

August 2019

# Business activity growth eases at start of third quarter

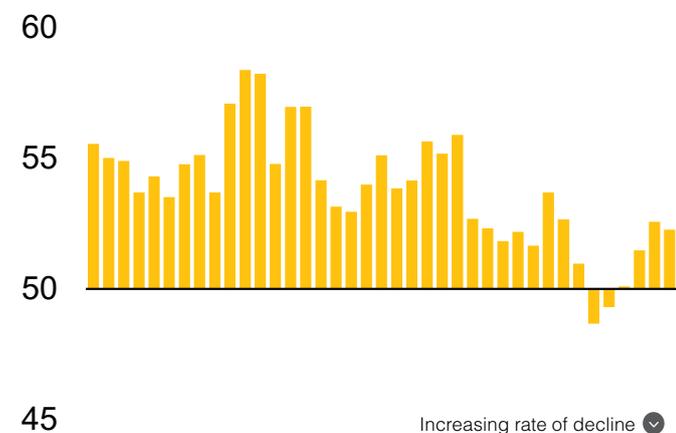
## Key findings

PMI survey data showed business activity in the Australian service sector rising at the start of the third quarter, supported by order book growth. Backlogs of work accumulated further while business sentiment remained positive. However, employment fell for the first time in three months. Meanwhile, cost inflation intensified, lifted by higher supplier fees and greater energy prices, pushing firms to raise fees further.

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

(50 = no change on previous month)

Increasing rate of growth 



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 dipped from 52.6 in June to 52.3 in July, indicating only a modest expansion of output in the sector.

## Summary

Business Activity		Interpretation
Jul-19	52.3	Expansion, slower rate of growth
Jun-19	52.6	Expansion, faster rate of growth

Slowing growth momentum in the service sector at the start of the third quarter was driven by a weakening trend in new business inflows. Despite a solid increase in new export business, overall sales growth moderated notably from June, expanding at a modest pace, as domestic demand conditions softened.

Meanwhile, only a modest increase in backlogs of work was seen during July. Survey data also showed signs of a weakening market for services-related jobs as employment fell for only the second time since the survey started in May 2016 and at the steepest rate in the series history. There were reports of voluntary leavers and layoffs at some firms, according to anecdotal evidence.

July saw cost inflation intensify further, driven by greater energy costs and increased fees from suppliers. Input price inflation was the fastest for nine months and marked overall. This prompted firms to raise service fees further, though the rate of increase in output prices remained modest.

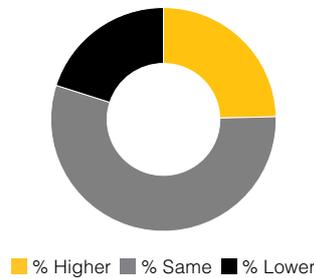
Finally, Australian service providers remained upbeat about longer-term prospects as sentiment towards the year-ahead outlook stayed in positive territory. The Business Expectations Index, a gauge of optimism, remained well above the neutral 50.0 level in July. Firms expect improved economic conditions, greater marketing activity, planned business expansions and higher productivity to drive future activity.

## Index Reports

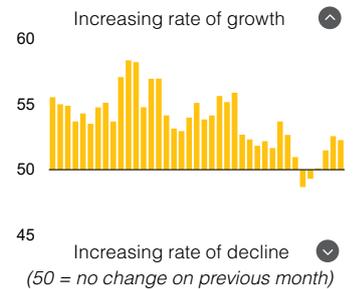
### Business Activity Index Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

July data indicated a further rise of business activity in Australia's service sector, extending the current trend of growth to four months. While slightly slower than in June, the rate of increase remained above the average seen over the first half of the year. Greater inflows of new business were highlighted as a primary reason for increased output.

**% breakdown for July**



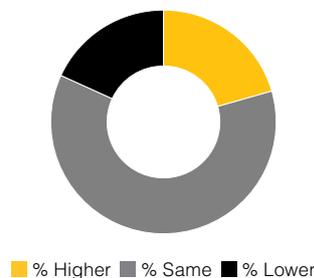
**May 2016 – Jul 2019**



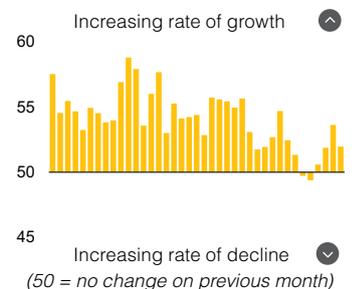
### New Business Index Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

New business intakes received by Australian service providers rose for a fourth consecutive month in July. Anecdotal evidence suggested that lower interest rates, new product launches, promotional activity and post-election political stability all contributed to higher sales. However, the rate of growth moderated from June and was modest overall.

**% breakdown for July**



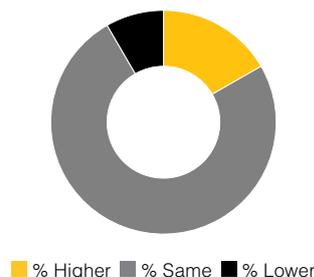
**May 2016 – Jul 2019**



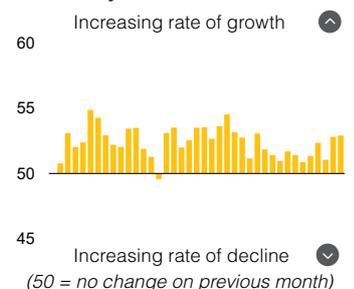
### New Export Business Index Q. Please compare the level of new orders/business placed at your company from abroad (whether already fulfilled or not) this month with the situation one month ago.

Overseas demand for Australian services continued to increase at the start of the third quarter, as highlighted by the respective seasonally adjusted index posting above the no-change 50.0 level in July, which extended the current period of growth to two years. The pace of increase was the fastest since last August and solid overall. Higher international demand and greater marketing activity were linked to increased export sales.

**% breakdown for July**



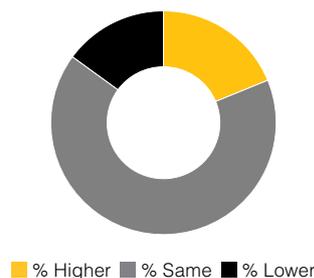
**May 2016 – Jul 2019**



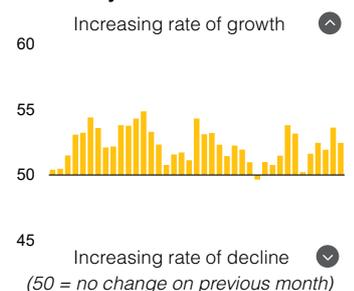
### Outstanding Business Index Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

The level of unfinished work rose further as the third quarter began, consistent with new business growth. The latest reading extended the current sequence of backlog accumulation to 11 months. However, the rate of increase eased from June and was modest overall. Higher sales, insufficient manpower and administrative delays were factors behind the rise in backlogs.

**% breakdown for July**



**May 2016 – Jul 2019**



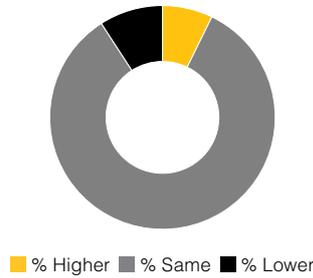
## Index Reports

### Employment Index

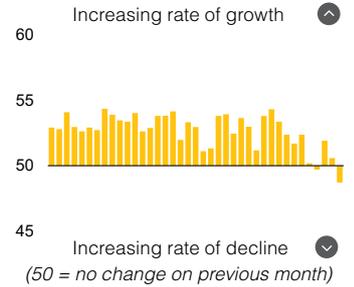
Q. Compare the number of people employed this month with the situation a month ago (treat two-part as one full-time and ignore temporary labour).

For only the second time since the survey started in May 2016, Australian service providers reported a decline in staff numbers during July. Moreover, the rate of contraction was the steepest in the series history, albeit modest overall. While there were mentions of voluntary leavers, layoffs were noted at some firms, according to anecdotal evidence.

% breakdown for July



May 2016 – Jul 2019

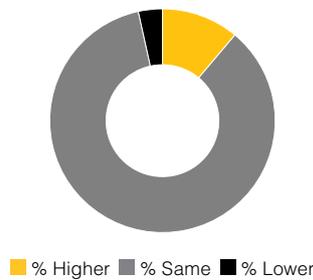


### Prices Charged Index

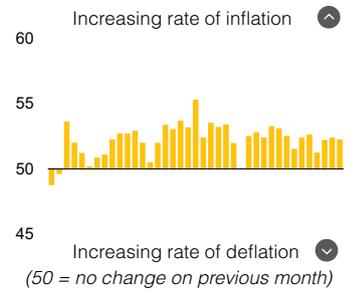
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

Australian service fees were raised again at the beginning of the third quarter, bringing the current sequence of inflation up to 13 months. This was highlighted by the seasonally adjusted Prices Charged Index scoring above the neutral 50.0 level. However, the rate of increase was similar to that in recent months and modest overall. Higher business costs were the primary factor behind increased charges, according to panel members.

% breakdown for July



May 2016 – Jul 2019

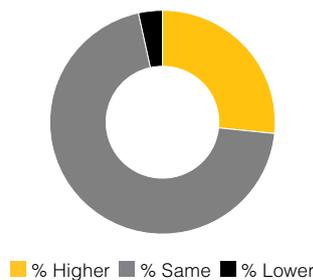


### Input Prices Index

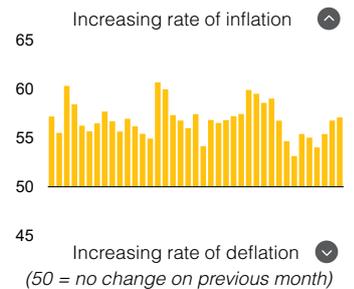
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

Average cost burdens faced by Australian service providers rose further in July, as has been the case in each month since the survey started just over three years ago. Furthermore, inflation accelerated to the fastest since October last year and was marked overall. Firms attributed the rise in input costs to a combination of reasons, including increased suppliers' fees and greater energy prices.

% breakdown for July



May 2016 – Jul 2019

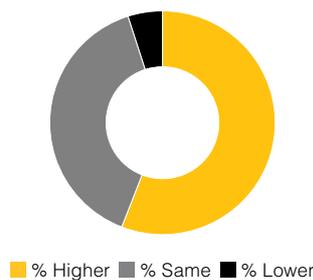


### Business Expectations Index

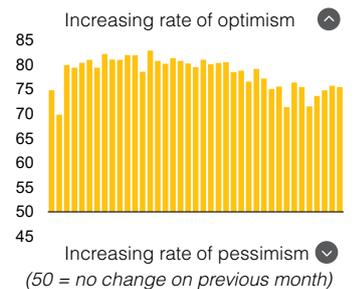
Q. In 12 months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?

Business sentiment about the year-ahead outlook remained positive in July. While edging down from June, the Business Expectations Index registered well above the neutral threshold of 50.0. The majority of panellists (56%) continued to project higher activity over the next 12 months. Reasons for optimism included improved economic conditions, marketing activity, planned business expansions and greater productivity.

% breakdown for July



May 2016 – Jul 2019



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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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