

NEWS RELEASE: Embargoed until 09:00 (AEDT) 24 January 2020

# Business activity down for third month running.

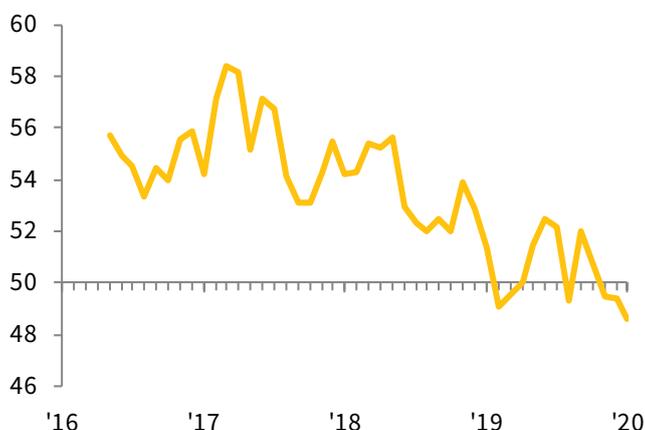


## Key findings

The latest Commonwealth Bank Flash Composite PMI® signalled a continued decline in business activity in January. In fact, the latest fall in output was the sharpest since the survey began in May 2016. New orders and employment increased, however, thanks to improvements in the service sector. The rate of input cost inflation softened again to a nine-month low, but companies raised their output prices at a sharper pace than in December.

## 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		Interpretation
Jan-20	48.6	Decline, faster rate of contraction
Dec-19	49.6	Decline, faster rate of contraction

The start of 2020 pointed to a third successive monthly decline in business activity in the Australian private sector. Output decreased modestly, but to the greatest extent in the 45 months of data collection so far. Sharper reductions in output were seen across both the manufacturing and service sectors.

On a more positive note, companies were again able to generate growth of new business in January. Moreover, the rate of expansion quickened for the third month running to the fastest since last June. Underlying data suggested that the increase was centred on the service sector as manufacturing new orders decreased.

A combination of rising new orders and falling business activity led to a modest pick-up in backlogs of work. In response, firms hired additional workers following a slight drop in employment during December. As was the case with new orders, job creation in the service sector contrasted with a reduction in manufacturing staffing levels.

Although input prices continued to rise at a solid pace, the latest increase was the slowest in nine months and softer than the series average. Meanwhile, companies raised their output prices at a faster pace during the month. Output price inflation was solid, and broad based across the two monitored sectors.

Confidence in the 12-month outlook for business activity improved to a four-month high in January, but was still relatively muted. Stronger optimism was reflective of improving sentiment at service providers, while manufacturers were less upbeat than at the end of 2019.

### Commonwealth Bank Flash Services PMI®

Business Activity	Value	Interpretation
Jan-20	48.9	Decline, faster rate of contraction
Dec-19	49.8	Decline, slower rate of contraction

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.

Business activity in the service sector decreased for the third month running in January, and to a greater extent than at the end of 2019. That said, other indices from the survey were more positive. New orders increased at the fastest pace in seven months, helping to support a return to growth of employment. The rate of input cost inflation slowed to the weakest since last April, but output prices were raised at a sharper pace than in December.

### Commonwealth Bank Flash Manufacturing PMI®

PMI	Value	Interpretation
Jan-20	49.1	Decline, faster rate of contraction
Dec-19	49.2	Decline, faster rate of contraction

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.

According to the latest PMI data, business conditions in the Australian manufacturing sector deteriorated marginally for the third month running in January.

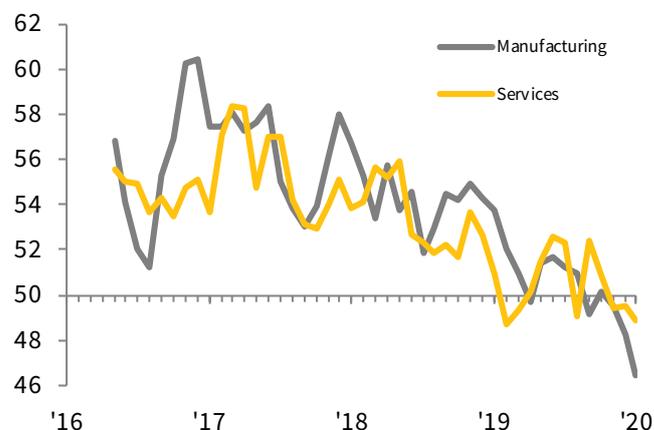
Output decreased solidly, and to the greatest extent in the survey so far. Total new orders fell at a modest pace, despite continued growth of new business from abroad.

Firms responded to lower workloads by scaling back employment for the second month running.

Suppliers' delivery times lengthened sharply, with vendor performance worsening to the greatest extent in almost a year. According to respondents, bush fires had been behind delivery delays.

### Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



### Comment

Commenting on the Commonwealth Bank Flash PMI data, CBA Chief Economist, Michael Blythe said:

*“The January “flash” results show the softness in the Australian economy at the end of 2019 has spilled over into the early part of 2020. There is some fundamental weakness in the Australian economy associated with consumer constraint, the residential construction downturn and the reluctance of business to invest. But the PMI results are also being influenced by the terrible bushfires around Sydney and elsewhere. At this stage the impact seems to be mainly through disruption to supply chains. Supplier delivery times have increased sharply”.*

Mr Blythe also noted:

*“The gloom should not be overdone. Key leading indicators like new orders and employment are showing a notably stronger result than the “headline” PMI readings. And expectations about future business remain at encouraging levels”.*

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**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 January are released on 03 February 2020 (manufacturing) and 05 February 2020 (services and composite).

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