

September 2020

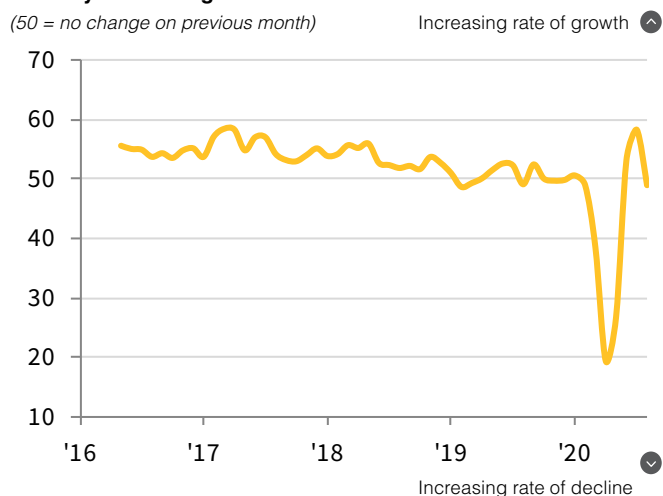
# Services activity falls in August amid renewed COVID-19 measures



## Key findings

Australian services business activity returned to a decline during August amid lockdown measures reimposed in Victoria following a surge in new COVID-19 infections. Demand was also adversely impacted, with new business inflows falling after two months of growth, which contributed to a development of spare capacity. Consequently, job shedding intensified. Input costs rose further, accompanied by an increase in selling prices.

### Commonwealth Bank Services PMI<sup>®</sup> May 2016 – Aug 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 fell by nine points from 58.2 to 49.0 in August, indicating the first decrease in activity for three months.

## Summary

Business Activity		Interpretation
Aug-20	49.0	Contraction, change of direction
Jul-20	58.2	Expansion, faster rate of growth

The implementation of new social distancing measures in Victoria was a principal factor weighing on Australian service sector activity in August. Following two months of solid growth, services activity fell modestly.

The hit to sales was more apparent, with total new business inflows declining at one of the fastest rates since the survey started over four years ago, though not as severe as seen during the initial impact of the pandemic. External demand continued to deteriorate. Foreign orders fell at the quickest rate since May. Anecdotal evidence pointed to enforced business closures in Victoria, suspended projects and greater uncertainty as factors behind the fall in orders.

Lower sales saw companies operate below their capacity, as reflected by a renewed drop in backlogs of work. This in turn weighed on hiring. Firms reduced staff numbers further and at the fastest rate for three months.

Average cost burdens increased further in August, with inflation driven by supplier price hikes, increased logistic fees, greater fuel costs and higher salaries. The rate of increase in input prices was the quickest since February. Higher expenses led firms to raise their selling prices in August, but greater competition and subdued sales constrained the extent to which charges can be increased.

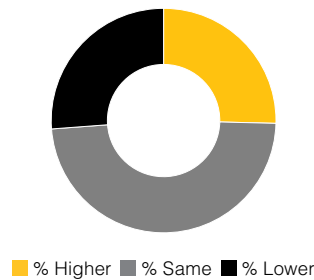
Finally, longer-term prospects remained positive, although confidence slipped from July. Optimism was generally underpinned by expectations of the pandemic coming to an end in the months ahead.

## Index Reports

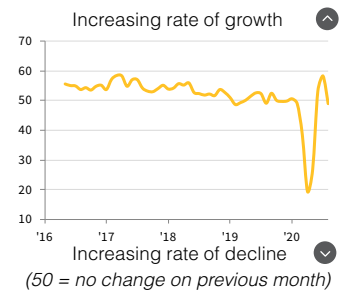
### Business Activity Index Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

The seasonally adjusted Business Activity Index fell below the neutral 50.0 level during August, indicating a decline in services output following a two-month period of expansion. The rate of contraction was mild, however. Respondents highlighted that lower output was linked to the re-imposition of coronavirus disease 2019 (COVID-19) lockdown measures in Victoria.

**% breakdown for August**



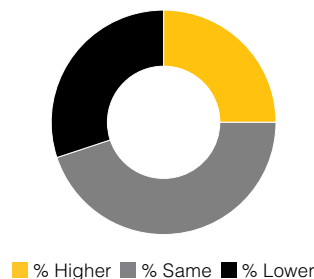
**May 2016 – Aug 2020**



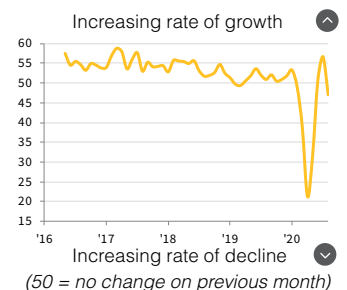
### New Business Index Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

Demand for Australian services weakened midway through the third quarter. The seasonally adjusted New Business Index fell below the neutral 50.0 threshold, signalling a decline in order book volumes. The rate of decrease was solid, though not as severe as those recorded during the initial impact of COVID-19 earlier in the year. Anecdotal evidence suggested that enforced business closures, stricter interstate travel restrictions and suspended projects weighed on sales.

**% breakdown for August**



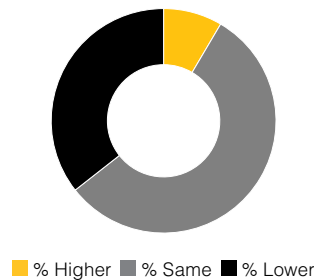
**May 2016 – Aug 2020**



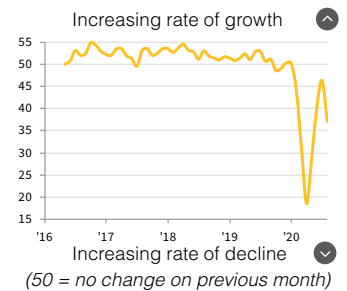
### New Export Business Index Q. Please compare the level of new orders/business placed at your company from abroad (whether already fulfilled or not) this month with the situation one month ago.

Export orders received by Australian service providers contracted further in August, extending the current sequence of decline to seven months. This was highlighted by the respective seasonally adjusted index posting below the no-change 50.0 level. The rate of decline quickened to the fastest for three months and severe overall. Firms highlighted border restrictions as a reason for reduced foreign sales.

**% breakdown for August**



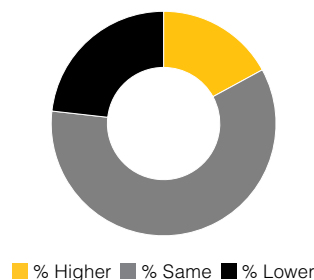
**May 2016 – Aug 2020**



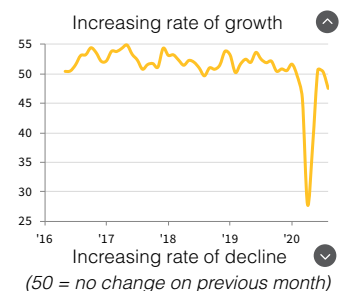
### Outstanding Business Index Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

Having risen for the past two months, the amount of unfinished work at Australian service providers fell during August, in line with a renewed drop in sales. This was indicated by the seasonally adjusted Outstanding Business Index scoring below the neutral 50.0 level. The rate of decline was solid, though not as severe as in April and May.

**% breakdown for August**



**May 2016 – Aug 2020**



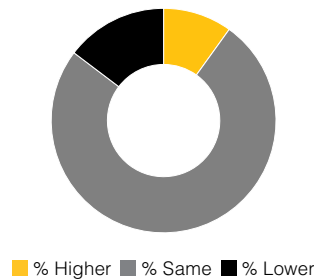
## Index Reports

### Employment Index

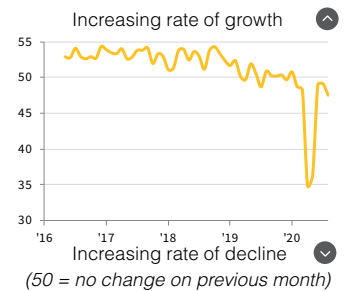
Q. Compare the number of people employed this month with the situation a month ago (treat two-part as one full-time and ignore temporary labour).

Employment at Australian service providers was down in August, extending the current sequence of job shedding to seven months. The rate of decline accelerated from July and was among the fastest in the survey history, surpassed only by the record contractions in April and May. Where staff numbers were reduced, companies commented on layoffs amid lower business requirements.

**% breakdown for August**



**May 2016 – Aug 2020**

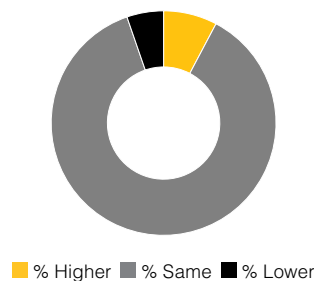


### Prices Charged Index

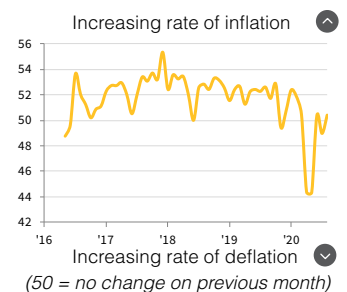
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

Australian services fees rose marginally in August following a decline in July. This was highlighted by the respective seasonally adjusted index posting fractionally above the neutral 50.0 level. While increased expenses were often connected to higher output charges, greater competition and subdued sales were cited as reasons at firms that reduced their selling prices.

**% breakdown for August**



**May 2016 – Aug 2020**

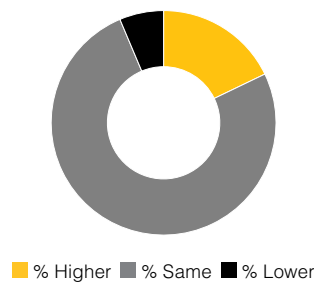


### Input Prices Index

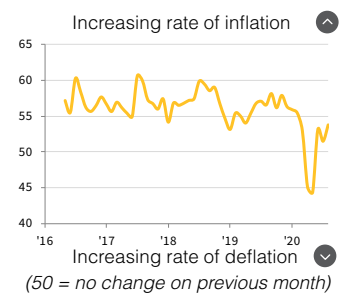
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

Greater prices for raw materials, increased fuel costs and higher wages contributed to a further rise in average cost burdens faced by Australian service providers during August. This was shown by the seasonally adjusted index registering above the no-change 50.0 threshold. Moreover, the rate of inflation reached the fastest for six months and solid.

**% breakdown for August**



**May 2016 – Aug 2020**

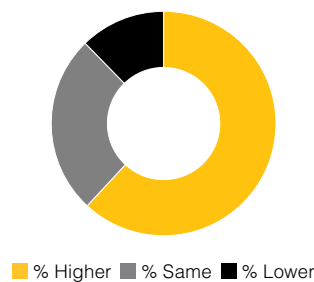


### Business Expectations Index

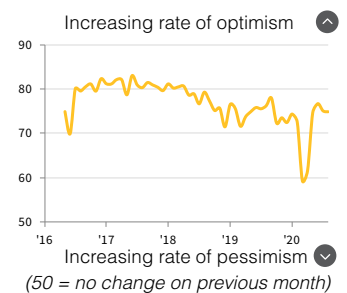
Q. In 12 months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?

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 July. Expectations of the pandemic coming to an end in the coming months were the main reason driving optimism. However, some firms raised concerns over the longer-term impact of the coronavirus on the economy.

**% breakdown for August**



**May 2016 – Aug 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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