

MARKET SENSITIVE INFORMATION

Embargoed until 0900 AEDT 24 October 2022 (2200 UTC 23 October 2022)

S&P Global Flash Australia Composite PMI®

Australian private sector slips into contraction in October

Key findings:

Flash Australia PMI Composite Output Index at 49.6 (Sep: 50.9). 9-month low.

Flash Australia Services PMI Activity Index at 49.0 (Sep: 50.6). 9-month low.

Flash Australia Manufacturing Output Index at 53.0 (Sep: 53.3). 2-month low.

Flash Australia Manufacturing PMI at 52.8 (Sep: 53.5). 14-month low.

Data were collected 11-19 October 2022.

Australia's private sector contracted for the first time since January according to Flash PMI® data. Both demand and output declined in October while the level of work outstanding simultaneously eased. The labour market remained tight, however, as firms continued to hire at a solid pace. Meanwhile price pressures persisted, in part contributing to lower private sector confidence in October.

The S&P Global Flash Australia Composite Output Index* fell from 50.9 in September (final reading) to 49.6 in October. This signalled that the private sector shrank for the first time in nine months.

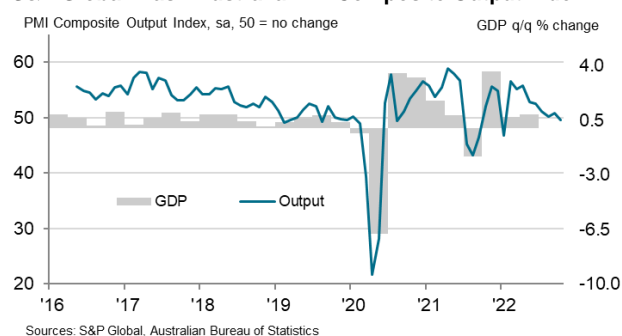
Private sector output fell in October amid lower demand for Australian goods and services. Anecdotal evidence suggested a deterioration in economic conditions at the start of Q4 contributed to lower new business. Foreign demand continued to expand, however, supported by improvements in overseas business activity and favourable exchange rate conditions for international clients.

Amid the fall in demand, the overall volume of incomplete business sank in October. This was largely underpinned by lower outstanding business in the service sector.

Meanwhile, despite the fall in new orders, Australian private sector firms continued to hire at a solid rate in October both to rebuild their workforce capacity and in anticipation of higher future workloads.

On prices, both input costs and output prices continued to climb in the private sector. Survey respondents reported higher costs across a range of categories including fuel, wages and raw materials leading to higher output prices in October.

S&P Global Flash Australia PMI Composite Output Index



Overall sentiment in the Australian private sector remained positive but the level of business confidence further slipped to the lowest since April 2020.

S&P Global Flash Australia Services PMI®

The S&P Global Flash Services Business Activity Index eased to 49.0 in October, from 50.6 in September, to indicate the first contraction of the service sector since January.

A renewed deterioration in demand for services underpinned the fall in business activity. Firms blamed the decline in demand on rising interest rates and greater market uncertainty, though foreign demand continued to expand. Firms also continued to hire despite the decline in order book volumes with some intent on rebuilding their labour capacity to pre-Covid levels.

Price pressures meanwhile persisted for Australian service providers. Selling price inflation picked up from September as firms reported passing on higher costs to clients. Overall business confidence in the service sector deteriorated in October.

S&P Global Flash Australia Manufacturing PMI®

The S&P Global Flash Australia Manufacturing PMI® posted 52.8 in October, down from a final reading of 53.5 in September. This marked the twenty-ninth successive month in which conditions in the manufacturing sector strengthened, though at the slowest pace since August 2021.

Manufacturing production growth was supported by higher new orders in October. Anecdotal evidence suggested that better market demand, including international demand,

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underpinned the rise in order book volumes. That said, the rate of growth of both output and new orders slowed at the start of Q4.

As a result of the slowdown in demand growth, manufacturers turned cautious with their purchasing activity. Firms nevertheless continued to expand their workforce capacity at a solid pace while citing difficulties in acquiring skilled labour.

Issues of supply constraints also persisted as suppliers' delivery times further lengthened in October, which alongside manpower shortages led to the accumulation of backlogged work.

On prices, both input costs and output prices rose in October though at slower rates compared to the prior month. Manufacturers are broadly optimistic that output will continue to grow though the level of business confidence further fell from September.

**The S&P Global Flash Australia Composite 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:

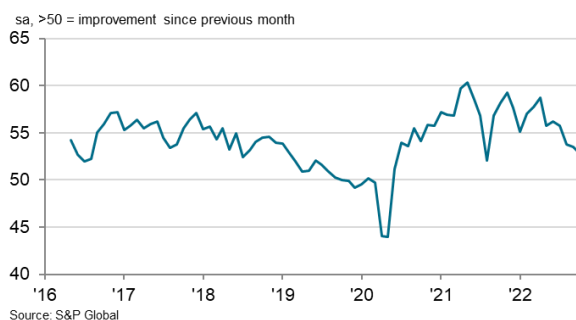
"Australia's private sector saw renewed contraction in October with the service sector primarily showing signs of stress. A fall in demand for services was underpinned by higher interest rates and prices, altogether reflective of the detriments of aggressive monetary policy tightening and capacity constraints upon business activity.

"Although input price inflation declined in October, output price inflation climbed in the private sector according to the PMI data suggesting that price pressures have yet to ease steadily. A tight labour market also indicates that wage inflation may persist.

"Overall business confidence meanwhile continued to trend lower in October to the weakest since the height of the COVID-19 pandemic in April 2020, which is not a positive sign for the Australian economy."

-Ends-

S&P Global Flash Australia Manufacturing PMI



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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 = 0.1 (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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