

NEWS RELEASE: Embargoed until 09:00 (AEDT) 21 February 2019

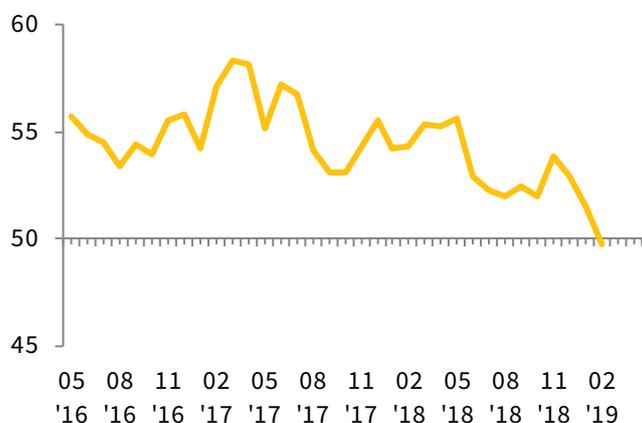
Business activity ticks down in February.

Key findings

Business activity in the Australian private sector decreased fractionally in February as a dip in services activity outweighed continued growth in manufacturing. New orders also ticked down, but employment continued to rise solidly. On the price front, both input costs and output prices increased at sharper rates than in January. Companies, meanwhile, were confident that output would return to growth over the coming year.

Commonwealth Bank Flash Composite Output Index

sa, >50 = growth since previous month



The headline figure derived from the survey is the Commonwealth Bank of Australia Flash Composite Output Index, which is designed to provide timely indications of changes in output in the Australian private sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration. The Index is a GDP-weighted average of the Commonwealth Bank Flash Manufacturing Output Index and the Commonwealth Bank Flash Services Business Activity Index. Flash indices are based on around 85% of final survey responses and are intended to provide an advance indication of the final indices, published approximately one week after the flash release.

Summary

Output	Value	Interpretation
Feb-19	49.7	Decline, from expansion
Jan-19	51.3	Expansion, slower rate of growth

At 49.7 in February, the headline index was down from 51.3 in January and dipped below the 50.0 no-change mark for the first time since the survey began in May 2016.

Behind the reduction in output was a dip in services business activity amid reports of soft market demand and drought conditions. Manufacturing production continued to rise. That said, the rate of growth eased to the weakest in seven months.

A similar picture was evident with regards to new business. Services posted a slight reduction, while manufacturing new orders continued to rise solidly. New export orders increased, albeit at the weakest pace for a year-and-a-half.

Employment was a relative bright spot in February, with job creation recorded across both monitored sectors. Overall, staffing levels increased at a solid pace, and one that was the fastest in three months.

Inflationary pressures showed signs of picking up, with input costs rising at the fastest pace since last November. Higher fuel and wage costs were mentioned by some companies. Output charges also increased to a greater extent in February.

Business confidence remained solid during the month amid expectations that market conditions will improve over the coming year, helping lead to greater volumes of new work. That said, sentiment dipped slightly from that seen in January.

Commonwealth Bank Flash Services PMI®

Business Activity	Value	Interpretation
Feb-19	49.3	Decline, from expansion
Jan-19	51.0	Expansion, slower rate of growth

The Commonwealth Bank Flash Services Business Activity Index is designed to provide a timely indication of changes in business activity in the Australian service 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 Australian service sector dipped into contraction territory in February, the first time this has been the case in the 34-month survey to-date. New business also decreased slightly. Meanwhile, rates of inflation in both input costs and output prices quickened from those seen in January. On a positive note, employment increased at a solid pace, and one that was the sharpest in three months.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Value	Interpretation
Feb-19	53.1	Expansion, slower rate of growth
Jan-19	53.9	Expansion, slower rate of growth

The Commonwealth Bank Flash Manufacturing PMI® is designed to provide a timely indication of changes in business conditions in the Australian manufacturing economy. Readings above 50.0 signal an improvement in conditions on the previous month, while readings below 50.0 show deterioration. The PMI is calculated from five indices for output, new orders, employment, suppliers' delivery times and stocks of purchases.

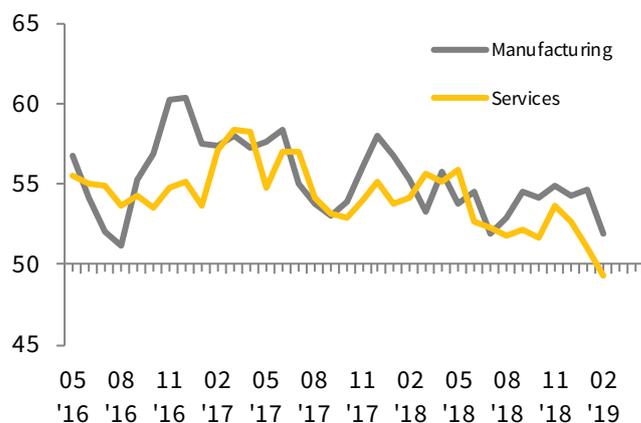
In contrast to the picture for services, manufacturing business conditions continued to improve during February. That said, there were signs of growth softening over the month.

Both output and new orders increased to the least extent in seven months, while new export business rose only marginally. The rate of job creation also eased.

The rate of input cost inflation slowed to the weakest in a year-and-a-half as suppliers competed for orders. Meanwhile, output prices increased at a solid pace that was the fastest since last October.

Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



Comment

Commenting on the February 2019 PMI Flash, Commonwealth Bank's Michael Blythe, Chief Economist said:

"The dip in the PMI below the 50 line that separates expansion from contraction is a significant event. It is the first negative reading in the life of the Australian PMI survey. It indicates a loss of momentum in the Australian economy at the start of 2019. And it underlines the shift in forward guidance by the RBA to a more neutral setting".

Mr Blythe added:

"The divergence between (contracting) service sector activity and (expanding) manufacturing activity should be noted. It shows the slowdown is not broadly based and the more forward looking components like jobs and business sentiment point to a recovery later in 2019".

For further information, please contact:

Commonwealth Bank of Australia

Daniel Ferguson

Group Corporate Affairs
Institutional and Business Banking
Telephone +61 2 9118 4531
Email media@cba.com.au

IHS Markit

Bernard Aw

Principal Economist
Telephone +65-6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia

Marketing and Communications
Telephone +65 6922-4239
Email jerrine.chia@ihsmarkit.com

About Commonwealth Bank Flash Composite 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 Flash Composite PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Flash Composite PMI is based on data compiled from monthly replies to questionnaires sent to representative panels of purchasing executives in 400 manufacturing and 400 services firms in the private sector. The panels are stratified by GDP and company workforce size. The flash data are calculated from around 85% of total PMI survey responses each month and are designed to provide an accurate advance indication of the final PMI data. Final data for February are released on 01 March 2019 (manufacturing) and 05 March 2019 (services and composite).

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