

NEWS RELEASE: Embargoed until 09:00 (AEST) 21 May 2020

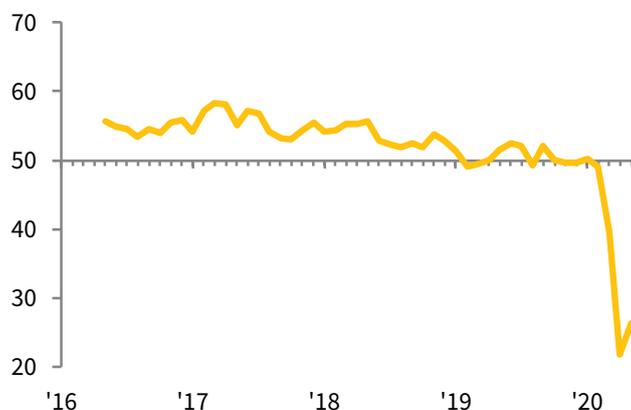
# Further steep decline in business activity.

## Key findings

The latest Commonwealth Bank Flash Composite PMI<sup>®</sup> signalled a further substantial decline in business activity in the Australian private sector as a result of the coronavirus disease 2019 (COVID-19) pandemic. Although May saw the tentative easing of restrictions, this was only enough to see a slight softening of the pace of contraction as demand continued to fall sharply. That said, companies were much more confident regarding the 12-month outlook than they were in April.

### 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                      |
|--------|------|-------------------------------------|
| May-20 | 26.4 | Decline, slower rate of contraction |
| Apr-20 | 21.7 | Decline, faster rate of contraction |

The Australian private sector remained in a deep contraction during May as the impact of COVID-19 on the economy remained severe. Although output decreased at a softer pace than was recorded in April, the rate of decline was the second-fastest since the survey began in May 2016.

Services again posted the sharper reduction in activity of the two broad sectors covered, despite the rate of contraction easing from April's record. Meanwhile, the downturn in the manufacturing sector intensified.

New orders continued to fall substantially as some easing of COVID-19 restrictions was insufficient to prevent a further steep drop in demand. Companies therefore saw capacity pressures ease further, and reduced their staffing levels for a fourth successive month.

Meanwhile, manufacturers continued to display a reluctance to hold inventories. Supply chain delays were again widespread, with firms highlighting particular issues with imported goods.

Deflationary pressures were evident, particularly in the service sector where rates of decline in both input costs and output prices quickened. Manufacturing input prices continued to rise amid currency weakness and higher freight costs, but firms lowered their selling prices for the first time in over three-and-a-half years.

On a more positive note, business confidence jumped sharply to the highest in eight months. Sentiment was up across both the manufacturing and service sectors. Anecdotal evidence suggested that firms expect output to rise over the coming year as restrictions are lifted and conditions gradually return to normal.

## Commonwealth Bank Flash Services PMI®

| Business Activity | PMI  | Interpretation                      |
|-------------------|------|-------------------------------------|
| May-20            | 25.5 | Decline, slower rate of contraction |
| Apr-20            | 19.5 | Decline, faster rate of 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.

The COVID-19 pandemic led to a further steep decline in business activity at Australian service providers in May, with the rate of contraction only slightly softer than that seen in April. Sharp reductions were also recorded with regards to new orders, exports and employment, although all fell to lesser extents than in the previous month. Rates of deflation of both input costs and output prices accelerated, but business confidence jumped.

## Commonwealth Bank Flash Manufacturing PMI®

| PMI    | Interpretation |                                     |
|--------|----------------|-------------------------------------|
| May-20 | 42.8           | Decline, faster rate of contraction |
| Apr-20 | 44.1           | Decline, faster rate of 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.

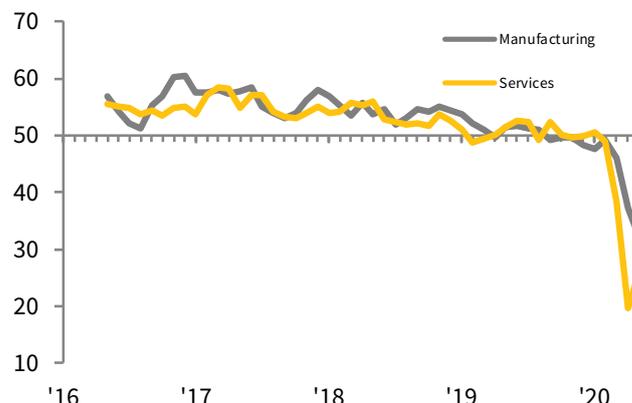
The decline in the Australian manufacturing sector intensified during May, with output falling to the greatest extent since the survey began in May 2016. The rate of contraction in new orders also decreased at a sharper pace than in April.

Falling demand led manufacturers to scale back their employment and purchasing activity, while substantial supply chain disruption remained evident.

Input prices continued to rise markedly due to currency weakness and higher freight costs. On the other hand, manufacturers lowered their selling prices for the first time in three-and-a-half years.

## 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:

*“Another incredibly weak result that indicates the contraction in activity observed in April intensified over May. Two consecutive reads in the 20s is simply astonishing as well as concerning. It is likely that only a manufactured slowdown due to imposed restrictions could produce such results.”*

Mr Aird also noted,

*“May should mark the low point in the PMIs and we would expect activity to lift from here on a monthly basis. Company views on the economic outlook have improved and the lift in confidence is welcome. That said, it will be a long time before activity returns to pre-COVID-19 levels. And deflationary pressures highlight the huge amount of slack we have now in the economy.”*

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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 May are released on 01 June 2020 (manufacturing) and 03 June 2020 (services and composite).

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