

NEWS RELEASE: Embargoed until 09:00 (AEDT) 24 October 2018

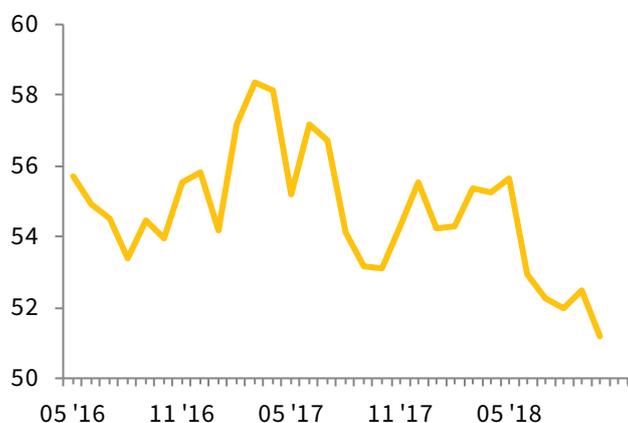
Output rises only slightly in October.

Key findings

The Australian private sector continued to see output rise during October, but the rate of growth was only slight. In fact, the latest expansion was the weakest in the survey's two-and-a-half year history. The slowdown was centred on the service sector, where activity rose only marginally. Meanwhile, manufacturing firms signalled a further solid expansion in production. New order growth also eased at the start of the final quarter of the year, but the rate of job creation accelerated.

Commonwealth Bank Flash Composite Output Index

sa, >50 = growth since previous month



The headline figure derived from the survey is the Commonwealth Bank of Australia Flash Composite Output Index, which is designed to provide timely indications of changes in output in the Australian private sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration. The Index is a GDP-weighted average of the Commonwealth Bank Flash Manufacturing Output Index and the Commonwealth Bank Flash Services Business Activity Index. Flash indices are based on around 85% of final survey responses and are intended to provide an advance indication of the final indices, published approximately one week after the flash release.

Summary

Output		Interpretation
Oct-18	51.2	Expansion, slower rate of growth
Sep-18	52.5	Expansion, faster rate of growth

At 51.2 in October, down from 52.5 in September, the headline index pointed to a modest increase in output. While some companies indicated that activity had risen in line with higher new orders, others signalled signs of slowing market demand.

New order growth also eased at the start of the fourth quarter, with weaker increases across both the manufacturing and service sectors. Manufacturers also saw the rate of expansion in new export orders ease.

On a more positive note, the rate of job creation accelerated. Employment rose solidly, and to the greatest extent since December 2016. This increase in capacity led to a stabilisation of outstanding business, following an accumulation in September.

The rate of input cost inflation remained sharp, despite easing for the third successive month to the weakest since June. Service providers linked higher input prices to increases in fuel and staff costs. Meanwhile, manufacturers signalled rises in raw material prices, exacerbated by weakness of the Australian dollar. The passing on of rising input costs resulted in a further rise in output prices, with the rate of inflation unchanged from that seen in September.

In line with weaker output growth, business sentiment dropped to a 28-month low in October. That said, companies still expect activity to rise over the coming year. Those companies predicting an increase in output linked this to expectations of a stronger demand environment. On the other hand, some respondents predicted that greater regulation in the finance sector would lead to a drop in activity.

Commonwealth Bank Flash Services PMI®

Business Activity	Interpretation
Oct-18 50.8	Expansion, slower rate of growth
Sep-18 52.2	Expansion, faster rate of growth

The Commonwealth Bank Flash Services Business Activity Index is designed to provide a timely indication of changes in business activity in the Australian service sector economy as a whole. Readings above 50.0 signal an improvement in business activity on the previous month, while readings below 50.0 show deterioration.

Growth of services activity in October was the slowest since the survey began in May 2016, while business confidence dropped to a 28-month low. That said, employment rose at a solid and accelerated pace, leading to a second reduction in backlogs of work in the past three months. The rate of input cost inflation ticked down, but remained sharp. Meanwhile, output prices increased at the same pace as in September.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Interpretation
Oct-18 54.3	Expansion, faster rate of growth
Sep-18 54.0	Expansion, faster rate of growth

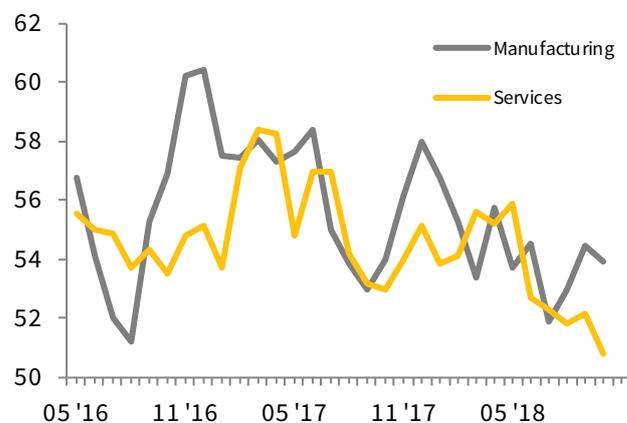
The Commonwealth Bank Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration. The PMI is calculated from five indices for output, new orders, employment, suppliers' delivery times and stocks of purchases.

The headline PMI rose in October on the back of stronger rises in employment and stocks of purchases as well as a greater lengthening of supplier delivery times. On the other hand, both output and new orders rose at weaker rates.

In line with the trend in total new orders, the rate of expansion in new business from overseas also slowed. The rate of input cost inflation was unchanged from September, with panellists linking price rises to exchange rate weakness and higher raw material costs. Output prices, meanwhile, rose markedly, and at a slightly faster pace than in the previous month.

Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



Comment

Commenting on the Commonwealth Bank Flash PMI data, CBA's Chief Economist, Michael Blythe, said:

"The manufacturing and services sectors appear to be on a diverging path in the early part of Q4. Both sectors are expanding. But while manufacturing is turning up again, service activity edged lower again. Both sectors are reporting strong jobs growth, however. And new orders continue to lift. The outlook for the remainder of 2018 is still positive. One emerging concern to monitor is that some respondents see downside risks from greater regulation of the finance sector".

Mr Blythe added:

"The lift in business capex over the past year appears to have eased earlier capacity constraints. Measures of the backlog of work have fallen and now sit at neutral levels. Nevertheless, input and output prices are rising at a solid pace. Higher fuel prices and staff costs are still flowing through. And the recent drop in the AUD appears to be having an impact as well".

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About Commonwealth Bank Flash Composite 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 Flash Composite PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Flash Composite PMI is based on data compiled from monthly replies to questionnaires sent to representative panels of purchasing executives in 400 manufacturing and 400 services firms in the private sector. The panels are stratified by GDP and company workforce size. The flash data are calculated from around 85% of total PMI survey responses each month and are designed to provide an accurate advance indication of the final PMI data. Final data for October are released on 01 November 2018 (manufacturing) and 05 November 2018 (services and composite).

About PMI® by IHS Markit

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