

Australia

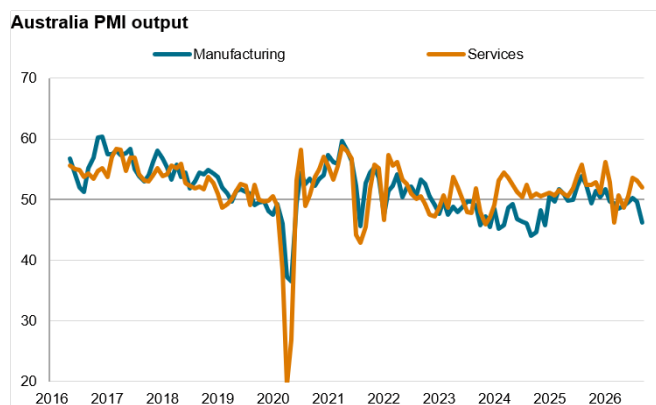
Australia PMI points to mix of elevated inflation and softer growth, hinting at cautious rate setting

The latest S&P Global PMI data pointed to slowing growth in Australia at the end of the third quarter, driven by a deepening downturn in the manufacturing sector while services activity rose at a weakened pace.

The easing of overall growth momentum was underpinned by slowing demand growth, but that did little to alleviate pressure on prices, as both input cost and output price inflation remained elevated by historical standards on the back of energy prices and supply constraints.

The September data were released just as the Reserve Bank of Australia (RBA) raised its cash rate to a 15-year high, though the meeting had followed the earlier flash PMI data. While the elevated price signals from the flash and final PMIs had indicated a high probability of rates being hiked, the slowdown in economic growth signalled by the survey underscored how policymakers see prior rate hikes already having a material impact and hence leading markets to take a more dovish view on the outlook for further rate hikes. As such, October's upcoming flash PMI data will add fresh insights into the dilemma over whether further hikes will be necessitated.

Australia's manufacturing sector downturn deepens



Data compiled October 2026 including September data.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, S&P Global Market Intelligence.
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The latest S&P Global Australia Composite PMI posted 51.3 in September and signalled a modest increase in business activity across Australia's private sector. The latest reading was also the lowest in three months and reflected a slowdown in growth following signs of stabilisation observed earlier in the quarter.

Central to the latest downturn was a deepening contraction in manufacturing output in September. The pace at which production contracted was the sharpest in 21 months, dragged down by a fresh fall in goods new orders. The latest reduction in new work inflows for manufacturers in Australia was in line with the [global trend, which showed that economies with a high concentration of basic materials producers were typically struggling](#) as they were left behind while other technology-focused manufacturing sectors improved. Strong competition, subdued underlying demand and rising prices have reportedly been factors affecting the goods producing sector. The reduction in the scale of production further limited purchasing and hiring activities among manufacturing firms in Australia.

The latest manufacturing output index therefore pointed to weak manufacturing production in Australia in the third quarter following an already subdued second quarter.

Australia manufacturing production and PMI manufacturing output



Data compiled October 2026 including PMI data to September and official data to Q2.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
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Meanwhile, Australia's service sector growth also eased in the latest survey period, reflecting the impact of higher prices on demand and relatively less robust market conditions. The latest increase nevertheless rounded off a full quarter of growth for the service sector after business activity declined for four straight months earlier in the year, representing the longest stretch of contraction seen since late-2023.

Altogether, the latest PMI data are indicative of GDP rising by around 1.0% in the third quarter of the year, which is broadly in line with our forecast for full year growth at 1.0%.

Australia GDP and PMI composite output



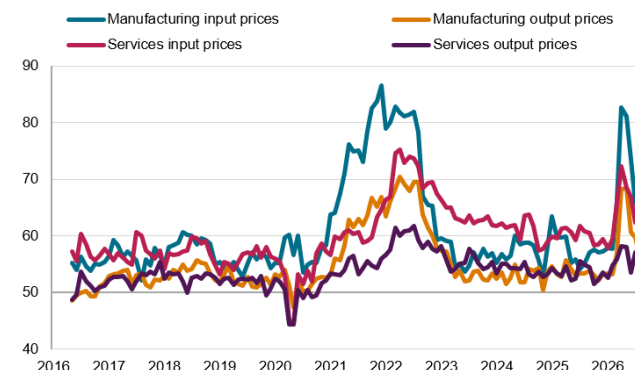
Data compiled October 2026 including PMI data to September and GDP data to Q2 2026.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
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Elevated price pressure in focus

In addition to the softening growth picture, elevated price pressures featured prominently in the latest PMI release for Australia. Rates of input cost and output price inflation both climbed again during September, driven mainly by rising service sector price inflation, though manufacturing price increases also remained steep by historical standards.

Notably for the manufacturing sector, supplier delivery times lengthened again at one of the most pronounced paces seen since the COVID-19 pandemic and outlined the degree to which supply conditions deteriorated at the end of the quarter. The worsening supply conditions, coupled with reports of shortages, added to higher raw material, oil and shipping costs, altogether pushing up average input prices at a marked pace again. The picture was largely similar for the service sector in September.

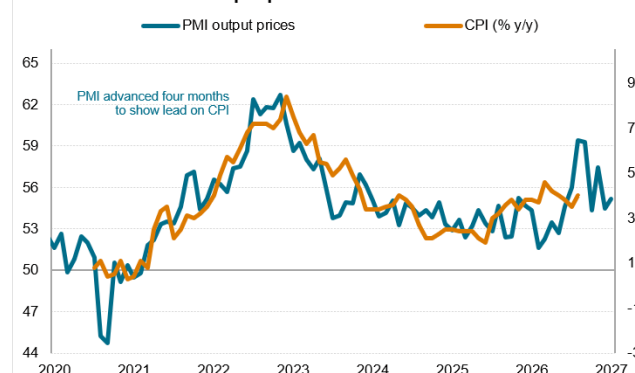
Australia PMI prices



Data compiled October 2026, including September data.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, S&P Global Market Intelligence.
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Comparison of the output prices data with Australia's CPI therefore suggested that inflation is likely to remain elevated at around 3.5-4.0% in the coming months, with PMI prices data acting as a leading indicator of official inflation data. This is in line with our forecast for CPI inflation to average 3.6% in 2026 before easing to 2.5% in 2027.

Australia CPI and PMI output prices



Data compiled October 2026 including PMI data to September and CPI data to August.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
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Subdued outlook

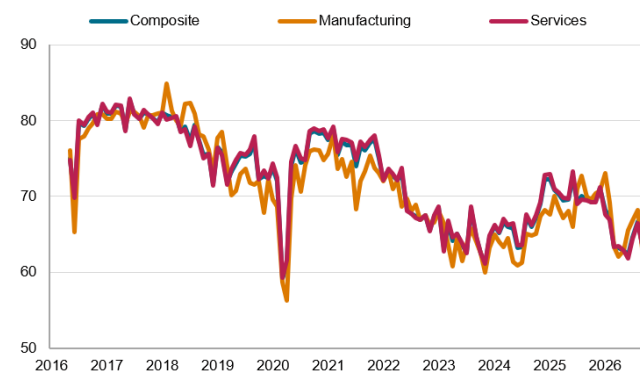
The PMI's price data corroborate the RBA's fourth rate hike of the year, which took latest cash rate to a 15-year high of 4.6% in September. The sustained price pressures also mean a further hike in November has not been ruled out, though RBA head Michele Bullock noted how they are already seeing demand growth slow in response to prior rate hikes.

This caution about the underlying strength of demand in the economy corresponds with the weakness of the PMI's output index and fall in the future output index, [which had been trailed in advance by the earlier flash PMI's release ahead of the central bank meeting](#). Not only has growth slowed, but business confidence has fallen back to one of the lowest levels seen since the pandemic, with both

manufacturers and service providers less optimistic regarding output growth in the next 12 months.

Importantly, sluggish growth and a dearth of optimism will reduce scope for second-round inflationary pressures to gain traction. Markets will therefore be eager to see how these inflation and growth signals will change ahead of the next RBA meeting on November 3rd via the [October flash PMI for Australia, which will be released on October 22nd](#).

Australia PMI future output



Data compiled October 2026, including September data.

PMI (Purchasing Managers' Index) value of 50 = no change on prior month.

Source: S&P Global PMI, S&P Global Market Intelligence.

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