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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Australia service sector shrinks further in August

Key findings

Business activity and demand remain under pressure

Employment levels decline for the first time in ten months

Business confidence improves with hopes for recovery

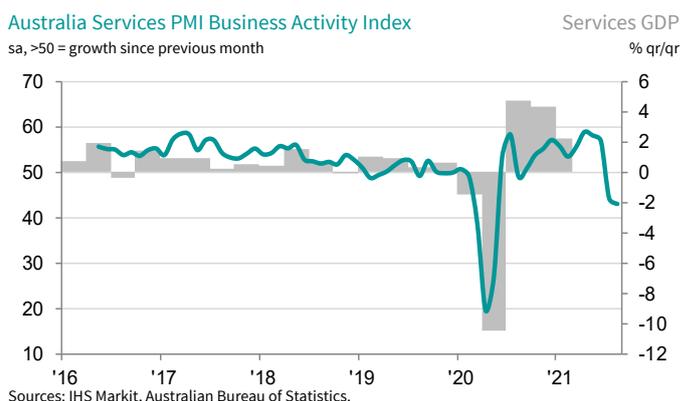
Data were collected 12-26 August 2021.

Australia's service sector shrank for a second consecutive month in August, affected by the extended lockdowns across various Australian states amid the latest COVID-19 wave. Business activity and demand remained under pressure while employment levels fell for the first time in ten months. Price pressures also persisted in the service sector. That said, the overall level of optimism improved amongst Australian service providers.

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 declined to 42.9 in August from 44.2 in July, signalling sustained contraction of activity. The rate at which business activity eased in the Australia service sector was the sharpest since May 2020 and marks a second straight month of contraction. Panellists commonly cited the extension of mobility restrictions into August as the key reason behind the latest decline in business activity.

Demand likewise fell for a second straight month in August, though the rate of contraction eased from July. In line with business activity, weaker consumer confidence amid the current downturn affected order book volumes. Foreign demand softened as well with anecdotal evidence suggesting that both COVID-19 restrictions and supply shortages



contributed to the drop.

The decline in demand and activity led to Australian service providers lowering their staffing levels for the first time since October 2020. Redundancies and resignations in the sector were reported by panellists to have driven the decline of employment levels in August. Skilled labour shortages also persisted according to survey respondents.

Backlogged work meanwhile fell for a second month running. Weaker demand, coupled with cancellations of work, led to the drop in the level of work outstanding in August.

Amid sustained COVID-19 disruptions, price pressures persisted for service providers. Input price inflation slowed from July but remained at a sharp rate as firms continued to find prices rising across a wide range of categories, from transportation costs to wages. As a result, these cost burdens were passed on to clients at a faster rate in August when compared to July.

Overall business confidence however improved despite the deterioration of operating conditions in August. Firms were the most upbeat about the business outlook since June with hopes that the COVID-19 situation will improve and eventually spur a recovery.

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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.

Survey dates and history

August data were collected 12-26 August 2021.

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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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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