

NEWS RELEASE: Embargoed until 09:00 (AEDT) 4 March 2020

Services activity shrinks in February on bushfires, coronavirus impact



Key findings

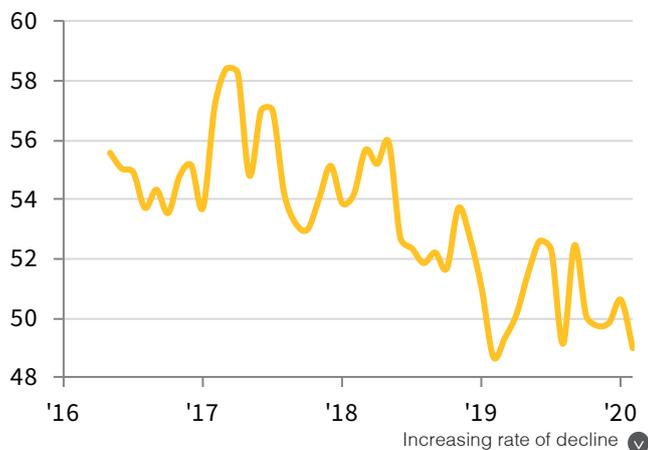
PMI data indicated a decline in Australian services business activity during February amid bushfires and the coronavirus outbreak. Demand conditions worsened, with new orders falling at a survey-record rate. Weak sales contributed to a reduction of unfinished work which, in turn, weighed on hiring. Job shedding was reported. Confidence also slipped, while inflationary pressures eased over the month.

Commonwealth Bank Services PMI[®]

May 2016 – Feb 2020

(50 = no change on previous month)

Increasing rate of growth 



The headline figure derived from the survey is the Commonwealth Bank of 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 fell from 50.6 in January to 49.0 in February, indicating a modest decrease in the level of activity.

Summary

Business Activity		Interpretation
Feb-20	49.0	Contraction, change of direction
Jan-20	50.6	Expansion, change of direction

While modest, the rate of decrease signalled by the index was the steepest for a year. Bushfires in some parts of Australia and the global outbreak of the coronavirus dampened activity, according to anecdotal evidence.

Meanwhile, demand conditions deteriorated during February, after having strengthened at the start of the year. Total new orders fell at the fastest pace since the survey started in May 2016, accompanied by a survey-record fall in export sales. The weakening sales trend contributed to the first decrease in the level of outstanding business for one-and-a-half years. February also marked only the second time in the survey history that backlogs of work had fallen.

The development of excess capacity in turn dampened hiring. Employment fell in February, with the rate of decline the joint-steepest since the series began nearly four years ago. Business expectations also weakened. Though still signalling positive sentiment, the Future Output Index slipped to a two-month low. Optimistic firms commented on business expansions, new marketing strategies, product launches and company restructuring as reasons underpinning growth, while there were concerns raised by some respondents about the negative impact on activity of the spread of the coronavirus.

Finally on the price front, Australian services fees were raised at a slower rate than in January, while the rise in business costs, though solid, was the slowest for nine months. Higher expenses were linked to a weaker Australian dollar, increased prices for fuel and rising wages.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Feb-20	49.0	Contraction, change of direction
Jan-20	50.2	Expansion, change of direction

The Commonwealth Bank Composite Output Index is a GDP-weighted average of the Commonwealth Bank Manufacturing Output Index and the Commonwealth Bank Services Business Activity Index. It is designed to provide a timely indication of changes in business activity in the Australian private 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.

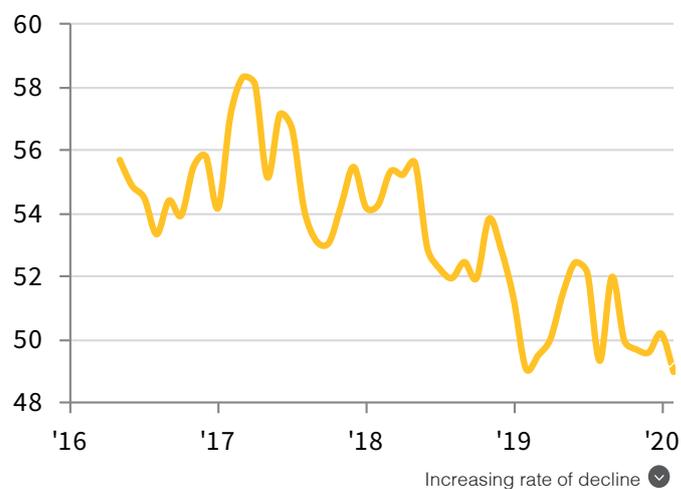
The seasonally adjusted Commonwealth Bank Composite Output Index fell from 50.2 in January to 49.0 in February, indicating the steepest decrease of private sector business activity since the survey began in May 2016. The latest reading reflected contractions of both manufacturing output and services business activity.

Commonwealth Bank Composite PMI®

May 2016 – Feb 2020

(50 = no change on previous month)

Increasing rate of growth 



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About Commonwealth Bank Services 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 Services PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Services PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector services firms in Australia. The panel is stratified by GDP and company workforce size. The services sector is divided into the following five broad categories: Transport & Storage, Consumer Services, Information & Communication, Finance & Insurance and Real Estate & Business Services.

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