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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Accelerated expansion in services activity at the end of 2020

Key findings

Faster increase in new business

Growth in employment levels sustained

Business expectations remain high

Data were collected 4-21 December 2020

Australian service providers indicated that the economic recovery continued to gain momentum at the end of the year. Both business activity and new orders saw faster growth throughout December, which encouraged firms in the services sector to take on additional staff for the second successive month. Despite further evidence of inflationary pressure, businesses remained optimistic 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 accelerated from 55.1 in November to 57.0 in December, signalling a robust increase in activity. The latest reading was the highest for five months and marked the fourth consecutive monthly improvement in business conditions. Survey members often cited that a further easing in coronavirus disease 2019 (COVID-19) restrictions had provided a boost to activity throughout the final month of 2020.

The upturn in activity was matched by a similarly strong improvement in demand. New order inflows also expanded at a faster pace in the latest survey period, extending the current sequence of growth to four months. Although slightly softer than the rise in output, the rate of expansion was



Sources: IHS Markit, Australian Bureau of Statistics.

strong overall, as firms highlighted a softening of interstate border restrictions had aided the recovery in sales. On the other hand, stringent international restrictions led to a fall in new export orders for the eleventh month running.

Australian service providers were encouraged to take on additional staff in response to greater output requirements. Employment levels rose at a modest pace for a second successive month in December. Firms utilised additional capacity to work through existing orders, as backlogs of work fell for the fifth time in as many months. That said, the decline was only marginal.

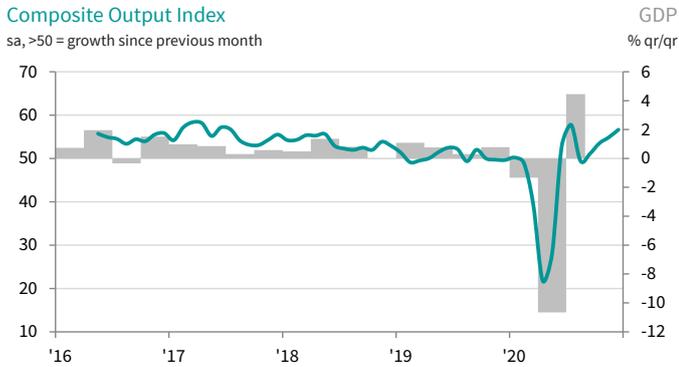
Latest data signalled increasing price pressures on firms operating in the Australian services economy as input prices increased for the seventh month running in December. Although softening from a two-year high in November, the rate of input cost inflation remained marked. The rise in input prices was largely attributed to greater staff costs. Businesses partially passed on higher costs to clients by raising selling prices for the second month in a row.

Looking forward, positive sentiment remained at high levels in December, with expectations for an expansion in activity over the coming 12 months picking up pace slightly in comparison to November. Strong optimism reflected hopes of a return to pre-crisis levels of activity amid a reopening in international markets.

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IHS Markit Australia Composite PMI®

Private sector output growth accelerates in December



Sources: IHS Markit, Australian Bureau of Statistics.

The Composite Index*, which measures combined services and manufacturing output, rose to 56.6 in December from 54.9 in November, signalling a stronger increase in private sector business activity.

Faster growth in private sector activity was driven by an acceleration in output in both the manufacturing and service sectors. Incoming business also strengthened throughout December, rising at the joint-fastest pace since July 2017 and was strong overall. Growth in private sector output was led by the services sector.

Improved demand conditions encouraged businesses to raise employment levels for the second successive month in December. Although fractionally softening from the previous survey period, the expansion remained modest. Additional capacity allowed firms to work through existing orders, as indicated by the fifth consecutive drop in backlogs of work. That said, the fall was only marginal.

The Australian private sector recorded a further increase in average cost burdens in the latest survey period, as input prices rose for the seventh time in as many months. Although softening overall, the rate of input cost inflation was robust overall and picked up slightly in the manufacturing sector. Prices charged for goods and services meanwhile, rose for the second month in a row in December, and at a faster pace than seen in November.

*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 service sector ended a turbulent year firmly in expansion territory, with business activity increasing at the fastest pace since July. This was matched by a similarly strong rise in new orders as Australian service providers welcomed the lowering of domestic COVID-19 restrictions."

"Sustained increases in both activity and demand for services buoyed Australian service providers to increase capacity for the second month running via another round of employment growth."

"The picture for the Australian services economy remains positive at the end of the year, with expectations for an expansion in activity remaining at high levels. However, concern surrounding the pandemic persists with the re-imposition of restrictions in southern states following a resurgence in infection rates."

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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

December data were collected 4-21 December 2020.

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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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.

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