

NEWS RELEASE: Embargoed until 09:00 (AEST) 5 September 2018

Activity growth eases further in August to hit new low.




Key findings

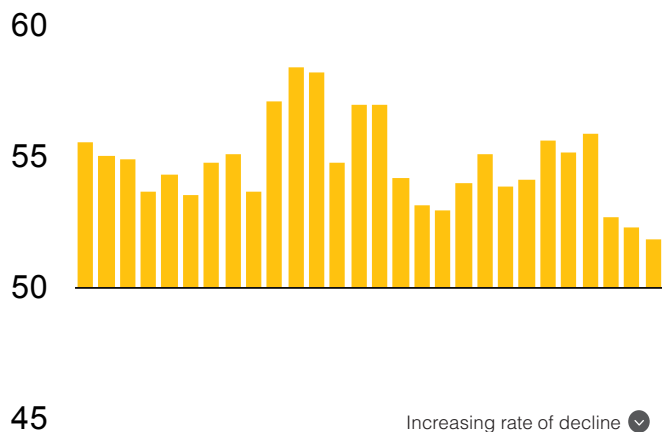
Growth momentum in the Australian service sector continued to abate in August, with the rate of business activity expansion slowing for a third straight month. The weak rise in activity was reflected by a slowdown in new order growth, which eased to a survey low. Nonetheless, firms recruited extra staff, albeit at the softest pace in seven months. Higher wage bills contributed to strong input price inflation, motivating firms to raise selling prices.

Commonwealth Bank Services PMI[®]

May 2016 – August 2018

(50 = no change on previous month)

Increasing rate of growth 



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.

For a third month running, the seasonally adjusted Business Activity Index declined. At 51.8 in August, down from 52.3 in July, the headline figure was at the lowest level seen since data collection began in May 2016. Overall, latest data was indicative of a modest rate of expansion in Australian service sector output.

Summary

Business Activity	Value	Interpretation
Aug-18	51.8	Expansion, slower rate of growth
Jul-18	52.3	Expansion, slower rate of growth

Where an increase in activity was reported, panellists generally mentioned that demand pressures were favourable. However, there were reports that increased competition and complications caused by the drought had weighed on business activity. Survey data nonetheless pointed to an overall increase in sales during the month, but, in line with activity, the rate of expansion was the softest in the survey's history.

Nevertheless, panellists were generally upbeat about future output prospects. In fact, confidence towards business activity over the coming 12 months strengthened in August to a four-month high. New product launches, forecasts of stronger demand and planned marketing initiatives underpinned optimism.

Reflective of positive sentiment, firms expanded employment in August. This was despite reports of rising salaries, a key contributing factor towards sharp input price inflation. Panellists suggested that demand conditions continued to warrant higher workforce numbers. That said, the rate of job creation eased to a seven-month low.

Even with markedly weak growth in staffing levels, unfinished work declined in August for the first time since the survey was incepted 28 months ago amid slower new business growth. That said, the rate of backlog depletion was only marginal.

With input costs rising at a historically marked pace, panellists sought to protect profit margins in August and raised selling charges. The rate of output price inflation accelerated to a four-month high.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Aug-18	52.0	Expansion, slower rate of growth
Jul-18	52.3	Expansion, slower rate of growth

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 declined in August to hit a new survey low of 52.0, from 52.3 in July. Although manufacturing sector production increased at a faster pace, a slower rise in activity in the service sector weighed on overall private sector growth.

Comment

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

"The key services component of the Australian economy is growing at only a modest pace. There has been a clear loss of service sector momentum since mid-year. But still high readings for business expectations about the year ahead suggest activity has hit a pothole rather than started a more serious decline."

Mr Blythe added:

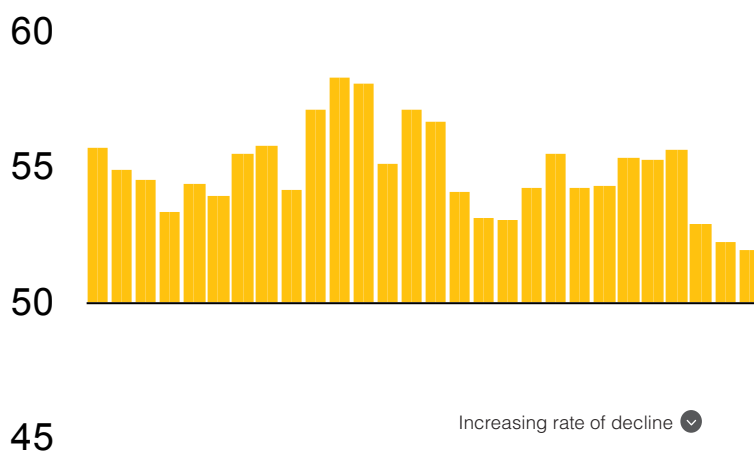
"The slowing reflects a mix of supply and demand factors. Growth in new orders has slowed. But business is reporting that the drought is weighing on growth and competition has increased. Nevertheless, the demand-supply balance is favourable enough to allow business to pass on further rises in salaries and fuel costs into selling prices."

Commonwealth Bank Composite PMI®

May 2016 – August 2018

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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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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