

NEWS RELEASE: Embargoed until 09:00 (AEST) 24 July 2020

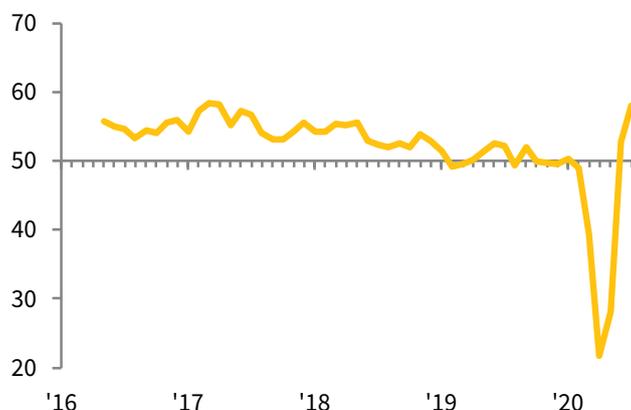
Recovery gathers pace in July.

Key findings

The latest Commonwealth Bank Flash Composite PMI[®] signalled an improvement in growth momentum during July as the economic recovery from the coronavirus disease 2019 (COVID-19) downturn continued. Business activity increased at the fastest pace since April 2017, with the overall expansion driven by a sharp rise in services activity. Total new orders also increased in spite of falling exports. Meanwhile, employment decreased for the sixth month running.

Commonwealth Bank Flash Composite Output Index

sa, >50 = growth since previous month



The headline figure derived from the survey is the Commonwealth Bank of Australia Flash Composite Output Index, which is designed to provide timely indications of changes in output in the Australian private sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration. The Index is a GDP-weighted average of the Commonwealth Bank Flash Manufacturing Output Index and the Commonwealth Bank Flash Services Business Activity Index. Flash indices are based on around 85% of final survey responses and are intended to provide an advance indication of the final indices, published approximately one week after the flash release.

Summary

Output		Interpretation
Jul-20	57.9	Expansion, faster rate of growth
Jun-20	52.7	Expansion, from contraction

The economic recovery from the COVID-19 downturn in Australia's private sector gathered pace in July. Business activity rose sharply during the month, with the pace of expansion the fastest since April 2017. Growth was led by the service sector where respondents highlighted the effect of an easing of restrictions, while manufacturing output increased for the first time in 11 months.

Total new orders increased for the second successive month in July, following a four-month sequence of contraction. As was the case with activity, the rise in new orders was driven by the service sector. The expansion of total new business was recorded in spite of a further contraction of new export orders as COVID-19 continued to impact global demand and trade.

Despite a pick-up in new orders, companies in Australia continued to scale back staffing levels during July. Employment has now decreased in each of the past six months, although the latest fall was the softest since February. Workforce numbers were down across both monitored sectors. Meanwhile, backlogs of work were broadly unchanged for the second month running.

The rate of input cost inflation eased in July, with slower increases at both manufacturers and service providers. A lack of pressure on input costs enabled some firms to lower output prices to attract customers. Charges were reduced for the third time in the past four months, albeit marginally.

Companies generally expect the recovery from the COVID-19 downturn to continue over the next 12 months. Sentiment was unchanged from that seen in June, with both sectors displaying a positive outlook.

Commonwealth Bank Flash Services PMI®

Business Activity	Value	Interpretation
Jul-20	58.5	Expansion, faster rate of growth
Jun-20	53.1	Expansion, from contraction

The Commonwealth Bank Flash Services Business Activity Index is designed to provide a timely indication of changes in business activity in the Australian service 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.

Growth of services activity gathered pace during July, with the sharp expansion the fastest since the survey began in May 2016. Activity has now risen in two successive months following a COVID-19 related downturn. Growth of new orders also quickened, but employment continued to fall slightly. Output prices were lowered amid competition for new work, while the rate of input cost inflation was relatively modest.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Value	Interpretation
Jul-20	53.4	Expansion, faster rate of growth
Jun-20	51.2	Expansion, from contraction

The Commonwealth Bank Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration. The PMI is calculated from five indices for output, new orders, employment, suppliers' delivery times and stocks of purchases.

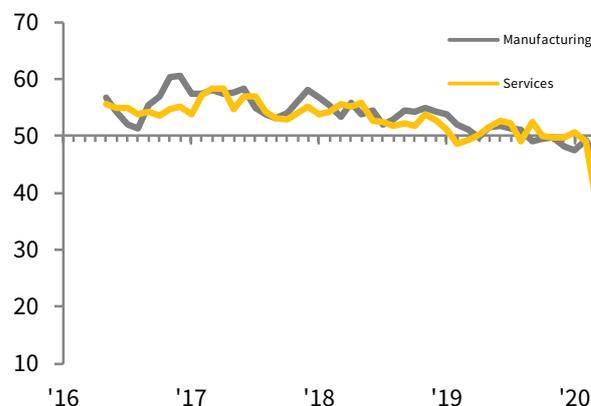
Business conditions in the Australian manufacturing sector improved in July, and to a solid extent which was the greatest for a year-and-a-half.

Output increased for the first time in close to a year as new orders returned to growth. That said, new export business continued to fall sharply. COVID-19 disruption also remained evident in supply chains, with delivery times lengthening markedly again.

Manufacturers continued to lower their staffing levels, extending the current period of job cuts to eight months. That said, the latest fall was the softest since March.

Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



Comment

Commenting on the Commonwealth Bank Flash PMI data, CBA Head of Australian Economics, Gareth Aird said,

“The improvement in growth momentum in July is welcome, but concerns around COVID-19 and the potential policy responses to a lift in the number of new cases continue to weigh on activity”.

Mr Aird also noted,

“The fall in employment looks a little surprising given some other measures of labour demand have firmed more recently. But encouragingly the acceleration of growth in new orders suggests labour demand should improve. The lack of any inflationary pulse was once again evident. That supports our view that we will be in a low inflation environment for an extended period of time”.

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About Commonwealth Bank Flash Composite 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 Flash Composite PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Flash Composite PMI is based on data compiled from monthly replies to questionnaires sent to representative panels of purchasing executives in 400 manufacturing and 400 services firms in the private sector. The panels are stratified by GDP and company workforce size. The flash data are calculated from around 85% of total PMI survey responses each month and are designed to provide an accurate advance indication of the final PMI data. Final data for July are released on 03 August 2020 (manufacturing) and 05 August 2020 (services and composite).

About PMI® by IHS Markit

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