Business activity growth eases at start of third quarter

Key findings
PMI survey data showed business activity in the Australian service sector rising at the start of the third quarter, supported by order book growth. Backlogs of work accumulated further while business sentiment remained positive. However, employment fell for the first time in three months. Meanwhile, cost inflation intensified, lifted by higher supplier fees and greater energy prices, pushing firms to raise fees further.

Commonwealth Bank Services PMI®
May 2016 – Jul 2019
(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 dipped from 52.6 in June to 52.3 in July, indicating only a modest expansion of output in the sector.

Summary

<table>
<thead>
<tr>
<th>Business Activity</th>
<th>Interpretation</th>
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</thead>
<tbody>
<tr>
<td>Jul-19</td>
<td>52.3  Expansion, slower rate of growth</td>
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<tr>
<td>Jun-19</td>
<td>52.6  Expansion, faster rate of growth</td>
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</tbody>
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Slowing growth momentum in the service sector at the start of the third quarter was driven by a weakening trend in new business inflows. Despite a solid increase in new export business, overall sales growth moderated notably from June, expanding at a modest pace, as domestic demand conditions softened.

Meanwhile, only a modest increase in backlogs of work was seen during July. Survey data also showed signs of a weakening market for services-related jobs as employment fell for only the second time since the survey started in May 2016 and at the steepest rate in the series history. There were reports of voluntary leavers and layoffs at some firms, according to anecdotal evidence.

July saw cost inflation intensify further, driven by greater energy costs and increased fees from suppliers. Input price inflation was the fastest for nine months and marked overall. This prompted firms to raise service fees further, though the rate of increase in output prices remained modest.

Finally, Australian service providers remained upbeat about longer-term prospects as sentiment towards the year-ahead outlook stayed in positive territory. The Business Expectations Index, a gauge of optimism, remained well above the neutral 50.0 level in July. Firms expect improved economic conditions, greater marketing activity, planned business expansions and higher productivity to drive future activity.
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 from 52.5 in June to 52.1 in July, indicating slower growth of private sector business activity at the start of the third quarter. The latest reading reflected softer expansions in both manufacturing and services activity.

<table>
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<td>Jul-19</td>
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Commonwealth Bank Services PMI®
Purchasing Managers’ Index™ Report

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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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