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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Service sector exhibits faster expansion in November

Key findings

New orders and output growth accelerate in November

Backlogged work accumulates amid rise in demand

Input price inflation surges to survey record level

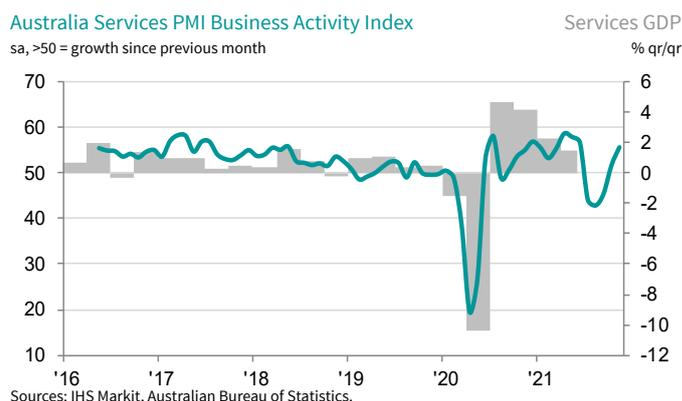
Data were collected 12-26 November 2021.

The expansion of Australia's service sector accelerated in November, according to the latest IHS Markit PMI™ data, amid a further easing of COVID-19 restrictions in Australia. Both business activity and new orders were seen growing at faster rates. In turn, employment levels continued to increase while backlogged work accumulated. Cost pressures hit a record high for service providers, while overall sentiment continued to improve in November.

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 to 55.7 in November from 51.8 in October, signalling a faster expansion of activity. The rate at which business activity rose was the fastest since June, prior to when the COVID-19 Delta wave hit the Australian economy. Panellists widely noted that an easing of COVID-19 restrictions had enabled business conditions to improve in November.

Incoming new business rose for a second straight month in November and at the fastest pace in five months, with the Information & Communication sector exhibiting the strongest growth in demand. Improved business conditions given the easing of restrictions were reported to have enabled new orders to rise. Foreign demand remained subdued, however, with international borders staying largely closed in



November.

Amid the rise in demand and activity, Australian service providers also expanded their operating capacity. Employment levels rose in November at the fastest pace since June as firms increased their workforce numbers, although some companies continued to report difficulties in hiring.

Indeed, the shortages of manpower, alongside the growth in demand, were cited as reasons for an increase in work outstanding in the Australian service sector following four months of decline.

On prices, both input costs and output prices continued to increase in November. Input price inflation notably accelerated to a record rate, with survey respondents highlighting higher costs across a range of categories including input materials, transportation and wages. Panellists also went on to outline supply chain issues having underpinned these price hikes.

Overall business sentiment in the Australia service sector remained positive despite the price pressures faced. Business confidence improved from October to the highest level in nine months amid hopes for sustained recovery as COVID-19 restrictions continue to ease.

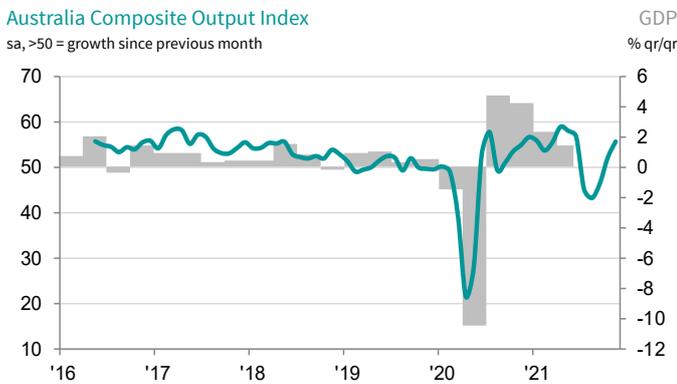
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IHS Markit Australia Composite PMI®

Private sector output growth accelerates in November

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, rose to 55.7 in November from 52.1 in October. This indicated a faster rate of private sector output growth in November following three months of contraction between July and September.

Demand and output growth across both manufacturing and service sectors picked up in November, lifted by the effects of easing COVID-19 restrictions. Services output growth surpassed manufacturing for the first time in five months.

Expansion of workforce numbers also continued in November and at a faster pace compared to the prior month. Rates of job creation were similarly robust across manufacturing and services. That said, instances of labour constraints continued to surface according to anecdotal evidence.

On prices, input price inflation across both manufacturing and service sectors surged to their respective survey record rates to indicate rapid increase in input costs. Supply constraints continued to contribute to the increase in input prices according to survey respondents. As a result, private sector firms continued to pass the costs on to clients, leading to rapid output price increases in November.

Overall sentiment nevertheless improved with hopes of continued recovery from the latest COVID-19 Delta wave.

**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:

“Growth momentum in the Australia service sector improved in November, according to the IHS Markit Australia Services PMI, with the easing COVID-19 restrictions continuing to drive the economic recovery. Demand and business activity both expanded at faster rates. Export demand contracted further, but the expected easing of border restrictions may revive this going forward.

“Price pressures meanwhile continued to build with input price inflation charging to a new survey record. Labour constraints were also reported, though these are consistent with reopening trends and will be further observed in the coming months.

“Broadly, Australian service providers saw better business confidence in November, pointing to expectations for further business activity growth ahead, which is a very positive sign.”

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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

November data were collected 12-26 November 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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