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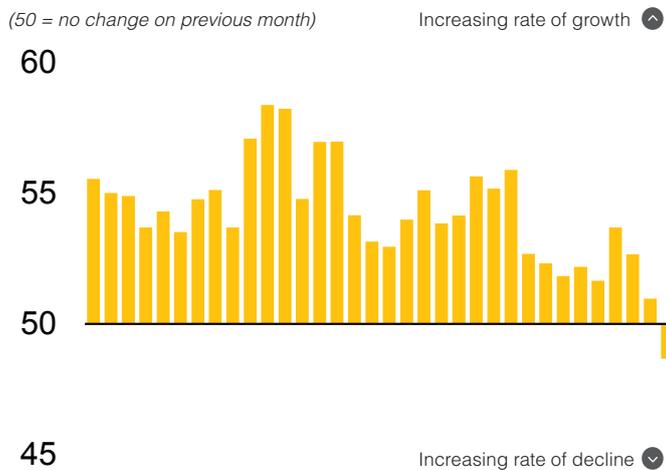
Business activity contracts for first time in survey history



Key findings

February showed a deterioration in Australian service sector activity for the first time since the survey began nearly three years ago. A decline in new work, linked to droughts and bank regulatory changes, weighed on business activity. Growth in export orders and backlogs also eased. However, business confidence was sustained and job creation picked up. Inflationary pressures meanwhile intensified, with input costs rising markedly.

Commonwealth Bank Services PMI[®] May 2016 – Feb 2019



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 51.0 in January to 48.7 in February, marking the first time in the survey history that the headline reading has slipped below the neutral 50.0 level.

Summary

Business Activity		Interpretation
Feb-19	48.7	Contraction, change of direction
Jan-19	51.0	Expansion, slower rate of growth

Australian service providers mentioned that drought-related impacts and changes to banking regulations had weighed on business activity. A decrease in new business inflows was recorded for the first time since the survey started in May 2016, while overseas demand growth eased noticeably.

Weaker demand exerted less pressure on operating capacity. Firms reported only a marginal increase in the level of outstanding business, the slowest rise for six months. Meanwhile, a further increase in staff numbers enabled companies to keep on top of additional workloads.

Although business conditions have worsened, firms remained confident about the outlook from a longer-term perspective. Business expectations over the next 12 months remained buoyant, with 56% of respondents anticipating higher activity in the year ahead. Anecdotal evidence showed that firms expect new marketing strategies, higher sales projections and a wider product offering to boost business activity. However, there were some concerns highlighted by panel members over further changes to banking sector regulations and upcoming federal elections.

Finally, on the price front, inflationary pressures intensified. Average input costs rose at the fastest rate for three months as higher prices for fuel and metal, excise tax increases and a larger wage bill all contributed to inflation, according to panellists. In turn, service fees across the sector also rose amid higher operating expenses, with the rate of inflation accelerating.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Feb-19	49.1	Contraction, change of direction
Jan-19	51.3	Expansion, slower rate of growth

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.

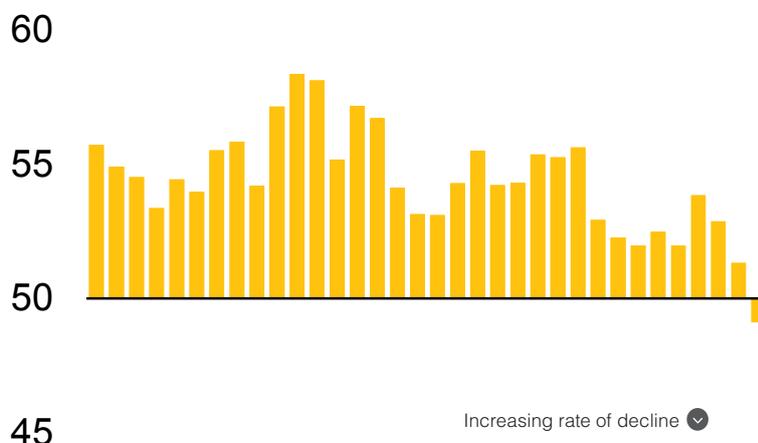
The seasonally adjusted Commonwealth Bank Composite Output Index slipped from 51.3 in January to 49.1 in February, signalled a decline from expansion. The latest reading reflected a deterioration in service sector conditions and slower growth in the manufacturing sector.

Commonwealth Bank Composite PMI®

May 2016 – Feb 2019

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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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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