

NEWS RELEASE: Embargoed until 09:00 (AEDT) 5 June 2019

# Business activity growth fastest for five months in May



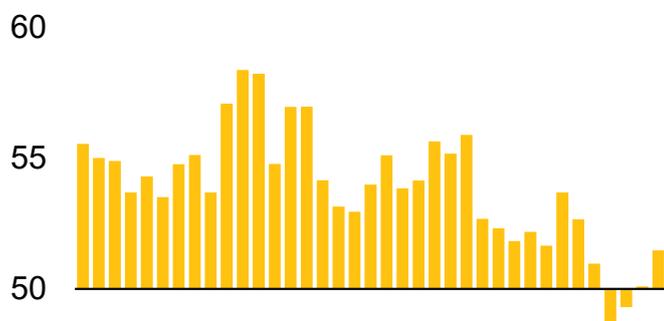
## Key findings

The middle of the second quarter saw improved business conditions in the Australian service sector. Business activity rose, supported by stronger order book growth. A sustained increase in backlogs of work encouraged firms to raise staff headcounts. Business confidence also remained elevated while inflationary pressure intensified in the latest survey period.

## Commonwealth Bank Services PMI<sup>®</sup> May 2016 – May 2019

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

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 rose from 50.1 in April to 51.5 in May, signalling an expansion of output in the sector. The latest reading was also the highest so far this year.

## Summary

Business Activity		Interpretation
May-19	51.5	Expansion, faster rate of growth
Apr-19	50.1	Expansion, change of direction

In a sign that demand conditions are improving, inflows of new business accelerated to a five-month high during May, supported by increased international sales. According to anecdotal evidence, promotional activity and new client wins boosted sales performance, with some firms mentioning that a post-election pick-up in demand also contributed. Higher sales led firms to scale up business activity. Following several months of weakness, service sector activity rose at the fastest rate so far this year.

The upturn in demand motivated companies to step up staff recruitment in May, after a dip in employment levels during April. Despite an expansion in workforce numbers, the level of backlogs continued to rise in the latest survey period, reflecting greater capacity pressures. There were some reports that a lack of resources hampered the fulfilment of contracts.

Business expectations about overall activity improved in May, with higher sales forecasts, planned company expansions and new marketing strategies all supporting optimism. Latest data showed sentiment improving to a three-month high, though to a level that remained below the survey average.

On the price front, inflationary pressures picked up in the middle of the second quarter. Input costs rose solidly, with inflation largely attributed to greater prices for commodities and fuel, plus price hikes from suppliers and drought-related factors. Increased business expenses led Australian service providers to raise fees further.

### Commonwealth Bank Composite PMI<sup>®</sup>

	Output	Interpretation
May-19	51.5	Expansion, following stagnation
Apr-19	50.0	No change

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 50.0 in April to 51.5 in May, signalling a return to growth of private sector business activity. The latest reading reflected a stronger expansion in services and a return to growth of manufacturing production.

### Commonwealth Bank Composite PMI<sup>®</sup>

May 2016 – May 2019

(50 = no change on previous month)

Increasing rate of growth 



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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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