

NEWS RELEASE: Embargoed until 09:00 (AEDT) 24 January 2019

# Service sector leads to further softening of growth.

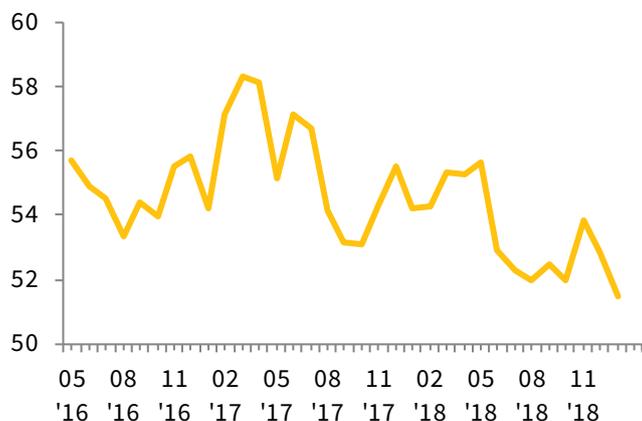


## Key findings

The rate of expansion in business activity slowed to the weakest in the 33-month survey history during January as softer service sector growth outweighed a pick-up in the rate of expansion at manufacturing firms. New orders and employment also rose at weaker rates, while inflationary pressures softened. On a positive note, business confidence was at a four-month high amid stronger optimism across both monitored sectors.

## 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	Value	Interpretation
Jan-19	51.5	Expansion, slower rate of growth
Dec-18	52.9	Expansion, slower rate of growth

The headline index dropped to 51.5 in January, down from 52.9 in December and signalling the weakest expansion of business activity since the survey began in May 2016. The rate of growth has now eased for two successive months.

The central cause of the slowdown in the rate of expansion was a weakening of growth in the service sector, where the latest rise in activity was only marginal and the slowest in the survey to-date. Demand for services also rose at a weaker pace at the start of 2019, with panellists linking this to a softer demand environment and drought conditions.

On the other hand, manufacturing production increased at a faster pace in January on the back of stronger growth of both total new orders and new export business.

The differing picture between the two monitored sectors was also seen with regard to employment. Manufacturers upped their pace of job creation in January, but service providers registered the slowest pace of jobs growth in five months.

The rate of input cost inflation eased to a survey low in January, slowing for the third month running amid reports from panellists of lower fuel costs. Output prices also rose at a weaker pace, although slower inflation was again generally driven by the service sector.

Both monitored sectors posted increases in business sentiment at the start of 2019, leading overall optimism to hit a four-month high. Companies generally expect to achieve organic growth through the securing of greater new orders over the course of the year.

## Commonwealth Bank Flash Services PMI®

Business Activity	Value	Interpretation
Jan-19	51.0	Expansion, slower rate of growth
Dec-18	52.7	Expansion, slower rate of growth

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.

The rate of growth in Australian service sector activity eased for the second successive month in January and was the slowest in the 33 months of data collection so far. Weaker increases in new business and employment were also recorded. Meanwhile, lower fuel costs helped lead to the slowest pace of input price inflation in the survey's history. On a positive note, business confidence picked up to a four-month high.

## Commonwealth Bank Flash Manufacturing PMI®

PMI	Value	Interpretation
Jan-19	54.3	Expansion, faster rate of growth
Dec-18	54.0	Expansion, slower rate of growth

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.

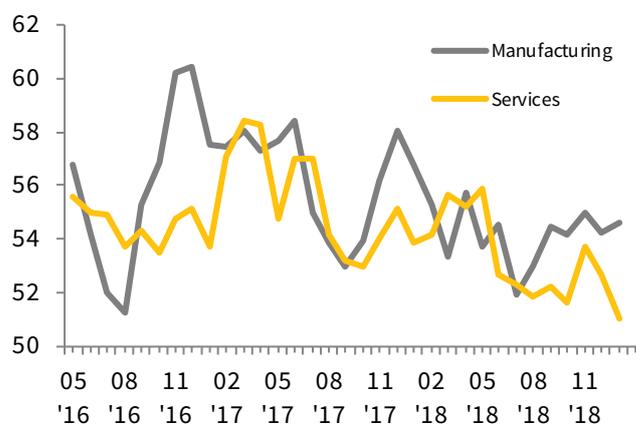
Business conditions improved at a solid pace, and one that was stronger than seen in December, with January's reading in line with the average for 2018 as a whole.

Sharper increases in output, total new orders and exports were registered, with firms raising their staffing levels at a faster pace as a result. On the price front, both input cost and output price inflation quickened from the end of 2018.

In line with the picture from the service sector, manufacturing sentiment improved at the start of 2019 and was the highest since October.

## Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



## Comment

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

*"The Flash PMI shows that the Australian economy entered 2019 on a weakish note. But the divergence between the manufacturing (up) and services (down) components is worth noting. Turns in the Manufacturing PMI tend to lead turns in the Services PMI by two months. The leading new orders and employment indexes are also sending a more positive signal than the headline PMI".*

Mr Blythe added:

*"Despite concerns about trade war risks, export orders are holding up. And lower fuel prices are now having a restraining influence on business input costs".*

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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 January are released on 01 February 2019 (manufacturing) and 05 February 2019 (services and composite).

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