

NEWS RELEASE: Embargoed until 09:00 (AEDT) 21 February 2020

Business activity falls at quickest pace on record in February.

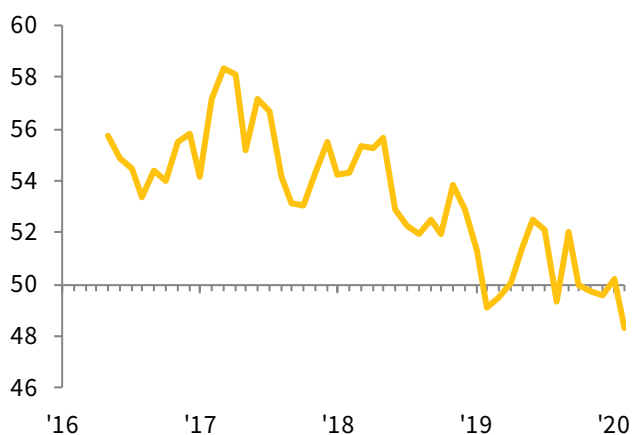


Key findings

The latest Commonwealth Bank Flash Composite PMI® signalled a renewed fall in business activity in February, with both manufacturers and services companies recording lower output. Though modest, the rate of reduction was the steepest seen since data collection began in May 2016, with panel members linking this to a combination of subdued client demand, adverse weather and the Covid-19 outbreak.

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
Feb-20	48.3	Decline, from expansion
Jan-20	50.2	Expansion, from decline

After a marginal expansion at the start of 2020, Australian private sector output declined during February. Though mild, the rate of contraction was the quickest seen in the survey's near four-year history. Sector data showed that weakness was broad-based, with business activity falling modestly at both goods producers and service providers.

Total new business also fell in February, thereby ending a ten-month sequence of expansion. Though marginal, the rate of reduction was also the steepest recorded since the survey began in May 2016. The drop in sales was led by the manufacturing sector, where new orders fell solidly. Services companies meanwhile saw the first decrease in new work since last March.

Lower intakes of new orders contributed to spare capacity, as highlighted by a renewed decline in outstanding workloads during February. As a result, companies took a more cautious approach to staff hiring, with both manufacturers and service providers noting reduced headcounts in the latest survey period.

Average input costs continued to rise solidly midway through the first quarter, despite the rate of inflation edging down to a ten-month low. Average selling prices also rose at a softer pace, with firms raising their charges only modestly overall.

February saw business confidence weaken among Australian companies, with sentiment the lowest since last October. Expectations of stronger economic conditions and client demand underpinned growth forecasts for the year ahead. However, a number of firms expressed concerns over relatively subdued market conditions, both at home and abroad, and the impact of Covid-19.

Commonwealth Bank Flash Services PMI®

Business Activity	Interpretation
Feb-20 48.4	Decline, from expansion
Jan-20 50.6	Expansion, from decline

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.

Service sector business activity fell for the third time in the past four months in February, and at the quickest rate on record. New business, employment and backlogs of work also fell across the sector, albeit marginally. The rate of input cost inflation meanwhile eased further in February, down to a ten-month low. Nonetheless, the increase in operating expenses remained marked, and contrasted with only a modest rise in average output charges.

Commonwealth Bank Flash Manufacturing PMI®

PMI	Interpretation
Feb-20 49.8	Decline, slower rate of contraction
Jan-20 49.6	Decline, slower rate of contraction

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 across Australia's manufacturing sector deteriorated for the fourth successive month in February, albeit only slightly.

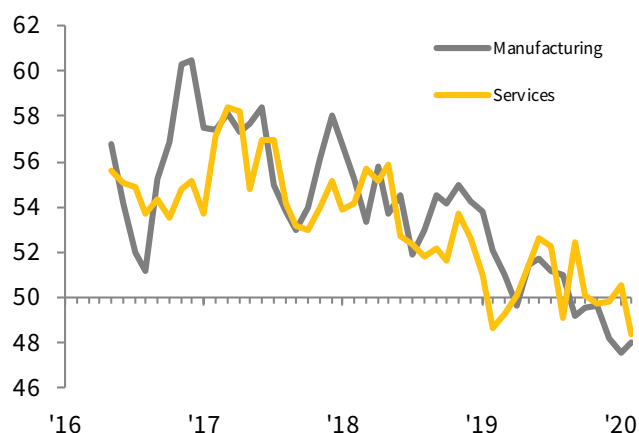
Output fell for the sixth month in a row, though the rate of contraction was slower than seen in January. However, total new business fell solidly, driven in part by a renewed fall in new export work.

Reduced client demand led manufacturers to cut their staff numbers again, and at a faster rate than in January.

The average time taken for the delivery of inputs increased at the steepest pace on record, with firms linking longer lead times to bushfires and the Covid-19 outbreak.

Services Business Activity vs Manufacturing Output

sa, >50 = growth since previous month



Comment

Commenting on the Commonwealth Bank Flash PMI data, CBA Senior Economist, Gareth Aird said:

"The February flash PMIs imply a contraction in private demand. Whilst this is clearly a disappointing result, it is not altogether surprising given the two exogenous shocks that have hit the Australian economy – the bushfires and the coronavirus (Covid-19)."

Mr Aird also noted:

"Our main concern is that these event have hit the global and local economies at a time when domestic demand was already soft. The level of both the services and manufacturing PMIs highlights the need for more policy stimulus. With monetary policy doing most of the heavy lifting an easing in fiscal policy continues to look the most appropriate response to support aggregate demand."

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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 February are released on 02 March 2020 (manufacturing) and 04 March 2020 (services and composite).

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