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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Services activity upturn accelerates as demand strengthens in November

Key findings

New business growth accelerates

Job creation resumes

Business confidence remains at a high level

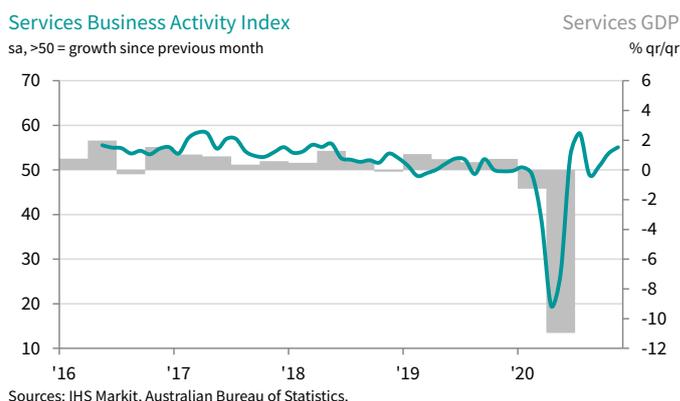
Data were collected 12-26 November 2020

The upturn in the Australian service sector gained pace midway through the fourth quarter as the economic recovery from recent lockdown measures continued. Business activity growth accelerated in November as demand strengthened. New orders rose for a third consecutive month despite falling exports. A sustained recovery saw firms take on additional staff for the first time since January. Confidence regarding the year-ahead outlook remained elevated. Meanwhile inflationary pressures intensified.

The headline figure derived from the survey is the IHS Markit 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 53.7 to 55.1 in November, indicating a marked increase in activity. The latest reading was the highest since July. Respondents highlighted that a further easing of measures to control the spread of the coronavirus disease 2019 (COVID-19) pandemic was a key reason for the rise in activity.

The upturn in activity was accompanied by a strengthening of demand. Inflows of new business rose at a faster pace in November, although the rate of increase was modest and noticeably below the rise in output. Survey data showed that stronger demand stemmed from the domestic market as export orders continued to decline. According to anecdotal



evidence, greater market confidence, increased domestic travel and looser COVID-19 restrictions supported another increase in sales.

Amid reports of higher demand and greater output requirements, Australian service providers stepped up their hiring. Employment increased for the first time in ten months during November, rising at the fastest pace for one-and-a-half years. With a larger workforce, firms were able to make progress on their outstanding business, resulting in a further drop in the level of backlogs.

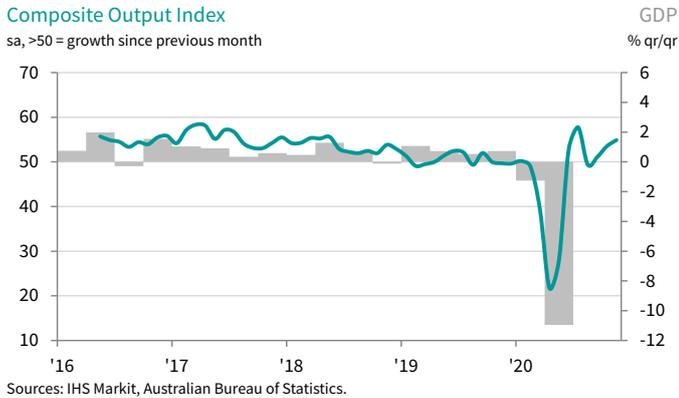
Survey data showed that price trends converged in the middle of the fourth quarter. Input prices rose for a sixth month running, with the pace of inflation accelerating to a two-year high. Greater business expenses were linked to higher wage costs due to reduced government subsidies and rising workforce numbers. Higher shipping costs and greater fuel prices also contributed to increased input prices. Greater outlays saw firms raise their selling prices for the first time in three months, with the rate of increase the fastest since February.

Finally, business confidence for the year-ahead outlook remained positive, though slightly lower than in October. Optimism was driven by hopes of a return to normal market conditions in a year's time, alongside planned marketing activity and product launches.

continued...

IHS Markit Australia Composite PMI®

Stronger rise in private sector output



The Composite Output Index*, which measures combined services and manufacturing output, rose from 53.5 in October to 54.9 in November, signalling a stronger increase in private sector business activity.

The stronger upturn in activity was driven by output in both the manufacturing and service sectors expanding at a faster pace. Demand conditions also strengthened in November. Inflows of new business increased for the third time in as many months, though the pace of growth was modest and lower than the rise in output. The manufacturing sector led the growth in sales.

With the recovery gaining momentum in the middle of the fourth quarter, firms raised their workforce numbers for the first time since January. Job creation was reported across both the manufacturing and service sectors. Greater manpower contributed to a further drop in backlogs of work as firms were able to work through previously-placed orders.

Inflationary pressures intensified in November, with input prices rising at the quickest rate since October 2018. Increased expenses led Australian private sector firms to raise their selling prices for the first time in three months, and at a rate that was the strongest since February.

**Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"The recovery in the Australian service sector moved up a gear in November, with business activity expanding at the strongest pace for four months, according to the latest PMI data.

"Most encouraging was a further strengthening of demand, where survey data showed new business growth accelerating midway through the fourth quarter. A sustained upturn in activity and sales led firms to take on extra workers for the first time since the start of 2020.

"Growth in the service sector, however, was marred by an intensification in cost inflation, with input prices rising at the fastest rate for two years, linked to government subsidy reductions.

"Business sentiment also remained elevated, supported by expectations of a greater recovery from the COVID-19 downturn alongside strengthening market confidence in the months ahead."

Contact

Andrew Harker
Economics Director
IHS Markit
T: +44 1491 461 016
andrew.harker@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

Survey methodology

The IHS Markit Australia Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

November data were collected 12-26 November 2020.

Survey data were first collected May 2016.

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Flash vs. final data

Flash services data were calculated from 80-90% of final responses. Flash composite data were calculated from 80-90% of final responses.

Since May 2016 the average difference between final and flash Services Business Activity Index values is 0.0 (0.7 in absolute terms). Since May 2016 the average difference between final and flash Composite Output Index values is 0.0 (0.6 in absolute terms).

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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