

NEWS RELEASE: Embargoed until 09:00 (AEST) 22 August 2019

Business activity decreases for first time in five months.

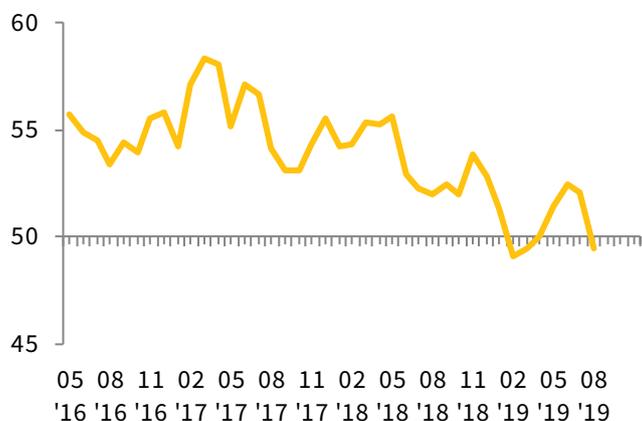


Key findings

The August Flash PMI™ data signalled a first reduction in output since March, with the decline centred on the service sector. New orders also decreased, but employment returned to growth and business sentiment picked up. Currency weakness led to a faster rise in manufacturing input prices, but services costs increased at a weaker pace, as did output prices across both monitored sectors.

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
Aug-19	49.5	Decline, from expansion
Jul-19	52.1	Expansion, slower rate of growth

August data pointed to a decline in output in the Australian private sector, the first in five months and only the third since data were first collected in May 2016. The overall reduction was centred on the service sector, while manufacturing production continued to rise slightly. Services companies indicated that a lack of confidence in the Australian economy and drought conditions contributed to lower activity.

A similar picture was seen with regard to new business, with a decline in services leading to a marginal reduction in composite new orders. Total new orders in the manufacturing sector were helped by a return to growth of exports, following two months of decline.

After having fallen in the previous month, employment increased slightly in August. Modest rises in staffing levels were recorded across both the manufacturing and service sectors. This improvement in capacity helped companies reduce the pace of backlog accumulation. The latest rise in outstanding business was the weakest since February.

The rate of input cost inflation ticked down in August, but this masked differing trends across the two monitored sectors. Services input prices rose at a weaker pace, but currency weakness pushed the rate of manufacturing input cost inflation up to a nine-month high. Competitive pressures reportedly limited pricing power, with both sectors seeing output price inflation tick down.

Despite the falls in output and new orders seen in August, business sentiment improved to the highest since February. Confidence reflected hopes of an improvement in economic conditions both in Australia and globally, as well as the launch of new products.

Commonwealth Bank Flash Services PMI®

Business Activity	Interpretation
Aug-19 49.2	Decline, from expansion
Jul-19 52.3	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.

Business activity decreased slightly in August, ending a four-month sequence of growth. The drop was only the third since the survey began in May 2016. Challenges reportedly included a lack of confidence in the economy and drought conditions. New business also decreased, but employment ticked up following a fall in July. Both input costs and output prices rose at slightly weaker rates than in the previous month.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Interpretation
Aug-19 51.3	Expansion, slower rate of growth
Jul-19 51.6	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.

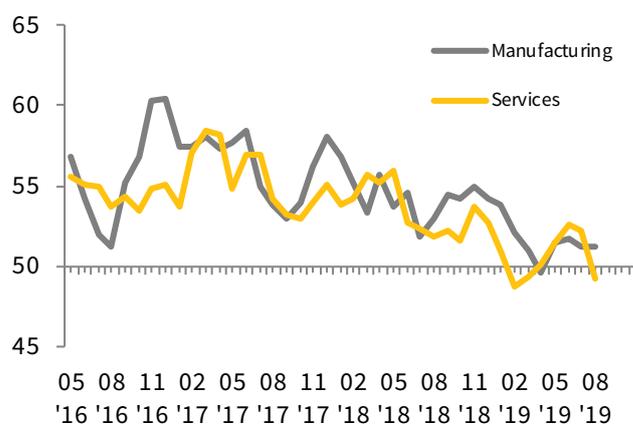
Business conditions continued to improve in the manufacturing sector during August, albeit at a slight pace that was the weakest in three months.

Modest increases were seen for output and new orders, with the rate of job creation also remaining slight. There was some more positive news in terms of exports, which rose for the first time since May.

The rate of input cost inflation accelerated, and was the sharpest since last November. Panellists generally linked inflationary pressures to weakness of the Australian dollar. On the other hand, output prices were raised to a slightly lesser extent than in July.

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:

“A persistent concern is that the fallout from the US-China trade war will dent global capex and consumer spending as cautious businesses and households retreat to the sidelines. The shift back into contractionary territory in the CBA Flash PMI reading for August indicates that Australia is not immune to these global risks. The concerns about weak output readings are tempered a little by positive indications on the labour market and future business expectations.”

Mr Blythe added:

“The challenges faced by the RBA in their attempts to return inflation to the 2-3% target band are also highlighted in the survey. The lower Aussie dollar is putting upward pressure on input prices. But the competitive trading environment is limiting the flow through to output prices.”

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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 August are released on 02 September 2019 (manufacturing) and 04 September 2019 (services and composite).

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