

July 2019

# Business activity growth accelerates further in June

## Key findings

The end of the second quarter saw Australia's service sector on a stronger footing, with business activity expanding at the fastest rate so far this year, supported by solid order book growth. The strengthening of demand conditions was accompanied by rising backlogs, jobs growth and greater business confidence. On the price front, cost inflation intensified, prompting firms to raise service fees.

## Commonwealth Bank Services PMI<sup>®</sup> May 2016 – Jun 2019

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

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 from 51.5 in May to 52.6 in June, indicating the fastest expansion of output in the sector so far this year.

## Summary

Business Activity		Interpretation
Jun-19	52.6	Expansion, faster rate of growth
May-19	51.5	Expansion, faster rate of growth

The average PMI for the second quarter (51.4) signalled a net rise in activity, contrasting with the contraction seen in the opening quarter of 2019.

Business activity growth was driven by higher sales in June. Intakes of new business increased solidly, rising at the fastest pace since November last year, supported by higher international sales. Improved post-election sentiment and greater marketing efforts were factors behind sales growth, according to respondents.

The upturn in sales bolstered confidence in the service sector. Business expectations for year-ahead output reached the highest for five months. Optimism was generally linked to greater productivity, increased political stability, new marketing activity, higher sales forecasts and expectations of improved climatic conditions.

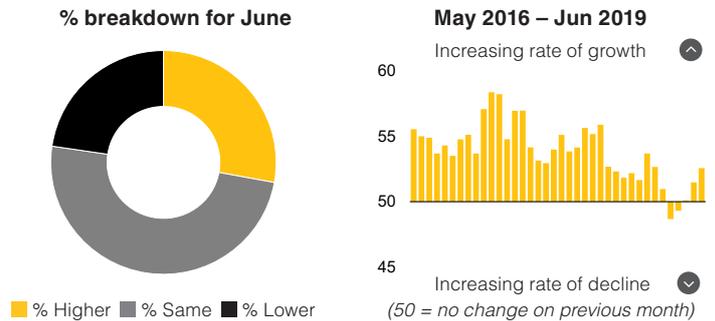
Meanwhile, employment rose in June for a second month running, in line with greater business requirements, but the rate of job creation moderated and was only marginal overall. Despite the rise in jobs, firms struggled to keep on top of their workloads. June data showed a marked and accelerated rise in work outstanding that was the sharpest since last November.

Inflationary pressures intensified further in June. The rate of cost inflation rose for a second straight month and was the fastest since November 2018. Greater cost burdens were driven by higher prices for electricity, transport fees and salaries, according to anecdotal evidence. Efforts to pass on increased business costs led to higher service charges.

## Index Reports

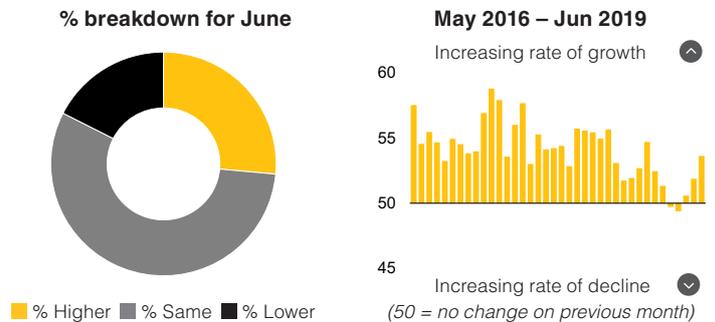
### Business Activity Index Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

Business activity in Australia's service sector continued to increase at the end of the second quarter, as indicated by the respective seasonally adjusted index posting above the no-change 50.0 level for a third successive month during June. Furthermore, the rate of growth accelerated to a six-month high. Increased new business growth was the primary factor behind higher output, according to panellists.



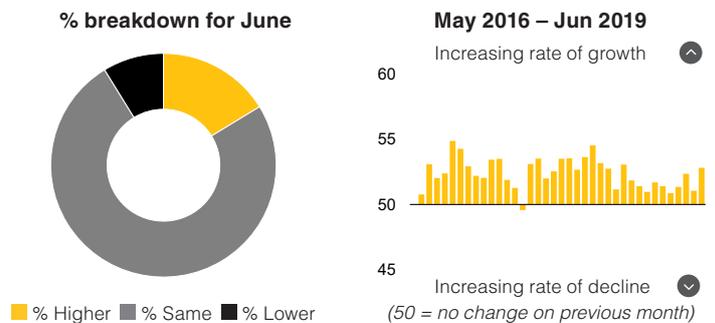
### New Business Index Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

For a third month in a row, new business intakes received at Australian service providers rose in June. Firms generally noted improved post-election business sentiment, alongside greater client demand and higher marketing efforts as reasons for sales growth. Moreover, the pace of expansion picked up to the fastest since November 2018 and was solid overall.



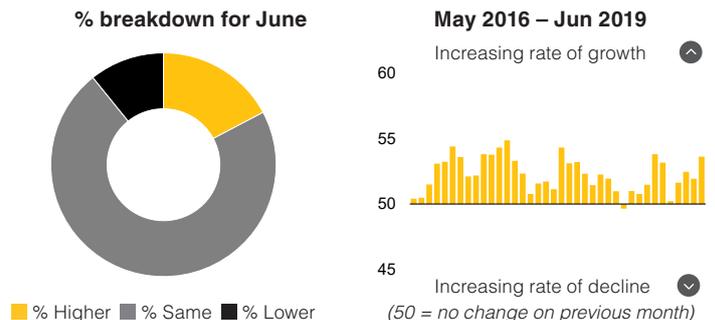
### New Export Business Index Q. Please compare the level of new orders/business placed at your company from abroad (whether already fulfilled or not) this month with the situation one month ago.

Australian service providers continued to report new export growth midway through the year, as has been the case in each month for nearly two years. This was indicated by the seasonally adjusted New Export Business Index registering above the neutral threshold of 50.0. Moreover, the degree of increase was 10 months.



### 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.

June data indicated a further accumulation in the level of unfinished businesses at Australian services providers. This was the tenth straight month of an increase in backlogs of work, with the rate of growth the quickest seen so far this year and solid overall. Main reasons cited by respondents for additional workloads were increased sales.



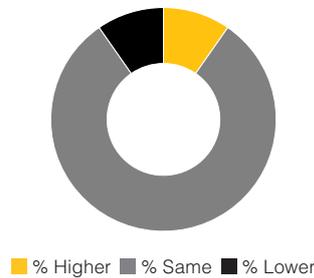
## Index Reports

### Employment Index

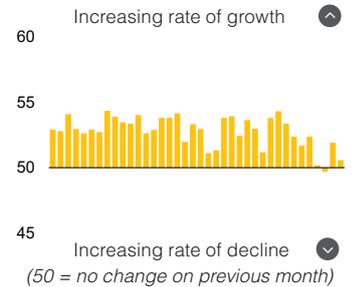
Q. Compare the number of people employed this month with the situation a month ago (treat two-part as one full-time and ignore temporary labour).

Services employment increased for a second month running at the end of the second quarter, though the rate of growth moderated from May and was marginal overall. A large majority of firms (81%) noted no change in staff numbers. Firms that reported jobs growth generally commented on increased business activity and upcoming projects.

**% breakdown for June**



**May 2016 – Jun 2019**

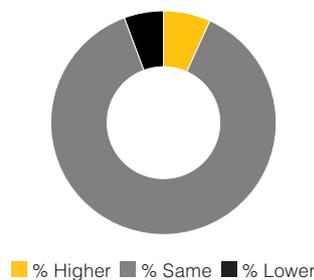


### Prices Charged Index

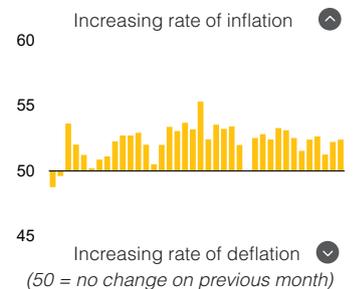
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

In line with higher business expenses, Australian service fees were raised in June, extending the current sequence of charge inflation to a year. While the rate of increase edged up from May, inflation remained modest. According to anecdotal evidence, efforts to keep pace with cost increases were a main reason for firms to raise selling prices. There were, however, reports of discounts being offered due to higher competition.

**% breakdown for June**



**May 2016 – Jun 2019**

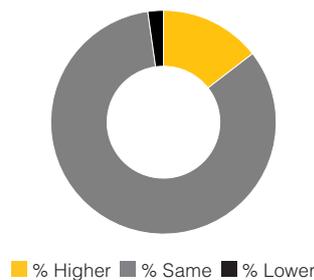


### Input Prices Index

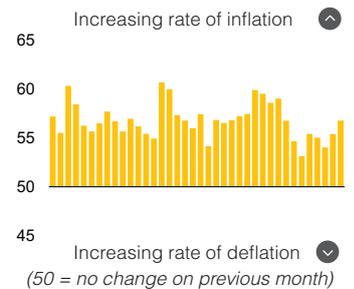
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

Average cost burdens faced by Australian service providers rose markedly in June, maintaining the unbroken run of higher input prices since the survey started in May 2016. The rate of increase accelerated to the fastest for seven months, with panel members pointing to greater costs for inputs, such as electricity, metals, freight services, foodstuffs and wages, as reasons for inflation.

**% breakdown for June**



**May 2016 – Jun 2019**

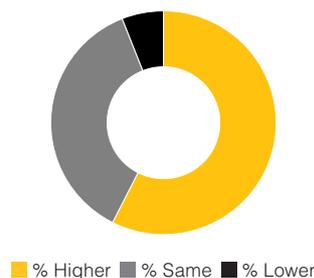


### Business Expectations Index

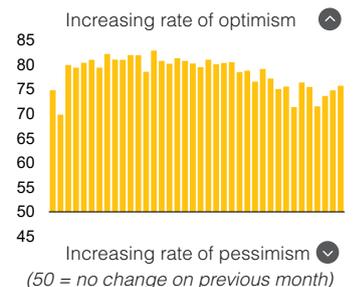
Q. In 12 months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?

Sentiment about the year-ahead outlook improved in June, with the Business Expectations Index rising for a third straight month to reach its highest level since January. A greater proportion of panellists (58% vs 55% in May) anticipated higher activity over the next 12 months. Greater productivity, increased political stability, new marketing activity, higher sales forecasts and improved weather conditions were all reasons underpinning optimism.

**% breakdown for June**



**May 2016 – Jun 2019**



**For further information, please contact:**

**Commonwealth Bank of Australia**

**Daniel Ferguson**

Group Corporate Affairs  
Institutional and Business Banking  
Telephone +61 2 9118 4531  
Email [media@cba.com.au](mailto:media@cba.com.au)

**IHS Markit**

**Bernard Aw**

Principal Economist  
Telephone +65-6922-4226  
Email [bernard.aw@ihsmarkit.com](mailto:bernard.aw@ihsmarkit.com)

**Joanna Vickers**

Marketing and Communications  
Telephone +44 (0) 207-260-2234  
Email [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

**About Commonwealth Bank Services PMI<sup>®</sup> and the Purchasing Managers' Index<sup>™</sup> 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.

**About PMI<sup>®</sup> by IHS Markit**

The intellectual property rights to the Commonwealth Bank Manufacturing PMI<sup>®</sup> provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index<sup>™</sup> and PMI<sup>®</sup> are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Commonwealth Bank use the above marks under license. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

**Things you should know**

This report is published solely for information purposes. As this report has been prepared without considering your objectives, financial situation or needs, you should before acting on the information in this report, consider its appropriateness to your circumstances and if necessary seek the appropriate professional advice. The information in this report and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its publication. No guarantee is provided as to the accuracy, reliability or completeness of any statement made in this report. Commonwealth Bank of Australia ABN 48 123 123 124. AFSL and Australian credit license 234945.