

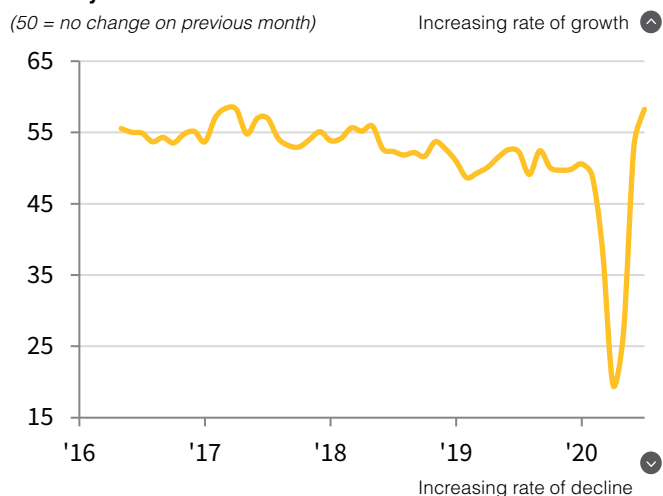
August 2020

Services activity recovery gathers pace in July

Key findings

With the Australian economy gradually reopening, latest PMI data showed the recovery in the services activity gaining momentum during July. Demand also picked up further, contributing to another accumulation in backlogs. Firms maintained their optimism towards the year-ahead outlook. While there remained some firms reducing staffing numbers, the drop in overall employment was marginal. Meanwhile, input costs rose further, but charges fell.

Commonwealth Bank Services PMI[®] May 2016 – Jul 2020



The headline figure derived from the survey is the Commonwealth Bank of Australia Services Business Activity Index, which is designed to provide timely indications of changes in business activity in the Australian service sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration.

The seasonally adjusted Business Activity Index rose by over five points from 53.1 to 58.2 in July, its highest since April 2017 and indicating a further monthly rise in activity.

Summary

Business Activity		Interpretation
Jul-20	58.2	Expansion, faster rate of growth
Jun-20	53.1	Expansion, change of direction

Growth in services activity accelerated at the start of the third quarter as the gradual reopening of the economy following a loosening of coronavirus disease 2019 (COVID-19) restrictions led to more businesses returning to work.

The rise in business activity was accompanied by a further strengthening in demand. Order book volumes rose sharply in July, with the rate of increase the strongest for three years. However, the rebound in sales was driven by the domestic market as external demand continued to deteriorate. Foreign orders fell further in July.

Despite a solid rise in sales, firms remained broadly capable of managing additional workloads, with backlogs increasing only marginally. Moreover mild capacity pressure failed to prevent firms from reducing employment further in July. Nevertheless, the rate of job shedding was the slowest in the current sequence of decline and marginal overall.

On the price front, input costs continued to increase, albeit at a slower pace. Inflation was linked to increased wage costs, a weaker exchange rate and higher fuel prices. Despite higher expenses, firms reduced their selling prices in July to maintain competitiveness and stimulate sales.

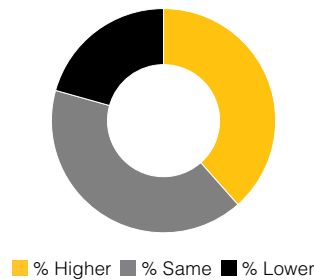
Finally, business expectations for the year-ahead outlook remained positive in July, though confidence dipped from June. Optimism was again pinned on projections of a further recovery from the COVID-19 situation in the coming months.

Index Reports

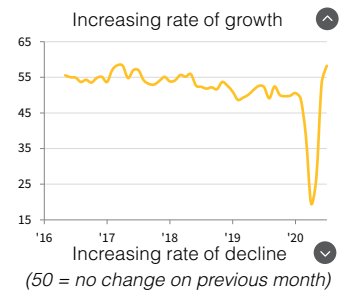
Business Activity Index Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

The seasonally adjusted Business Activity Index rose further in July, coming in well above the neutral 50.0 level, indicating an increase in services output. The rate of growth accelerated to the fastest since April 2017. Respondents highlighted that business reopenings contributed to higher business activity.

% breakdown for July



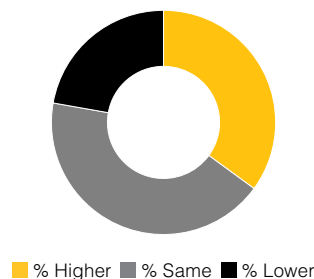
May 2016 – Jul 2020



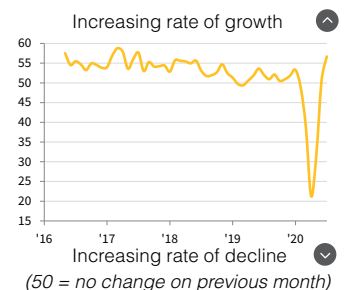
New Business Index Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

Demand for Australian services strengthened further at the start of the third quarter. The seasonally adjusted New Business Index registered above the neutral 50.0 threshold, signalling growth in order book volumes. Furthermore, new business rose at a pace not seen for three years and was marked overall. Anecdotal evidence suggested the further easing of COVID-19 restrictions boosted sales.

% breakdown for July



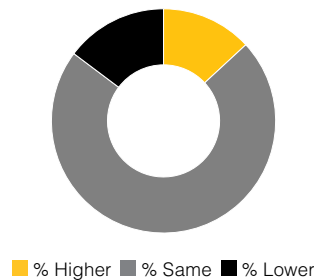
May 2016 – Jul 2020



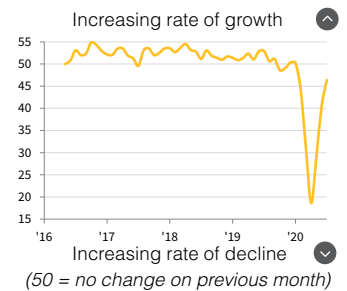
New Export Business Index Q. Please compare the level of new orders/business placed at your company from abroad (whether already fulfilled or not) this month with the situation one month ago.

Export orders placed at Australian services continued to fall in July. This was highlighted by the respective seasonally adjusted index posting below the no-change 50.0 level for a sixth straight month. The rate of decline remained solid despite easing further from April's record contraction. Border restrictions were mentioned as a reason for reduced foreign sales.

% breakdown for July



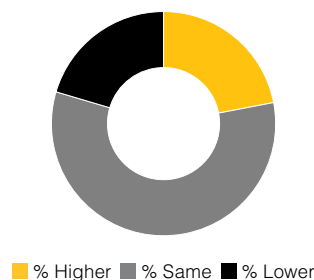
May 2016 – Jul 2020



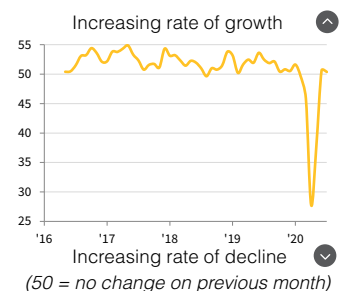
Outstanding Business Index Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

The amount of outstanding work at Australian service providers rose for a second straight month in July, consistent with sales growth. This was indicated by the seasonally adjusted Outstanding Business Index scoring above the neutral 50.0 level. The rate of accumulation remained marginal, however.

% breakdown for July



May 2016 – Jul 2020



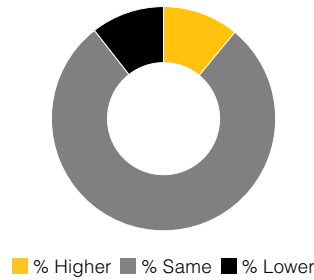
Index Reports

Employment Index

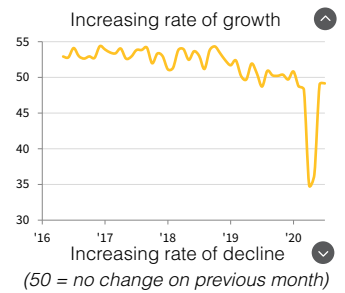
Q. Compare the number of people employed this month with the situation a month ago (treat two-part as one full-time and ignore temporary labour).

Employment at Australian service providers was down again in July, extending the current sequence of job shedding to six months. The rate of decline was similar to that recorded in June and marginal overall. Firms that reported lower staffing numbers generally mentioned redundancies while there was evidence of hiring at some businesses that reopened.

% breakdown for July



May 2016 – Jul 2020

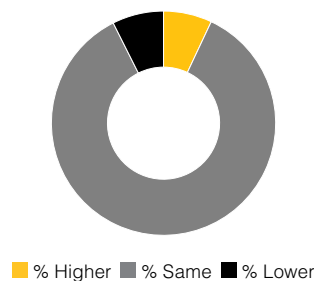


Prices Charged Index

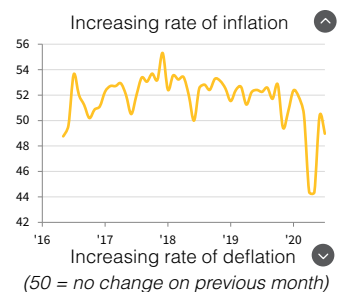
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

Having risen mildly in June, Australian services fees fell during July, as highlighted by the respective seasonally adjusted index posting below the neutral 50.0 level. The rate of decrease was marginal, however. Respondents cited greater competition, clients' requests for discounts, and efforts to boost sales as reasons for the decline in output charges.

% breakdown for July



May 2016 – Jul 2020

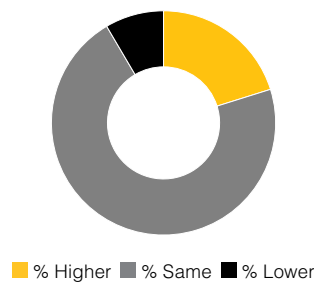


Input Prices Index

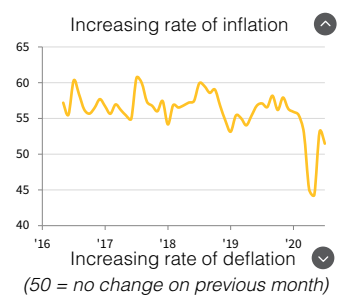
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

Greater prices for raw materials, a weaker exchange rate and increased fuel costs led to a further rise in average cost burdens faced by Australian service providers during July. This was shown by the seasonally adjusted index registering above the no-change 50.0 threshold. However, the rate of inflation eased from June and was modest.

% breakdown for July



May 2016 – Jul 2020

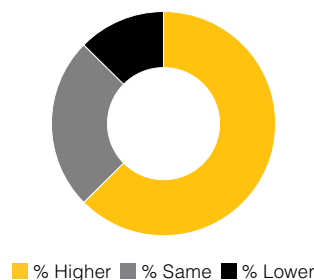


Business Expectations Index

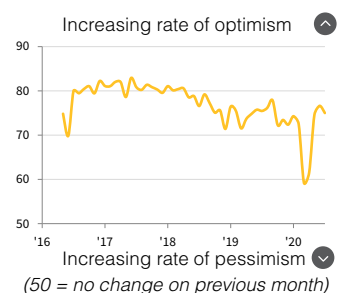
Q. In 12 months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?

Firms maintained their confidence about the year-ahead outlook, with the Business Expectations Index remaining well above the neutral 50.0 level, albeit slightly lower than in June. Optimism was underpinned by expectations of a further recovery from the COVID-19 pandemic, alongside projections of re-stocking demand and new product launches.

% breakdown for July



May 2016 – Jul 2020



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About Commonwealth Bank Services PMI® and the Purchasing Managers' Index™ Report

The Commonwealth Bank has commissioned IHS Markit to conduct research and provide insights for this edition of the Commonwealth Bank Services PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Services PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector services firms in Australia. The panel is stratified by GDP and company workforce size. The services sector is divided into the following five broad categories: Transport & Storage, Consumer Services, Information & Communication, Finance & Insurance and Real Estate & Business Services.

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