Australian companies increased business activity for the first time in four months during May amid signs of a pick-up in demand following a recent soft patch. New orders rose at the fastest pace in 2019 so far. Firms took on extra staff after reducing employment during April, while business confidence improved. On the price front, both input costs and output prices increased at sharper rates than were recorded in April.

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.

Key findings

Australian companies increased business activity for the first time in four months during May amid signs of a pick-up in demand following a recent soft patch. New orders rose at the fastest pace in 2019 so far. Firms took on extra staff after reducing employment during April, while business confidence improved. On the price front, both input costs and output prices increased at sharper rates than were recorded in April.

Summary

<table>
<thead>
<tr>
<th>Output</th>
<th>Interpretation</th>
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</thead>
<tbody>
<tr>
<td>May-19</td>
<td>52.2 Expansion, from no change</td>
</tr>
<tr>
<td>Apr-19</td>
<td>50.0 No change, from contraction</td>
</tr>
</tbody>
</table>

Latest PMI data pointed to a return to growth in output across the Australian manufacturing and service sectors in May, following no change in the previous month. In fact, the rise in activity was the first in four months and the strongest in 2019 so far. That said, the rate of expansion was relatively muted.

Overall growth was driven by the service sector, which saw a solid rise in activity in May. Manufacturing production increased at the fastest pace for three months, rebounding from April’s decline.

The rise in business activity coincided with a pick-up in the rate of new order growth, again led by the service sector. Some panellists reported that marketing drives had helped secure greater new business.

Rises in new orders fed through to increased backlogs of work. In turn, companies took on extra staff following a slight reduction in employment in April. Moreover, the rate of job creation was the fastest in the year-to-date.

May data pointed to a marked rise in input prices, with the rate of inflation ticking up from that seen in April. Currency weakness and higher fuel costs were mentioned by those panellists seeing input prices increase. Output charges also rose at a faster pace during the month.

Business confidence strengthened for the second month running amid higher new orders and expectations that demand conditions will improve following the federal election. Confidence was higher in both the manufacturing and service sectors.
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.

May data pointed to a solid monthly increase in business activity in the Australian service sector, after output had been broadly unchanged in April. New order growth gathered momentum, in some cases linked by panellists to marketing campaigns. More positive news was seen on the employment front, with staffing levels increasing following a fall in April. Rates of inflation of both input costs and output prices also ticked up.

Commenting on the Commonwealth Bank Flash PMI data, CBA Senior Economist, Belinda Allen, said:

“A positive result. The improvement takes the PMI readings well back into expansionary territory and the at the highest level since December 2018.”

Ms Allen added:

“The economy clearly softened over the second half of 2018 and into 2019. A strong rebound in the services PMI is encouraging, as is a small improvement in the manufacturing PMI. There is scope for the PMIs to push even higher over coming months from the expected RBA rate cuts, in combination with the personal income tax relief announced in the 2019/20 Budget. This should boost disposable income and translate into a lift in consumer demand. Input prices remained relatively subdued, in line with weak inflation data.”
Commonwealth Bank Flash Composite PMI®

Purchasing Managers’ Index® Report

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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 May are released on 03 June 2019 (manufacturing) and 05 June 2019 (services and composite).

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