faster build-up of backlogged work in May.

Private sector firms also continued to experience higher costs in May amid the abovementioned issues, with input prices rising at the third fastest rate on record. As a result, firms shared these cost burdens with their clients, leading to higher output prices in May.

S&P Global Flash Australia PMI Composite Output Index



Overall sentiment in the Australian private sector remained positive with business confidence climbing to a three-month high on hopes of the economy recovering.

S&P Global Flash Australia Services PMI®

The S&P Global Flash Services Business Activity Index fell to 53.0 in May from a final reading of 56.1 in April. This marked a fourth consecutive month in which Australian services output expanded, albeit at the slowest pace in the current sequence.

The easing of COVID-19 restrictions continued to support the expansions of new orders and business activity in May, though poor weather conditions and higher interest rates were blamed for the growth slowdown. New export business expanded for the third straight month following the easing of border restrictions.

Price pressures persisted with both input costs and output prices rising at rates amongst the fastest on record. Higher purchase prices, fuel costs and wages were listed as items contributing to the increase in cost burdens. Overall business optimism in the service sector nevertheless improved in May.

S&P Global Flash Australia Manufacturing PMI®

The S&P Global Flash Manufacturing PMI® eased from a final reading of 58.8 in April to 55.3 in May. This marked the twenty-fourth successive month in which conditions in the manufacturing sector strengthened, though at the slowest pace in four months.

Manufacturing production contracted in May following three months of growth with panellists linking the slowdown to flooding and COVID-19 related labour and supply

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shortages. That said, new orders continued to expand, driving higher levels of employment and purchasing activity. Manufacturers also reported increasing their stocks of purchases to mitigate against price fluctuations and delays.

Indeed, suppliers' delivery times continued to lengthen in May at a rate far exceeding the survey average. At the same time, input costs rose at a rapid pace, leading to output prices climbing at the second fastest rate on record. Manufacturers attributed the increase in costs to the Ukraine war, COVID-19 disruptions in China and domestic flooding.

Overall sentiment amongst Australian manufacturers remained positive though the level of business confidence fell to a 25-month low.

**The S&P Global Flash Australia Composite Output 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.*

Commenting on the flash PMI data, Jingyi Pan, Economics Associate Director at S&P Global Market Intelligence said:

"The expansion of the Australian economy continued in May at a solid pace, according to the S&P Global Flash Australia Composite PMI. Although manufacturing output was affected by issues of COVID-19 disruptions and poor weather conditions, manufacturing demand remained robust, which had been a reassuring sign.

"Persistent supply chain constraints continue to pose challenges for firms in the private sector, both in terms of input acquisition and price fluctuations. Anecdotal evidence also suggested that firms are concerned with the rising interest rate outlook and the effect on their businesses, all of which are worth monitoring moving ahead.

"That said, overall business sentiment remained positive while workforce expansion continued at a strong pace in May, positive signs gleaned from the latest PMI survey."

S&P Global Flash Australia Manufacturing PMI

-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.

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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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