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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Service sector expansion leads to record pace of hiring

Key findings

Business activity and demand sustain noticeable growth

Sharpest increase in employment on record

Cost inflation accelerates to series high

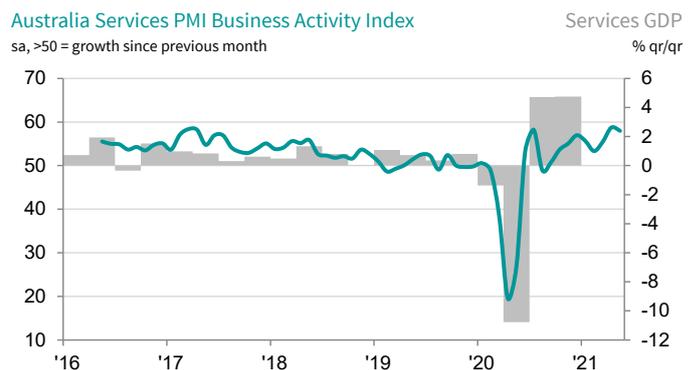
Data were collected 12-26 May 2021.

Australian service providers saw a sustained expansion of business activity in May. Although output and business inflows grew at a marginally softer rate compared to April's records, the rates of expansion were again strong. Firms also remained optimistic and increased their workforce numbers at a record pace in May. That said, the accumulation of backlogged work continued while input prices and output charges saw steep increases.

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 eased to 58.0 in May from 58.8, signalling a continued increase in activity but at a marginally softer pace than April's survey record. The latest rise extended the current sequence of expansion to nine months. Panellists noted that the easing of COVID-19 restrictions and improved economic conditions had provided a further boost to total activity.

New business inflows increased for the ninth straight month in May, supported by an improvement in economic conditions following the easing of COVID-19 restrictions and the positive effects of government stimulus. Although easing from April's record, the rate of expansion in new work remained considerable. Foreign demand also enjoyed an acceleration in growth to the fastest pace since April 2018.



Sources: IHS Markit, Australian Bureau of Statistics.

Sustained rises in orders and activity encouraged firms in the service sector to continue expanding their operating capacity. Job creation continued for the seventh successive month in May and at the fastest pace since the survey started in May 2016. Despite this, backlogged orders continued to build and also at a survey record pace

Meanwhile, higher cost burdens were borne by service providers in May due to price increases across an array of items such as power bills, transport expenses and rising wages. Overall, input price inflation was the fastest on record. In turn, firms continued to direct part of these price increases to customers, sending average selling prices up at the fastest rate in the five-year series history.

Overall business confidence meanwhile remained high, with the degree of optimism easing only marginally from April. Around 60% of survey respondents expect output to improve over the year ahead, with many expecting a further recovery from the COVID-19 pandemic to support an increase in client demand.

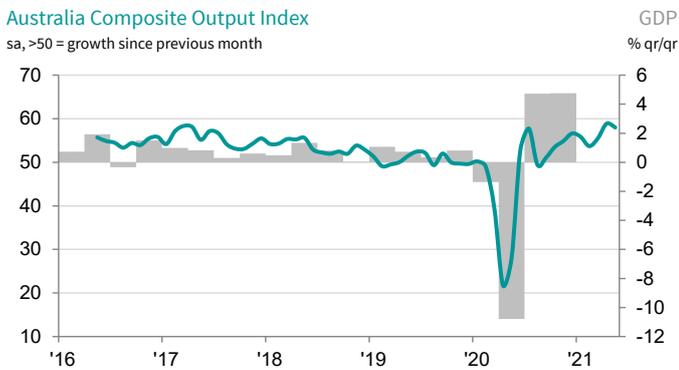
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IHS Markit Australia Composite PMI®

Private sector output sustains growth at strong pace

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, eased to 58.0 in May from 58.9 in April, indicating continued growth of the Australian private sector albeit at a moderately softer pace.

Overall business activity growth was supported by comparable expansions in manufacturing output and services activity in May. Inflows of new business meanwhile were sustained for the ninth straight month, supported by a stronger rise in export orders.

The continued growth of demand and business activity induced Australian firms to continue hiring additional staff at a record pace across both the manufacturing and service sectors. That said, backlogged work also accumulated at record speed, reflecting the improved economic conditions.

Inflationary pressures remained for private sector firms with input cost inflation accelerating to the fastest ever level in May. An array of items from raw material prices to wage costs contributed to higher cost burdens for businesses which were reportedly passed on to clients wherever possible. Output price inflation likewise soared to the sharpest on record.

Overall business confidence meanwhile remained positive, in line with the headline Composite Index, as private sector firms continued to expect better business performance in the year ahead.

**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:

“Australia’s service sector sustained a strong rate of expansion in May with both demand and business activity growing at a healthy pace. The improvement in economic conditions can be seen providing firms with better confidence to continue hiring at a record pace.

“Backlogs meanwhile continued to build despite the increase in operating capacity. Anecdotally, some service providers are looking to rebuild their headcount to pre COVID-19 levels but a few are citing difficulties in finding new employees.

“Business confidence remained strong in May, even as price inflation accelerated, with firms anticipating further recovery from the COVID-19 pandemic. The latest developments surrounding Melbourne’s lockdown may however be one to keep a close eye on.”

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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

May data were collected 12-26 May 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).

About IHS Markit

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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