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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Services activity upturn softens in February

Key findings

Activity and new business see sustained rises

Series record increase in employment

Business sentiment strongest for two-and-a-half years

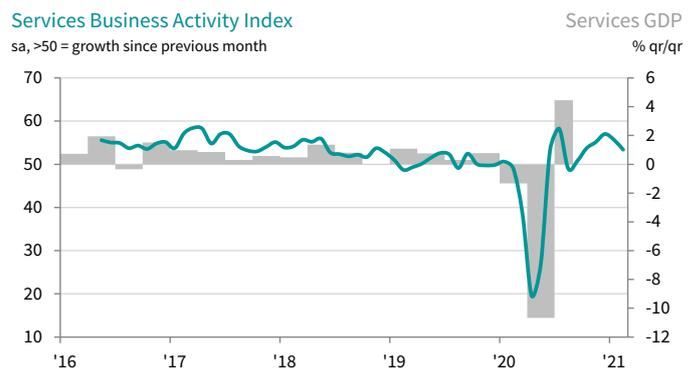
Data were collected 11-24 February 2021.

Australian service providers signalled that the recent improvement in business conditions continued in February, albeit at a slightly softer pace. Both business activity and incoming business saw moderate increases, whilst the ongoing upturn in demand encouraged firms in the services sector to expand employment levels at the quickest pace on record. Businesses also reported stronger optimism regarding the outlook for activity over the coming year.

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 53.4 in February from 55.6 in January, indicating a softer, yet sustained expansion in activity. The latest reading was the softest recorded since September, yet marked the sixth successive improvement in business conditions. Panellists often noted the lifting of COVID-19 restrictions had boosted activity throughout February.

Similarly, there was a moderate increase demand in the latest survey period. New business inflows expanded at the softest pace for three months in February, although growth extended the current sequence to six months. Firms commented on acquiring new clients amid improved market confidence. On the other hand, stringent international



Sources: IHS Markit, Australian Bureau of Statistics.

border restrictions reduced export orders for the thirteenth month running. That said, the decline was the softest since last July.

Amid sustained increases in demand and activity, Australian service providers stepped up their hiring. The pace of job creation accelerated to the quickest in the survey's history during February. While workforce numbers were higher, businesses indicated that pressure was building on capacity. Outstanding business increased for the first time in seven months, albeit at a marginal pace.

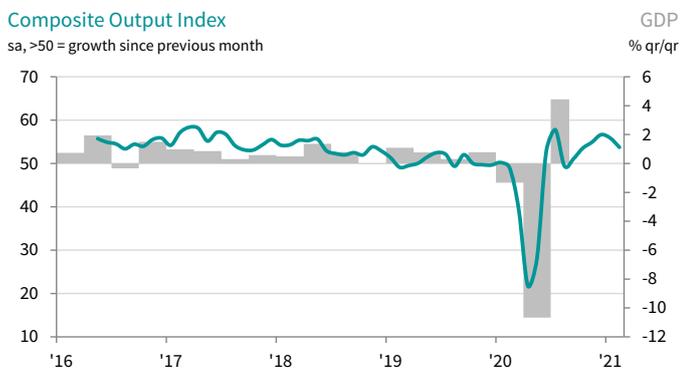
Input price inflation continued in the latest survey period, as average cost burdens faced by firms in the Australian service economy increased for the ninth month in a row. The latest increase accelerated from January and was the fastest registered since July 2018. Greater wage costs were cited as a key factor in higher costs, alongside increasing transport and supplier costs. Greater outlays saw firms raise their selling prices for the fourth consecutive month in February.

Looking ahead, business expectations for activity over the coming 12 months remained strong in February. The level of confidence strengthened from the previous survey period to the highest since August 2018. Sentiment was driven by hopes of a broad recovery once the pandemic ends, supported by the lifting of border closures and the launch of new products.

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IHS Markit Australia Composite PMI®

Softer uptick in private sector output in February



Sources: IHS Markit, Australian Bureau of Statistics.

The Composite Index*, which measures combined services and manufacturing output, softened to 53.7 in February from 55.9 in January, signalling a sustained, yet more moderate increase in private sector activity.

Growth was driven by continued expansions in manufacturing output and services activity in February. That said, both eased from the previous survey period though manufacturing continued to outperform services. Incoming business also rose, although the pace of growth was the softest in three months.

Nevertheless, improved demand conditions encouraged private sector businesses to raise employment levels for the fourth consecutive month in February. Moreover, the pace of job creation quickened to the fastest since the survey began in May 2016. Even with additional capacity, evidence of pressure building on capacity was present, as firms reported an increase in backlogs for the first time in seven months.

Australian private sector businesses recorded a sharper increase in average cost burdens in the latest survey period following a ninth rise in input prices in as many months. Input price inflation accelerated from January to the fastest on record, with marked increases in both the services and manufacturing sectors. At the same time, prices charged for goods and services rose again, with the rate of inflation moderate overall. This extended the current sequence of rising output prices to four months and was the quickest since October 2018.

*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, Usamah Bhatti, Economist at IHS Markit, said:

"The Australian services sector remained well inside expansion territory in February, despite softer increases in both activity and new orders. Businesses commented that the easing of broad COVID-19 restrictions had boosted demand and activity, although noted that the brief tightening of restrictions in Victoria state had slightly dampened business conditions.

"Nonetheless, service providers were encouraged to further expand staffing levels. Moreover, the pace of job creation was the fastest on record, linked by firms to sustained improvements in demand conditions.

"The outlook for the Australian services economy remains positive, with expectations for an expansion in activity sustained at high levels. Businesses were hopeful that international restrictions would be eased more widely and trigger a wider recovery in activity, with additional support from new product launches."

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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.

Survey dates and history

February data were collected 11-24 February 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

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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