With the Australian economy gradually reopening, latest PMI data showed the recovery in the services activity gaining momentum during July. Demand also picked up further, contributing to another accumulation in backlogs. Firms maintained their optimism towards the year-ahead outlook. While there remained some firms reducing staffing numbers, the drop in overall employment was marginal. Meanwhile, input costs rose further, but charges fell.

The headline figure derived from the survey is the Commonwealth Bank of 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 Commonwealth Bank Services PMI®
May 2016 – Jul 2020
(50 = no change on previous month)

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-20</td>
<td>58.2</td>
<td>Expansion, faster rate of growth</td>
</tr>
<tr>
<td>Jun-20</td>
<td>53.1</td>
<td>Expansion, change of direction</td>
</tr>
</tbody>
</table>

Growth in services activity accelerated at the start of the third quarter as the gradual reopening of the economy following a loosening of coronavirus disease 2019 (COVID-19) restrictions led to more businesses returning to work.

The rise in business activity was accompanied by a further strengthening in demand. Order book volumes rose sharply in July, with the rate of increase the strongest for three years. However, the rebound in sales was driven by the domestic market as external demand continued to deteriorate. Foreign orders fell further in July.

Despite a solid rise in sales, firms remained broadly capable of managing additional workloads, with backlogs increasing only marginally. Moreover, mild capacity pressure failed to prevent firms from reducing employment further in July. Nevertheless, the rate of job shedding was the slowest in the current sequence of decline and marginal overall.

On the price front, input costs continued to increase, albeit at a slower pace. Inflation was linked to increased wage costs, a weaker exchange rate and higher fuel prices. Despite higher expenses, firms reduced their selling prices in July to maintain competitiveness and stimulate sales.

Finally, business expectations for the year-ahead outlook remained positive in July, though confidence dipped from June. Optimism was again pinned on projections of a further recovery from the COVID-19 situation in the coming months.
The Commonwealth Bank Composite Output Index is a GDP-weighted average of the Commonwealth Bank Manufacturing Output Index and the Commonwealth Bank Services Business Activity Index. It is designed to provide a timely indication of changes in business activity in the Australian private 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 seasonally adjusted Commonwealth Bank Composite Output Index rose from 52.7 to 57.8 in July, indicating the fastest rise in private sector business activity for over three years. Growth in services activity continued to lead the overall upturn in Australia’s private sector, while a return to growth in manufacturing output also contributed.
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About Commonwealth Bank Services 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 Services PMI through the Purchasing Managers’ Index Report. The Commonwealth Bank Services PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector services firms in Australia. The panel is stratified by GDP and company workforce size. The services sector is divided into the following five broad categories: Transport & Storage, Consumer Services, Information & Communication, Finance & Insurance and Real Estate & Business Services.

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