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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Services activity returns to growth at end of third quarter

Key findings

New business inflows rise in September...

... but employment shrinks further amid spare capacity

Business sentiment improves

Data were collected 11-28 September 2020

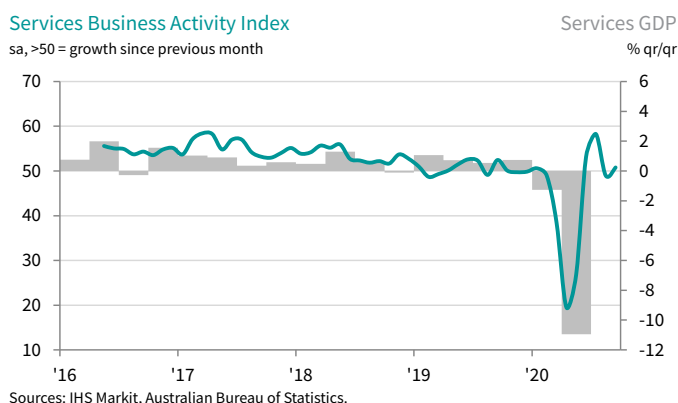
Latest PMI data indicated a stabilisation of Australian services business activity during September following an easing of containment measures designed to contain the spread of the coronavirus disease 2019 (COVID-19) pandemic. New order volumes returned to growth after a solid decline in August while business confidence rose to the highest for over two years.

Despite the upturn in activity and sales, employment continued to fall amid an ongoing presence of excess capacity. On the price front, firms reduced their selling prices even as input costs continued to rise.

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 49.0 to 50.8 in September, indicating a slight increase in activity. The easing of COVID-19 restrictions in Victoria in mid-September was reported to have provided some relief to the Australian service economy.

Demand conditions also improved. Having dropped solidly in August, inflows of new business rose slightly at the end of the third quarter. Underlying data indicated that overall sales were primarily driven by an improvement in domestic demand. External sales continued to weaken in September.



Export orders shrank for an eighth straight month, with the rate of decline still marked.

However, the rebound in sales was insufficient to absorb spare capacity. On the contrary, firms reported a further decline in backlogs of work and one that was amongst the sharpest in the survey history, surpassed only by the steep contractions recorded between March and May, at the peak of the pandemic. This weighed on hiring. Employment contracted for the eighth time in consecutive months, with the rate of decrease the fastest since May. Redundancies were again widely reported.

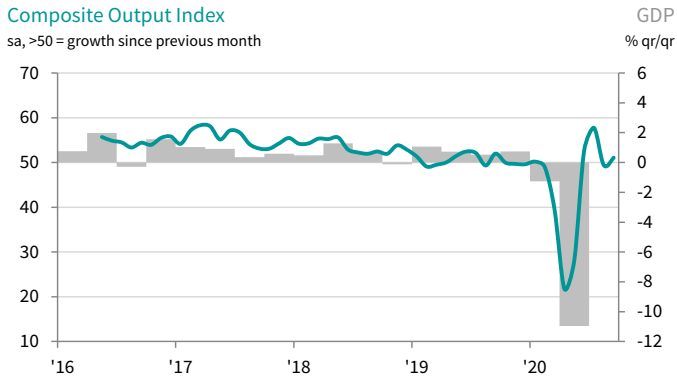
As for prices, there were contrasting trends. Average cost burdens increased further, though the rate of inflation moderated from August. Higher expenses were linked to wage inflation, increased freight fees and greater fuel costs. At the same time, prices charged for Australian services decreased slightly as companies provided discounts to stimulate sales and boost competitiveness.

Finally, business expectations about the year-ahead outlook strengthened in September, with confidence at its strongest for just over two years. Optimism reflected hopes of the pandemic being brought under control, government stimulus and enquiries from clients.

continued...

IHS Markit Australia Composite PMI®

Private sector output rises in September



The Composite Output Index*, which measures combined services and manufacturing output, rose from 49.4 in August to 51.1 in September, signalling a mild increase in private sector business activity. The average PMI for the third quarter (52.8) represented a much-improved picture of the private sector economy when compared to the second quarter (34.2).

The rebound in activity was driven by services business activity returning to growth, supported also by a sustained expansion in manufacturing output. Similar trends were evident for new orders, with inflows of services new business rising slightly amid an easing of COVID-19 restrictions.

Aggregate employment contracted further during September, with the pace of decrease quickening to the fastest since May. However, cuts to workforce numbers were limited to the service sector as manufacturers added more workers. The presence of capacity pressure also diverged between the two monitored sectors, with manufacturing recording a solid rise in backlogs of work while services reported a further decline.

Overall input prices increased for a fourth month running, with cost inflation recorded across both manufacturing and service sectors. Output charges declined, however, led by a decrease in service fees amid greater competitive pressure. On the other hand, manufacturers were able to pass on partially higher expenses to their clients via an increase in selling prices.

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, 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 Australian private sector showed some signs of life in September as containment restrictions were relaxed, adding to hopes that market conditions will move closer to normality in the months ahead.

"PMI data indicated that business activity rose slightly at the end of the third quarter after contracting in August. Likewise, demand conditions also improved in September, helping to boost confidence to the strongest for just over two years.

"However, the survey also raised concerns, especially on labour market prospects. Job shedding persisted in September as an absence of a robust recovery in demand contributed to spare capacity.

"Nevertheless, the picture for the Australian economy is much improved in recent months despite the re-imposition of containment measures during August. The average PMI for the third quarter was considerably higher than in the second quarter, at the height of the pandemic, surging from 34.2 to 52.8."

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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

Data were collected 11-28 September 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

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