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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Service sector expansion slows but remains sharp in June

Key findings

Business activity and demand growth slow with Victoria lockdown

Sharpest increase in output prices on record

Employment growth and outlook remain positive

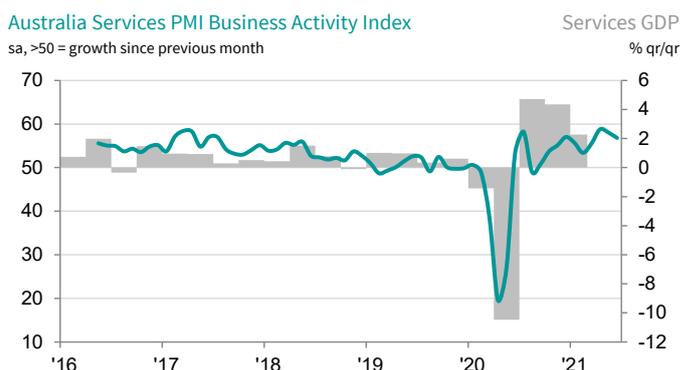
Data were collected 11-28 June 2021.

Business activity expansion in Australia's service sector was sustained at a strong pace in June. That said, output and business inflows grew at softer rates in June, affected by the lockdown in the state of Victoria that extended into June. Nonetheless, overall expectations remained positive alongside hiring activities, although some firms highlighted issues related to a shortage of labour. Price pressures meanwhile sustained with selling charges accelerating at a record rate in June.

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 eased to 56.8 in June from 58.0 in May, signalling a protracted rise in activity though at a marginally softer pace than before. The latest increase extended the current sequence of expansion to ten months. Panellists noted the broad improvement in business conditions and confidence outside the state of Victoria enabling the sustained improvement in service sector activity.

Incoming new business rose for the tenth straight month, supported by the continued economic recovery. As with business activity, some firms cited lingering restrictions on movement in the state of Victoria weighing on growth momentum in June. Foreign demand improved for the third



Sources: IHS Markit, Australian Bureau of Statistics.

consecutive month, but likewise experienced slower growth.

Price pressures meanwhile sustained for Australian service sector firms. Input prices rose for the thirteenth month in a row in June, attributed to higher costs across a range of categories including transport costs and wages. As a result, service sector firms continued to pass on these costs to customers, leading to output charges inflation accelerating to a fresh survey record in June.

In line with new orders and activity growth, the level of outstanding business continued to rise, though at a slower rate compared to May. Amid this growth, firms also continued to ramp up their operating capacity. However, the pace at which hiring activity increased moderated from May, with some firms citing shortages of labour limiting their recruitment.

Finally, overall business confidence remained high despite slower growth of activity seen in June. Around 60% of survey respondents expect output to improve over the year ahead compared to just 5% forecasting lower activity.

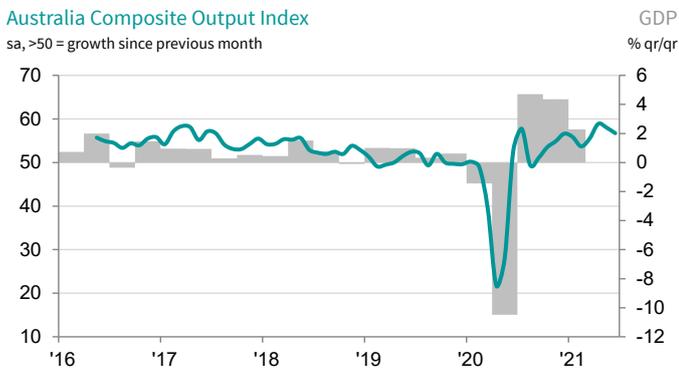
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IHS Markit Australia Composite PMI®

Private sector business conditions remain robust

Australia Composite Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, Australian Bureau of Statistics.

The Composite Index*, which measures combined services and manufacturing output, eased to 56.7 in June from 58.0 in May, indicating continued growth of the Australian private sector but at a moderately softer pace.

Both the manufacturing and service sectors witnessed slower output growth in June, contributing to the lower Composite Index reading. New business inflows likewise continued to improve but at a softer rate in May, attributed to the lockdown in the Victoria state.

Private sector firms meanwhile continued to increase their workforce numbers to accommodate demand growth, though they still reported rising outstanding business over the month.

Inflationary pressures sustained as a lingering theme for private sector firms with input prices and output charges both rising. Output price inflation notably accelerated to a fresh record high in June.

Overall business confidence stayed positive and at a level unchanged from May. Firms continue to expect business activity to improve in the next twelve months on aggregate.

**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 is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

“Business activity continued to increase at a strong rate in June according to the latest IHS Markit Australia Services PMI. While the extension of the Victoria lockdown into June affected some demand and output for the service sector, the overall level of optimism was not significantly diminished.

“Pressure points across prices and labour were however noticeable through the latest survey. The Prices Charged sub-index soared to a fresh survey high to signal record selling price inflation. This was attributed in part to wage inflation and anecdotal evidence pointed to difficulty in hiring by some firms.

“Overall service sector performance remained robust in June. This however comes ahead of the Sydney lockdown update, which is expected to affect the performance of the service sector into July.”

Contact

Jingyi Pan
Economics Associate Director
IHS Markit
T: +65 6439 6022
jingyi.pan@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

Survey dates and history

June data were collected 11-28 June 2021.

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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