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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Service sector sinks into contraction amid virus wave

Key findings

Business activity and demand fall in line with COVID-19 lockdowns

Input price inflation accelerates

Employment growth sustained and outlook remain positive

Data were collected 12-28 July 2021.

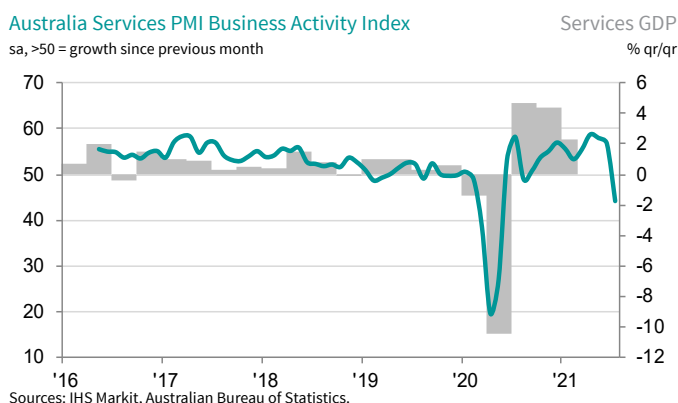
Business activity in Australia's service sector was significantly hampered by the latest COVID-19 wave in Australia, which brought along increased movement restrictions in July. Demand dipped alongside activity while price pressures continued to build amid the disruptions. That said, workforce expansion was sustained while service sector firms remained broadly positive with regards to the outlook.

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 declined to 44.2 in July from 56.8 in June, signalling a contraction of activity. The latest drop puts an end to the ten-month growth streak and marks the sharpest decline in output since May 2020. Panellists noted the return of many Australian states into lockdown in July weighed on overall services activity.

Demand was likewise affected. Incoming new business fell for the first time in eleven months and at the sharpest pace since May 2020. Survey respondents attributed the drop to a lowering of economic confidence amid the resurgence of COVID-19 cases in Australia. Overseas demand eased as well and at the fastest rate since September 2020.

As a result of the demand slowdown, the level of outstanding business contracted in July. That said, service sector firms



continued to increase their operating capacity, albeit at a noticeably slower pace compared to June. Anecdotal evidence suggested some Australian service providers continued to face issues of skilled labour shortages in July.

Price pressures meanwhile were sustained for Australian service sector firms amid the COVID-19 disruptions. Input price inflation accelerated to a level just shy of the May record, caused by higher prices across transportation fees to wages. Service sector firms continued to pass on these costs to clients but at a slower rate compared to June.

Finally, overall business confidence eased in comparison to June, even as service sector firms remained broadly optimistic on average. Around 57% of survey respondents expect output to improve over the year ahead compared to about 8% forecasting lower activity.

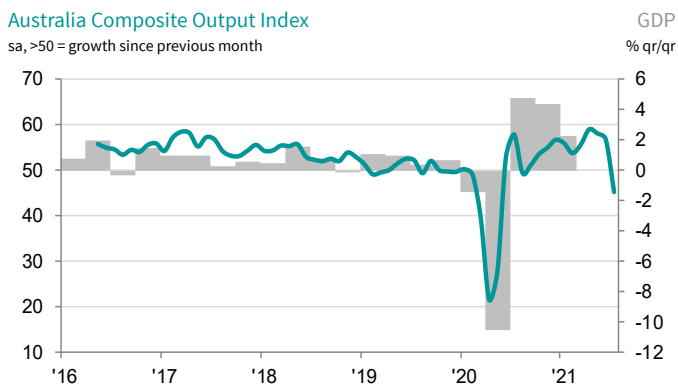
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IHS Markit Australia Composite PMI®

Private sector business conditions worsen in July

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, fell to 45.2 in July from 56.7 in June, indicating a contraction of the Australian private sector after ten months of expansion.

Both the manufacturing and services output indices declined, contributing to the lower Composite Index reading. Services fell by a larger extent compared to manufacturing, sinking deep into contraction territory amid the disruptions from the resurgence of COVID-19 cases.

Demand was likewise affected by the lockdowns across a greater number of Australian states in July. New order inflows shrank following ten months of growth, driven primarily by the decline in services new orders.

Private sector firms however continued to expand their workforce numbers, albeit at a slower pace overall.

Inflationary pressures were sustained as input price inflation accelerated but output charges rose at a slower rate, indicating pressure for private sector firms' margins.

Overall business confidence remained positive but the level of optimism eased to a 14-month low. Firms continued to hope for economic recovery, though the latest COVID-19 wave added some uncertainty to the picture.

**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:

“Latest indications from the IHS Markit Australia Service PMI suggested that the service sector was hard hit by the COVID-19 wave, with the headline index falling more than 10-points from June. This perhaps come as no surprise with the level of services activity moving in tandem with changes in restrictions.

“That said, the July survey also revealed through the sub-indices the issues of price pressures and labour shortages that continue to affect Australian service providers. These are areas that could act as speed bumps for any recovery ahead and will be worth watching.

“Overall service sector optimism sustained in July, albeit at lower levels, with firms pinning their hopes on a recovery from current COVID-19 conditions.”

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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

July data were collected 12-28 July 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).

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