

NEWS RELEASE: Embargoed until 09:00 (AEDT) 4 January 2019

Business activity expands further in December



Key findings

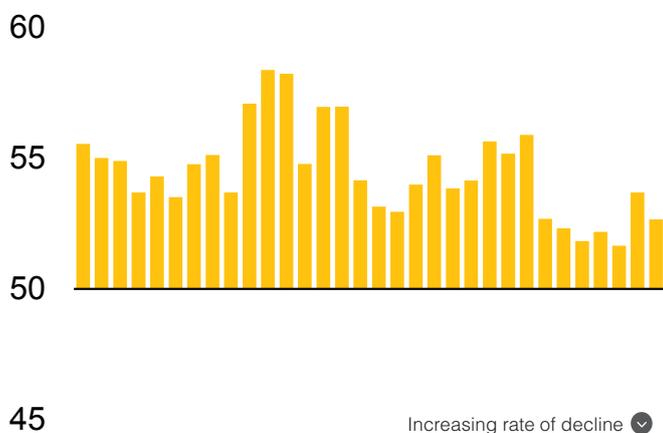
The end of 2018 saw a further expansion in services business activity across Australia, supported by growth in new business inflows. Backlogs of work rose at a faster pace even as firms recruited more workers. However, panellists' concerns over recent regulatory impacts on credit conditions saw confidence at its second-lowest in the survey history. There were signs of easing inflationary pressures, with slower rises in both input and output prices.

Commonwealth Bank Services PMI[®]

May 2016 – Dec 2018

(50 = no change on previous month)

Increasing rate of growth 



The headline figure derived from the survey is the Commonwealth Bank of 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 slipped notably to 52.7 in December, down from 53.7 in November, though still signalling a robust expansion of Australia's service sector. The latest reading contributed to a solid quarterly average that was the highest since the second quarter.

Summary

| Business Activity | | Interpretation |
|-------------------|------|----------------------------------|
| Dec-18 | 52.7 | Expansion, slower rate of growth |
| Nov-18 | 53.7 | Expansion, faster rate of growth |

Demand for services remained positive in December. New business continued to increase, though at a slower pace than in November. Lower house prices were reported to have contributed to higher sales. Export order growth was modest. Greater demand supported continued business activity expansion in December. However output growth was noticeably below the historical average.

Capacity pressures across Australia's service sector also intensified. Backlog accumulation was the strongest for a year, even as companies stepped up hiring in the latest survey period. Panel members generally mentioned increased orders as a reason for additional workloads. Job creation was solid, though the weakest seen since August.

Business expectations about the outlook in the year ahead remained positive. However, confidence was its lowest since June 2016, weighed down by worries over the impact of lending regulations on credit conditions, according to anecdotal evidence. Nonetheless, firms were optimistic that new products, planned expansions and capacity investments should lead to higher future output.

Finally, the survey brought signs of waning inflationary pressures. Input price inflation eased for a second straight month in December, reaching the weakest for nearly a year. Nonetheless cost inflation remained solid, with anecdotal evidence suggesting that increased fuel and rental prices, plus wage growth lifted operating expenses. This in turn led firms to raise output charges further, though at a pace slightly lower than in November.

Commonwealth Bank Composite PMI®

| | Output | Interpretation |
|--------|--------|----------------------------------|
| Dec-18 | 52.9 | Expansion, slower rate of growth |
| Nov-18 | 53.9 | Expansion, faster rate of growth |

The Commonwealth Bank Composite Output Index is a GDP-weighted average of the Commonwealth Bank Manufacturing Output Index and the Commonwealth Bank Services Business Activity Index. It is designed to provide a timely indication of changes in business activity in the Australian private 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.

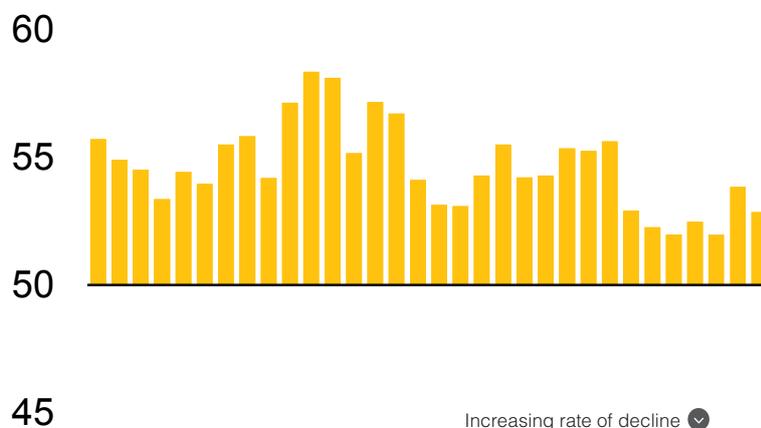
The seasonally adjusted Commonwealth Bank Composite Output Index slipped to 52.9 in December from 53.9 in November, reflecting slower growth in both manufacturing and service sectors.

Commonwealth Bank Composite PMI®

May 2016 – Dec 2018

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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About Commonwealth Bank Services 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 Services PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Services PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector services firms in Australia. The panel is stratified by GDP and company workforce size. The services sector is divided into the following five broad categories: Transport & Storage, Consumer Services, Information & Communication, Finance & Insurance and Real Estate & Business Services.

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