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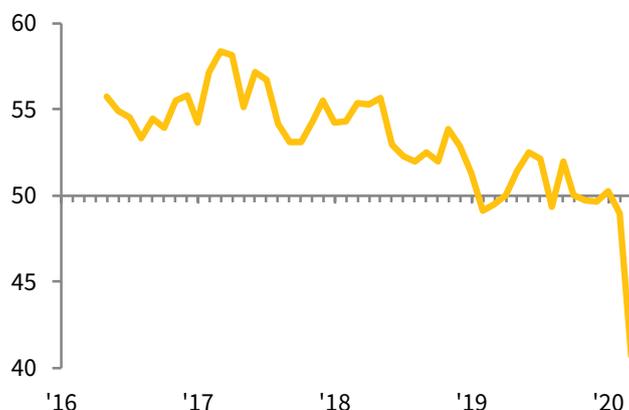
Service sector leads sharp fall in output in March.

Key findings

The latest Commonwealth Bank Flash Composite PMI[®] signalled that the outbreak of the coronavirus disease 2019 (COVID-19) led to a steep decline in business activity at Australian companies in March. The overall contraction was led by the service sector, which posted a much faster reduction than was seen at manufacturers. Meanwhile, confidence in the one-year outlook dropped sharply, but employment was reduced at a relatively muted pace.

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
Mar-20	40.7	Decline, faster rate of contraction
Feb-20	49.0	Decline, from expansion

The COVID-19 pandemic caused a steep drop in business activity in March, particularly in the service sector where the cancellation of events, falling new business and fear around the virus led to a severe decline. Manufacturing production also decreased to a greater extent than was seen in February.

New orders fell to a similarly sharp extent as activity during March. Again, the service sector was more severely affected, with new business from abroad contracting substantially amid travel restrictions for tourists.

Lower new orders led some companies to reduce their staffing levels. Employment decreased for the third time in the past four months. That said, the rate of job cutting was much weaker than those seen for output and new orders and only slightly faster than that seen in February. Meanwhile, backlogs of work decreased markedly.

A depreciation of the Australian dollar contributed to a sharp rise in raw material costs, with manufacturers seeing the fastest increase in input prices for 17 months. On the other hand, service providers signalled the joint-softest rate of cost inflation since data collection began almost four years ago. Similar patterns were seen with regard to output prices.

The COVID-19 pandemic led to a sharp drop in confidence among Australian companies around the prospects for output growth over the coming year. Sentiment was the lowest on record, with optimism weaker at service providers than at manufacturers. That said, private sector companies as a whole still expect activity to be higher than current levels in 12 months' time amid hopes that market conditions will have returned to normal.

Commonwealth Bank Flash Services PMI®

Business Activity	Value	Interpretation
Mar-20	39.8	Decline, faster rate of contraction
Feb-20	49.0	Decline, from expansion

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.

The Australian service sector suffered a steep decline in business activity during March as the COVID-19 pandemic led to event cancellations, falling new business and fear among customers. New business from overseas declined particularly sharply over the month. Employment also decreased, but at a relatively modest pace that was broadly in line with that seen in February. Meanwhile, rates of inflation of both input costs and output prices eased.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Value	Interpretation
Mar-20	50.1	Expansion, slower rate of growth
Feb-20	50.2	Expansion, from decline

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.

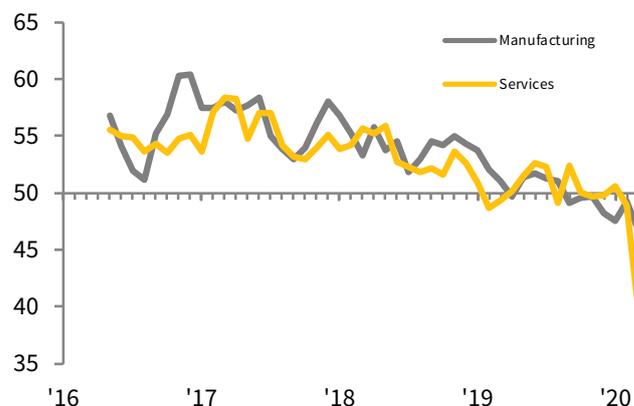
The COVID-19 outbreak contributed to a fall in manufacturing production during March, and one that was the fastest in the near four-year survey history. That said, there were some reports of manufacturers expanding output due to a lack of goods coming from China. New orders also fell at a sharper pace.

Delays receiving goods from China were key to a substantial lengthening of suppliers' delivery times.

A depreciation of the Australian dollar led to higher input costs, with the rate of inflation accelerating to a 17-month high. Selling prices were also raised at a faster pace at the end of the first quarter.

Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



Comment

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

“The sharp deterioration in PMI readings during March underline the increasing impact of the coronavirus on the Australian economy. The services sector is being hit hard by the cancellation of events, general fears about social interaction and a very sharp decline in offshore demand as travel restrictions bite. The manufacturing sector is faring a little better. But the leading indicators are flashing warning signs. The deterioration in supplier delivery times is accelerating, highlighting the disruption to supply chains. And the lower Aussie dollar is pushing input prices up at a rapid rate”.

Mr Blythe also noted:

“The one slightly more positive indication from the flash PMI readings is the relatively muted pull back in the employment indexes. This response offers some hope that, with the right mix of economic policies, the damage to the labour market from the coronavirus can be contained”.

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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 March are released on 01 April 2020 (manufacturing) and 03 April 2020 (services and composite).

About PMI® by IHS Markit

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