

News Release

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S&P Global Australia Manufacturing PMI®

Manufacturing sector growth accelerates despite continuing price pressures

Key findings

Demand and output growth picks up...

... despite sustained inflationary pressures

Sharper accumulation of pre-production inventories

Australia's manufacturing sector expanded at an accelerated rate in June, according to the latest S&P Global PMI® data. The improvement in the overall health of the sector reflects sustained expansions in output and new orders, with rates of growth accelerating from May in both cases. With demand conditions showing a continued improvement, latest survey data pointed to higher purchasing activity, an increase in pre-production inventories, rising employment levels and an accumulation of backlogged work. Meanwhile, vendor performance continued to deteriorate amid reports of supply chain issues. As a result, raw materials remained scarce and rose further in cost, driving up both input and output prices as firms often passed on higher supplier fees to their customers.

The headline seasonally adjusted S&P Purchasing Manager's Index™ (PMI™) - a composite single-figured indicator of manufacturing performance - posted 56.2 in June, up from 55.7 in May. This signalled a twenty-fifth consecutive month in which the PMI has printed above the 50.0 neutral threshold, signalling a sustained improvement in the health of the Australian manufacturing sector.

Supporting the PMI was a solid increase in output. Panellists largely associated the uptick with higher new order intakes as a result of firmer domestic and foreign demand conditions.

Notably, the rate of new order growth accelerated to a solid pace, with the latest uptick extending the current sequence of order book expansion to ten months. June data also signalled a renewed upturn in foreign demand amid reports of ongoing recovery from COVID-19 across a number of key export markets.

Strong demand conditions and the subsequent rise in production requirements led to solid growth in manufacturing workforce numbers during June.

Purchasing activity also increased in June, both to meet ongoing production requirements and for safety stock

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



Source: S&P Global.
Data were collected 13-24 June 2022.

Comment

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

"According to the latest S&P Global PMI data, Australia's manufacturing sector sustained strong growth momentum in June. Stronger underlying demand conditions underpinned the latest expansion in production levels and supported higher employment and purchasing activity. Should solid demand growth continue, we can hope to see further improvements in the overall health of Australia's manufacturing sector."

"That said, there was limited movement in price gauges during June, which remain historically high. Supply chain constraints persisted and followed through to higher input prices. Firms also continued to opt to partially share any additional costs with their clients in the form of higher selling prices. We could eventually see demand levels soften if prices continue to rise."

PMI®

by S&P Global

building, according to panellists. Consequently, pre-production inventories expanded for an eighteenth successive month and at a sharp pace.

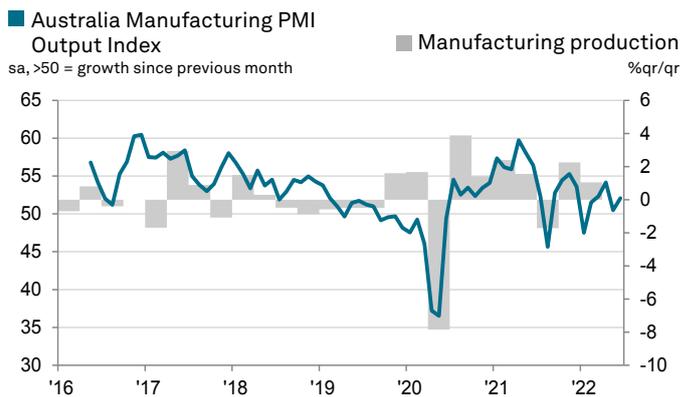
Post-production inventories also increased, and at the steepest rate since October 2021. Survey respondents linked the latest expansion to stock building efforts to meet current and future demand.

Levels of outstanding work continued to grow in June. Though sharp, the rate of backlog accumulation dipped to a nine-month low. Where higher amounts of unfinished work were seen, supply constraints and raw material shortages were mentioned.

Supply chain issues, stemming from material scarcity and transport delays, reportedly weighed upon vendor performance which continued to deteriorate rapidly in June.

Severe price pressures persisted in June, with the rate of input price inflation accelerating amid reports of higher fuel, freight and raw material costs. Prices charged by Australian manufacturers therefore continued to rise, with many firms reportedly choosing to at least partly share the increase in their cost burdens with their clients

Business expectations remained strongly positive across the Australian manufacturing sector in June. The degree of optimism towards the 12-month outlook for output improved amid reports of expansion plans and hopes of sustained economic recovery.



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.

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