

NEWS RELEASE: Embargoed until 09:00 (AEDT) 16 December 2019

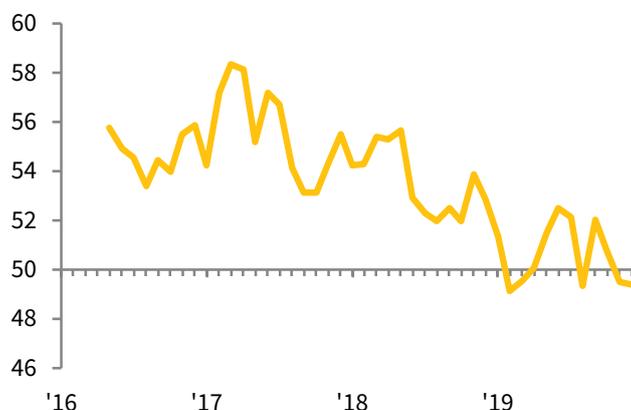
Output falls amid manufacturing weakness.

Key findings

The latest Commonwealth Bank Flash Composite PMI[®] pointed to a further marginal decrease in business activity across the manufacturing and service sectors in the final month of 2019. Weakness was particularly evident at manufacturers, which saw the sharpest decline in the 44-month survey history. On the other hand, new orders continued to rise, boosted by growth in services new business. Companies reduced their staffing levels for the first time in five months.

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
Dec-19	49.4	Decline, faster rate of contraction
Nov-19	49.7	Decline, from no change

Output in Australia decreased for the second month running in December. The pace of reduction remained marginal, but quickened slightly from that seen in November. Falls in business activity were recorded in both the manufacturing and service sectors, with the pace of contraction sharper in the former. In fact, manufacturing output declined to the greatest extent since the survey began in May 2016.

The fall in output was registered in spite of continued new order growth. New business was up for the ninth month running, albeit modestly. The overall rise in new orders was centred on the service sector, as manufacturing new work volumes contracted amid reports of fragile customer demand.

Outstanding business rose marginally, but companies responded to lower output requirements by reducing their workforce numbers at the end of the year. Employment decreased for the first time in five months, with both manufacturers and service providers lowering staffing levels.

The rate of input cost inflation softened in December, with weaker increases across both monitored sectors. The rise in input prices was the weakest since May, but remained marked. Service providers mainly linked higher input prices to rising staff costs, with manufacturers reporting higher raw material prices, particularly from overseas.

Companies increased their selling prices slightly, reversing a marginal decline seen in November.

Although business confidence ticked down in December, sentiment regarding the 12-month outlook for business activity remained positive.

Commonwealth Bank Flash Services PMI®

Business Activity	Value	Interpretation
Dec-19	49.5	Decline, faster rate of contraction
Nov-19	49.7	Decline, from expansion

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.

Services business activity decreased for the second month running in December, albeit only marginally. The reduction was recorded in spite of a pick-up in growth of new business, with the rate of expansion at a six-month high. Employment, meanwhile, decreased for the first time in five months. On the price front, the rate of input cost inflation softened at the end of the year, while firms raised their output prices marginally following a fall in November.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Value	Interpretation
Dec-19	49.4	Decline, faster rate of contraction
Nov-19	49.9	Decline, from no change

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.

The PMI signalled a marginal deterioration in the health of the Australian manufacturing sector during December.

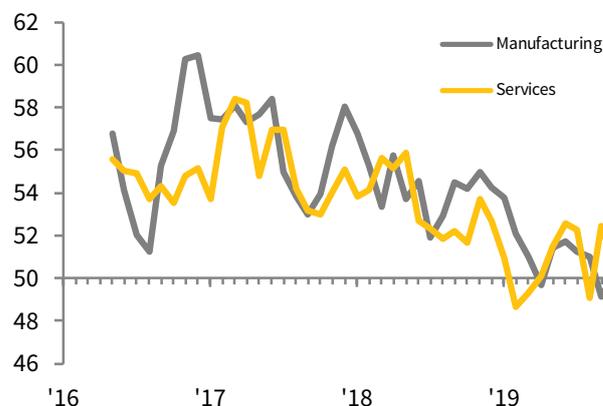
The rate of decline in production gathered pace, and was the fastest in the 44-month survey so far. A sharper reduction in new orders was also recorded, in spite of an improvement in exports.

Firms signalled a slight fall in employment, ending a two-month sequence of job creation. Backlogs of work decreased at a solid pace amid lower new orders.

Disruption to deliveries, partly linked to bush fires, meant that suppliers' lead times lengthened at a marked pace that was the strongest for ten months.

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 PMI readings indicate that the Australian economy ended 2019 on a softish note. The RBA’s “gentle turning point” for the economy remains elusive. And the weakness in private spending evident in the Q3 GDP data looks to have continued in Q4, with a flow on to labour demand as well. There were also some early indications that the disruptions associated with the terrible bushfires around Sydney and elsewhere are having some impact”.

Mr Blythe also noted:

“New orders continue to rise, however, indicating a degree of resilience in the domestic economy. The rise in new export business also indicates a degree of resilience to the sluggish global backdrop”.

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

Katherine Smith

Public Relations
Telephone +1 781 301 9311
Email katherine.smith@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 December are released on 02 January 2020 (manufacturing) and 06 January 2020 (services and composite).

About PMI® by IHS Markit

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