CommonwealthBank of Australia

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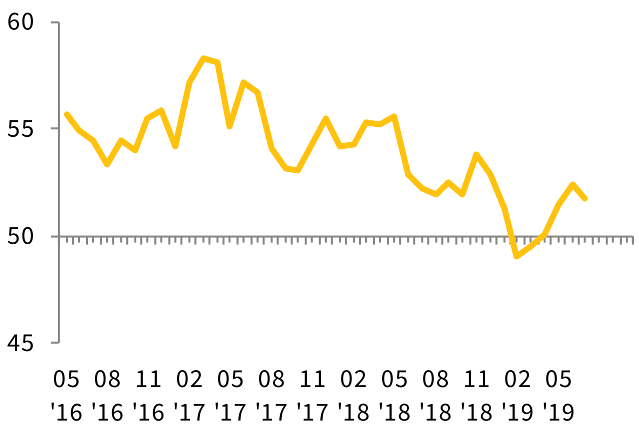
Employment decreases amid softer new order growth.

Key findings

The July Flash PMI™ data pointed to slower rises in both business activity and new orders in Australia at the start of the third quarter of the year. Slower growth fed through to staffing levels, which decreased for the first time in three months. The rate of input cost inflation continued to accelerate and was sharp in July, while output prices were raised modestly. Business confidence was broadly in line with that seen in June.

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
Jul-19	51.8	Expansion, slower rate of growth
Jun-19	52.5	Expansion, faster rate of growth

Although business activity in the Australian private sector continued to rise in July, the rate of expansion was modest and weaker than that seen in June. Slower rises in activity were seen across both the manufacturing and service sectors.

Softer new order growth was also signalled across both monitored sectors in July. Undermining overall new business was a reduction in new export orders, with manufacturers posting a decline for the third time in the past four months. The slower rise in new orders coincided with a softer accumulation of backlogs of work. Outstanding business increased at the weakest pace in five months as manufacturers posted a decrease for the third time since April.

Employment decreased for the first time since April, and to the greatest extent since the survey began in May 2016. The overall reduction was centred on the service sector, while manufacturers continued to see job creation.

There were signs of building cost inflationary pressures in July. The pace at which input prices rose quickened for the third successive month, and was the sharpest since last October. Weakness of the Australian dollar reportedly contributed to higher input prices, while rising staff and raw material costs were also mentioned. Output prices also increased, but at a modest pace that was little-changed from that seen in June.

Sentiment regarding the 12-month outlook for business activity was broadly in line with that seen in the previous survey period. Optimism was often linked to expectations of growth of new orders.

PMI® By IHS Markit

Commonwealth Bank Flash Services PMI®

Business Activity		Interpretation
Jul-19	51.9	Expansion, slower rate of growth
Jun-19	52.6	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.

Although business activity rose for the fourth successive month in July, the rate of growth softened and was relatively modest. A similar picture was seen with regards to new orders. Meanwhile, employment decreased for the first time in three months, and to the greatest extent since the series began in May 2016. The rate of input cost inflation quickened for the third month running, but output prices were raised only modestly.

Commonwealth Bank Flash Manufacturing PMI®

PMI		Interpretation
Jul-19	51.4	Expansion, slower rate of growth
Jun-19	52.0	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.

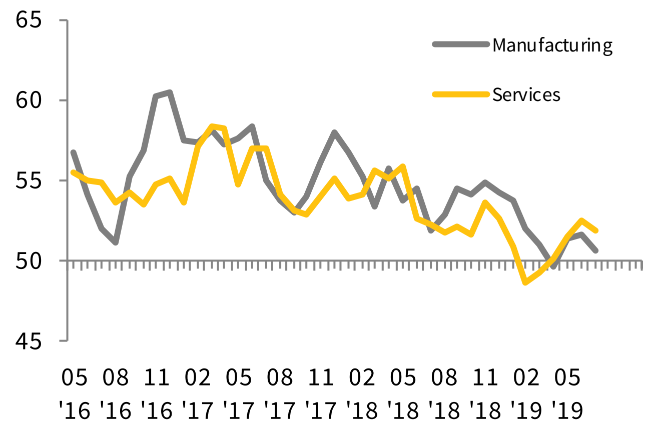
The health of the Australian manufacturing sector continued to improve modestly in July, although business conditions strengthened to a slightly lesser extent than in June.

Growth of both output and new orders softened, with new export business decreasing for the third time in the past four months. On a more positive note, the rate of job creation ticked up to a six-month high.

Input costs increased at the sharpest pace since April, while output price inflation also quickened. Business confidence in the sector showed further signs of improvement.

Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



Comment

Commenting on the Commonwealth Bank Flash PMI data, CBA Senior Economist, Belinda Allen said:

"A slight retreat in growth momentum in business activity in July, although the index does sit comfortably above the critical 50 level that separates expansion and contraction".

Ms Allen added:

"Overall the "flash" PMI does suggest business activity should continue to expand in Q3. A combination of monetary policy stimulus, tax rebates currently hitting household bank accounts and early signs of a recovery in the housing market should see the Australian economy stabilise, if not pick up over the 2H 2019. The sharp fall in employment intentions underlines the importance of the tax cuts now filtering into the economy and calls for more policy stimulus via infrastructure spending and microeconomic reform. Input costs continued to lift and is worth watching if businesses can pass it on, we could see some impact on consumer inflation over 2H 2019 and into 2020".

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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 July are released on 01 August 2019 (manufacturing) and 05 August 2019 (services and composite).

About PMI® by IHS Markit

Things you should know

PMI®
By IHS Markit