

Embargoed until 0900 AEDT 6 January 2022

IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Service sector expansion continues as price pressures rise

Key findings

New order growth accelerates despite slower rise in activity

Input price inflation at unprecedented rate

Business confidence eases in December

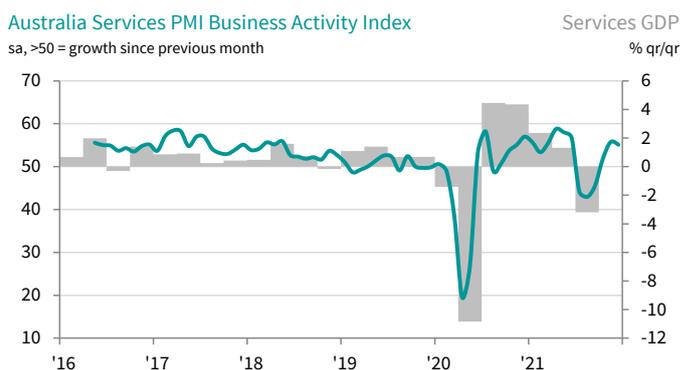
Data were collected 6-21 December 2021.

Australia's service sector continued to expand in December, according to the latest IHS Markit PMI™ data, though the rate of growth slowed. The easing of COVID-19 restrictions nevertheless enabled overall new orders to rise at a stronger rate in December, driving higher employment levels and contributing to increased backlogged work. Price pressures further accumulated with record input price inflation seen while business confidence slipped in the final month of 2021.

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 fell to 55.1 in December from 55.7 in November, signalling a slower expansion. That said, the rate at which business activity rose remained at a level above the 2021 average to indicate solid growth post the easing of COVID-19 restrictions, according to panellists.

On the other hand, the expansion of incoming new business accelerated in December to the fastest in six months, with the Real Estate & Business Services sector exhibiting the strongest uplift in demand. Better economic conditions following the relaxation of COVID-19 restrictions and higher vaccination rates enabled demand to grow further in December.



Sources: IHS Markit, Australian Bureau of Statistics.

Foreign sales for Australian services declined for the sixth straight month, however, with the lack of foreign visitors amid ongoing border restrictions and COVID-19 Omicron variant concerns.

Meanwhile growth in demand and activity supported a rise in hiring in Australia's service sector. The rate of workforce expansion eased slightly from November, although anecdotal evidence continued to suggest that firms faced difficulties in attracting suitable candidates.

Amid the increase in new orders and supply constraints experienced by service providers, an accumulation of backlogged work was seen in December. Price pressures similarly swelled; input price inflation climbed to a record level while output price inflation corresponding reached its second-highest on record as firms passed on their increased cost burdens with clients. Sub-sector data indicated that the Transport & Storage sector registered the steepest price inflation on both counts.

Overall sentiment in the service sector remained positive in December, but business confidence fell markedly to below the series average. While survey respondents were generally hopeful that the economic recovery will continue, some were concerned that growth will slow into the new year.

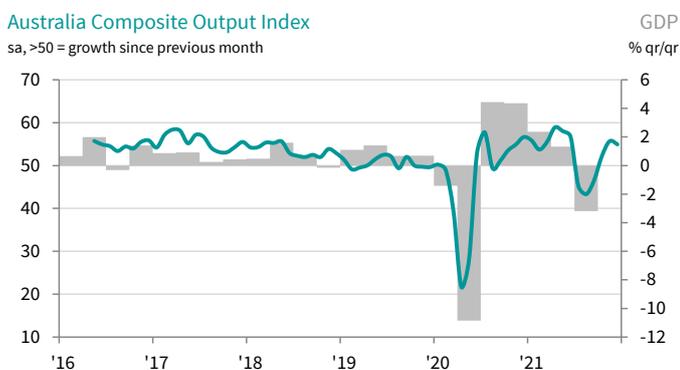
continued...

IHS Markit Australia Composite PMI®

Slower output growth recorded in December

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 54.9 in December from 55.7 in November. This indicated a slower rate of private sector output growth, though the rate of growth remained at a level above the series average.

While both manufacturing and service sectors output growth eased in December, demand for Australian services improved to push the composite New Orders Index higher in the latest survey. Foreign demand for Australian manufactured goods however improved while services exports stayed subdued with border restrictions and COVID-19 Omicron variant fears at play.

Expansion of workforce numbers continued in December, though the rate of growth slowed marginally in the service sector. Instances of labour constraints continued to be reported by panellists in the final month of the year.

On prices, input costs across both manufacturing and service sectors rose at record rates in December amid the increase in prices across an array of categories. Manufacturers also passed on these costs to their clients at an unprecedented rate, leading to record output price inflation.

Overall sentiment remained positive across both the manufacturing and service sectors in December, though the level of optimism eased across both sectors with concerns that growth may slow in the new year due to COVID-19 impacts.

*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:

“Despite growth momentum easing in the Australia service sector, overall demand continued to improve at a faster rate, which was a positive sign. This signalled that economic conditions remained robust even as concerns over the new COVID-19 Omicron variant emerged.

“Price pressures meanwhile continued to heighten with input price inflation printing a new survey record while output prices similarly rose rapidly as firms continued to pass these on to consumers. Issues of labour constraints likewise persisted. With the COVID-19 Omicron uncertainties, it will be worth watching if these trends continue.

“Overall business confidence dropped a notch as Australian service providers expressed some concerns over growth slowing into 2022 and with lingering COVID-19 concerns. IHS Markit forecasts for Australia’s GDP to expand by 2.7% in 2022 following a 4.0% growth in 2021.”

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

December data were collected 6-21 December 2021.

Survey data were first collected May 2016.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2022 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, click [here](#).

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

ihsmarkit.com/products/pmi.html