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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Services activity upturn gains pace in October but demand still subdued

Key findings

New business inflows rise further, albeit marginally

Employment shrinks at slower rate

Business sentiment strongest for just over two years

Data were collected 12-28 October 2020

The recovery in the Australian service sector gained momentum during October, with latest PMI data showing business activity rising at a faster rate. Business sentiment consequently improved to the highest for just over two years. However, growth in new business intakes remained marginal, and failed to add pressure to operating capacity. Firms consequently reduced their workforce numbers further as part of efforts to control costs and remain viable. Input prices rose at the fastest rate for nearly a year in October as wage costs increased.

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 rose from 50.8 to 53.7 in October, indicating a solid increase in activity. Service providers reported that the easing of coronavirus-related restrictions continued to boost business output.

However, the solid upturn in activity was not matched by a similarly strong improvement in demand. Instead, inflows of new orders rose marginally in October, and at a rate that was noticeably slower than the rise in output. Anecdotal evidence indicated that uncertainty relating to pandemic trajectory continued to hold back spending.



With sales growth still subdued, firms were able to work through previously-placed orders, resulting in a third straight monthly decline in backlogs of work, though the latest depletion was the weakest in this sequence. Firms consequently reduced headcounts further in the absence of capacity pressure. Employment fell for the ninth consecutive month, albeit modestly. The reduction of government wage subsidies and forced redundancies were reasons cited for the drop in staff numbers.

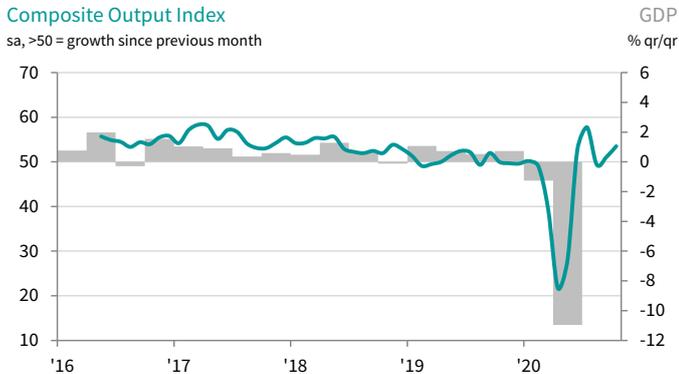
Price trends continued to diverge at the start of the fourth quarter. Input prices rose for a fifth straight month, with the rate of increase accelerating to the fastest for almost a year and marked overall. Respondents highlighted that a larger wage bill, linked to government subsidy reduction and returning employees, as well as greater prices for materials drove expenses higher. On the other hand, competitive pressure and efforts to boost demand led companies to reduce their selling prices again in October.

Finally, business confidence for the year-ahead outlook rose to the highest for just over two years as a smaller proportion of panel members expect a decline in output over the next 12 months. Optimism was generally linked to expectations of a further easing of containment measures, improvement in consumer demand, and relaxation of border restrictions.

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IHS Markit Australia Composite PMI®

Stronger rise in private sector output



The Composite Output Index*, which measures combined services and manufacturing output, rose from 51.1 in September to 53.5 in October, signalling a stronger increase in private sector business activity.

The firmer recovery in activity was driven by services business activity expanding at a faster pace, supported also by continued growth in manufacturing output. Demand conditions improved only mildly, however. Inflows of new business increased for a second straight month, but the pace of growth slowed and was marginal. Services new orders grew slightly, while manufacturing sales growth moderated.

Consequently, backlog depletion persisted in October, and in turn dampened hiring. Aggregate employment contracted for the ninth month running during October, though the pace of decrease was the slowest since July. Cuts to workforce numbers were reported across both manufacturing and service sectors.

Overall input prices increased for a fifth month in a row, rising at the fastest rate for almost a year. Cost inflation was linked to higher wages and greater prices for materials due to supply shortages. Output charges declined, however, but was limited to service providers amid higher competition. Goods producers were able to raise their selling prices to offset partially the rise in expenses.

Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index, a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Latest PMI data showed that business activity in the Australian services sector rose at a stronger pace at the start of the fourth quarter, reflecting the positive effect of a further easing in COVID-19 restrictions.

"The concern now, however, is that demand has not kept up with the upturn in services output, raising questions as to the durability of the recovery. New business inflows rose marginally, which failed to put pressure on firms' operating capacities, as reflected by a further drop in backlogs. Consequently, companies reduced their workforce numbers further as part of efforts to control costs and remain viable.

"The survey also pointed to greater margin pressures. Input prices rose at a sharply faster rate in October, with inflation largely driven by higher wage costs, which is linked to the reduction in government wages subsidies and a return of furloughed workers. However, firms weren't able to pass on higher costs to their customers. Instead, they reduced their selling prices to boost demand."

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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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

Data were collected 12-28 October 2020.

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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