News Release

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S&P Global Australia Manufacturing PMI®

Pace of manufacturing growth slows in August

Key findings

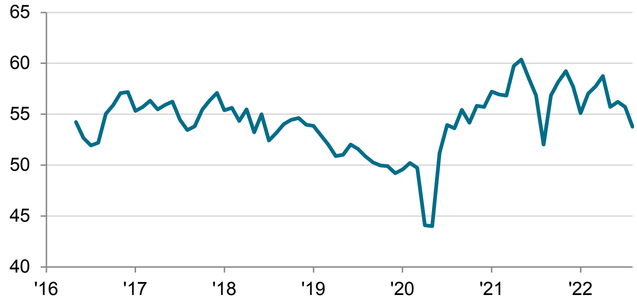
Weaker gains in output and demand...

...amid third-sharpest rate of selling price inflation

Staffing levels expand at an accelerated pace

Australia Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-24 August 2022.

Operating conditions across Australia's manufacturing sector continued to improve in August but at the slowest rate in a year, according to the latest S&P Global PMI® data. Growth in both manufacturing production and overall demand weakened from July amid reports of a general market slowdown. Despite this, employment levels continued to expand and at an accelerated pace though difficulties in filling vacancies continued to be frequently cited. Staff shortages, also reportedly contributed to a further accumulation of backlogged work in August.

Overall price pressures remained severe in August with output cost inflation amongst the steepest on record. That said, input cost inflation returned to a downwards trajectory, dipping to a 12-month low.

The headline seasonally adjusted S&P Global Australian Manufacturing Purchasing Manager's Index™ (PMI™) posted at 53.8 in August, down from 55.7 in July signalling a twenty-seventh consecutive month of improvement in the overall health of Australia's manufacturing sector. That said, the rate of growth slipped to a 12-month low, dropping below its historical average.

Manufacturing production expanded for a seventh consecutive month in August amid reports of reductions in staff absenteeism and sales growth. That said, the rate of increase was mild overall and the slowest in three months.

Meanwhile, growth in new orders was solid but eased to a seven-month low. Inflationary pressures and a general lack of consumer confidence reportedly contributed to the weaker upturn. August data similarly signalled a softer expansion in foreign demand.

A rise in purchasing activity was recorded in August alongside a further accumulation in pre-production inventories. Panellists reported that ongoing production requirements and safety stock building – due to supply chain issues – primarily drove the rise. That said, growth in both buying

Comment

Laura Denman, Economist at S&P Global Market Intelligence, said:

"The rate of improvement in Australia's manufacturing sector softened in August, according to the latest S&P Global PMI® data. Eased sector growth suggested that inflationary pressures and interest rate hikes recently made by the RBA are beginning to weigh on demand. Moreover, despite both output and new orders remaining in expansion territory in August, the softening of these and other indicators point towards further weakening of the sector in the coming months.

"That said, August data displayed positive signs in terms of the easing of supply chain disruptions. Vendor performance continued to deteriorate this month but as the slowest pace since February 2020. Should the index continue to improve, we could hope to see an easing in supply driven inflation."

activity and stocks of purchases eased to 12- and 17-month lows, respectively. At the same time, a renewed expansion in post-production inventories was recorded in August.

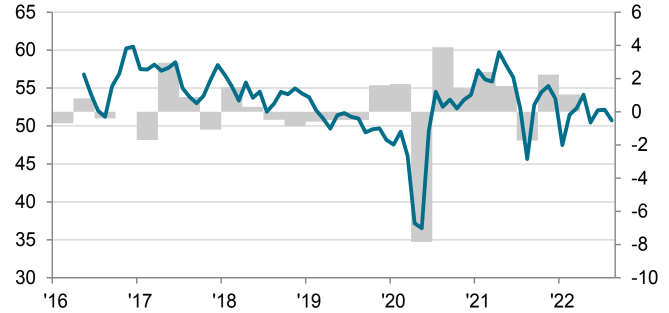
August data highlighted another month whereby vendor performance deteriorated. Notably, however, the extent of the deterioration was the slowest since February 2020.

Meanwhile, employment levels across Australia's manufacturing sector rose in August and at an accelerated pace. That said, anecdotal evidence continued to suggest that firms were experiencing difficulties in obtaining and maintaining staff.

Staff shortages reportedly contributed to a further expansion in backlogged work though the pace of accumulation eased to an 11-month low. Of the firms who registered a depletion in levels of outstanding work, a reduction in new orders was frequently mentioned.

On prices, both input costs and output costs continued to climb. Despite easing to a twelve-month low, input cost inflation remained historically elevated amid reports of rising prices of raw materials, energy, freight, and labour. Firms reportedly continued to partly pass on increasing cost burdens to their clients in the form of higher selling prices. The rate of output cost inflation was the third-sharpest on record.

Finally, Australian manufacturing firms remained positive towards the 12-month outlook on output. Firms reportedly hoped for a sustained recovery from COVID-19 and general market growth. That said, the overall degree of confidence remained below its historical average.



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.

About S&P Global

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. ihsmarkit.com/products/pmi.html.

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