

NEWS RELEASE: Embargoed until 09:00 (AEST) 4 July 2018

# Output growth eases to survey low in June.

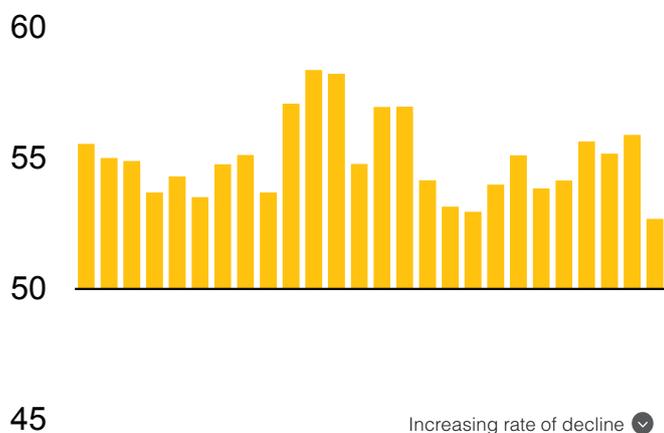
## Key findings

Business activity in the Australian service sector expanded at a noticeably slower rate during June, despite stronger rises in both sales and employment. At the same time, increased workforce numbers failed to prevent a further stretching of operating capacities, with backlogs of work increasing. Input prices rose sharply amid higher staff costs, but firms were reluctant to pass these on to selling charges in order to remain competitive.

### Commonwealth Bank Services PMI<sup>®</sup> May 2016 – June 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.

The seasonally adjusted Business Activity Index recorded 52.7 in June, down from 55.9 in May, signalling a far slower expansion in output across the Australian service economy. In fact, the rate of growth in activity was the weakest observed across the 26-month survey history.

## Summary

Business Activity		Interpretation
Jun-18	52.7	Expansion, slower rate of growth
May-18	55.9	Expansion, faster rate of growth

Although service sector output increased to a softer degree, the rise was still moderately sized. Panellists pointing to greater activity reported increased new business opportunities. Survey data signalled a strong monthly expansion in order book volumes during June that was only fractionally softer than February's 2018 peak. The upturn in sales was attributed to new marketing campaigns and improved demand from both domestic and foreign clients.

Firms expanded workforce numbers to accommodate stronger inflows of new work during the latest survey period. The rise in employment was solid overall and greater than in May. However, despite improved operating capacities, backlogs of work were accumulated, as has been the case in each month since data collection began in May 2016. That said, outstanding business increased only modestly and to a softer extent.

As a result of increased recruitment, service sector businesses incurred higher labour costs. Panellists also mentioned higher salaries and increased fuel prices had driven up cost burdens in June. The rate of input price inflation was sharp overall and the joint-strongest since August 2017 (on a par with November of that year). However, firms did not pass on greater costs to clients, instead leaving output charges unchanged in order to remain competitive.

Looking ahead, companies remained optimistic that output will continue to expand over the coming 12 months. Planned new product launches and forecasts of stronger sales growth were cited as reasons to be confident.

## Commonwealth Bank Composite PMI®

	Output	Interpretation
Jun-18	52.9	Expansion, slower rate of growth
May-18	55.6	Expansion, faster 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 fell to 52.9 in June, from 55.6 in May, thereby signalling a marked slowdown in Australian private sector output growth. In fact, the latest expansion was the slowest recorded since the survey began in May 2016.

## Comment

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

*"Australia's services sector appears to have slowed sharply in June. But the underlying data point to ongoing resilience."*

Mr Blythe added:

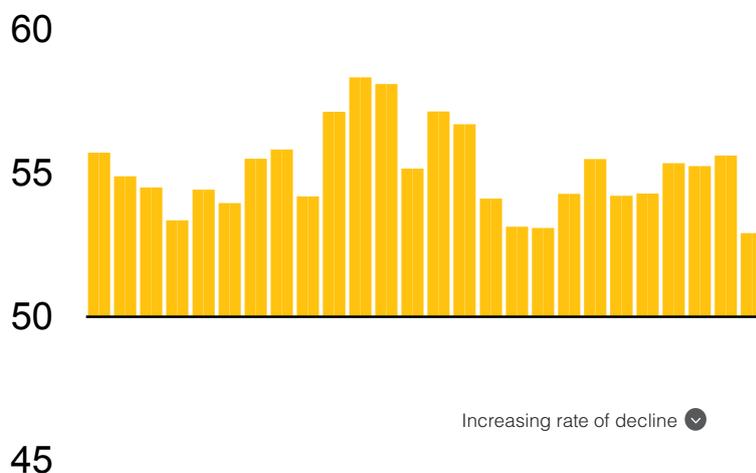
*"Strong growth in new business and employment and the very positive expectations for the year ahead indicate we shouldn't read too much into the apparent slowing in business activity. Panellists are reporting that wages are rising along with headcount. The direction of wages is key to how economic and interest rate risks play out in the year ahead."*

## Commonwealth Bank Composite PMI®

May 2016 – June 2018

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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**About Commonwealth Bank Services PMI<sup>®</sup> and the Purchasing Managers' Index<sup>™</sup> 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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