

# IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

## Service sector contraction slows in September

### Key findings

Business activity and demand decline at milder rates

Expansion of workforce numbers renewed

Price pressures accumulate for Australian service providers

Data were collected 13-28 September 2021.

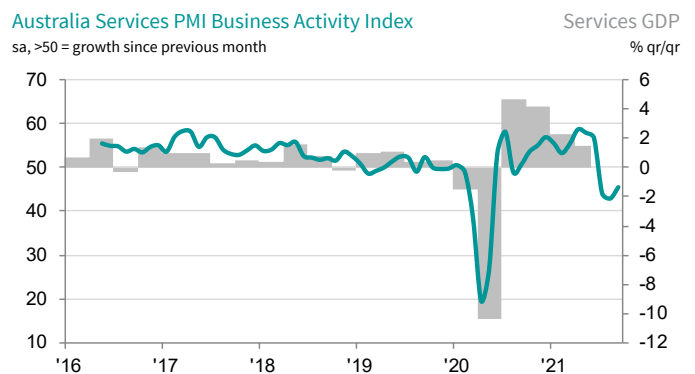
Australia's service sector contracted for a third straight month as COVID-19 lockdowns continued to affect demand and activity in the sector. That said, a slight easing of restrictions in some areas enabled a slower contraction of business activity and saw employment levels return to growth in September. Overall price pressures meanwhile remained steep for service providers while overall optimism softened from August.

The headline figure derived from the survey is the IHS Markit 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 rose to 45.5 in September from 42.9 in August, signalling a sustained contraction of activity. The rate at which business activity declined in the Australia service sector eased to the slowest in the current sequence, however. Panellists widely noted continued dampening of activity amid COVID-19 restrictions, although some easing of which enabled a slight turnaround in the situation.

Demand likewise fell in September, affected by the COVID-19 lockdowns, although the rate of decline eased in line business activity. This included foreign demand which also posted a third straight month of contraction.

Amid the continued contraction in demand, the level of



Sources: IHS Markit, Australian Bureau of Statistics.

backlogged work fell once again in September and at a faster rate compared to August. Anecdotal evidence suggested that cancellations of existing orders also contributed to lower levels of work outstanding.

That said, Australian service providers remained generally optimistic with regards to output in the next 12 months, even as business confidence eased slightly from August. Firms were hopeful that the COVID-19 situation will improve and enable further growth in business activity. This view, coupled with the improvements in business conditions seen alongside easing of some curbs on activity, led to a renewed growth of service sector employment levels.

Price pressures continued to build amid ongoing COVID-19 disruptions. Input price inflation accelerated in September as firms in the service sector experienced higher costs across a range of categories. This translated to higher output charges, which rose at the fastest rate since June as firms continued to pass on higher costs to clients.

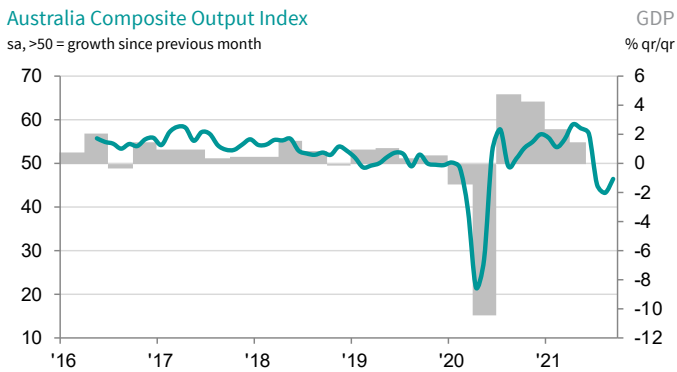
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## IHS Markit Australia Composite PMI®

## Slower contraction for private sector firms

## Australia Composite Output Index

sa, &gt;50 = growth since previous month



Sources: IHS Markit, Australian Bureau of Statistics.

The Composite Index\*, which measures combined services and manufacturing output, rose to 46.5 in September from 43.3 in August. Indicating a third straight month of contraction, the rate of decline eased to the slowest in the sequence, however.

Demand and output in the manufacturing sector returned to growth following the drop in August while the service sector contracted at a milder rate in September. A slight easing of restrictions and better adaptation to ongoing COVID-19 conditions among manufacturers enabled the improvement.

Expansion of workforce numbers was also seen in September after a brief decline in August with growth of service sector employment levels renewed. Private sector firms remained broadly upbeat with regards to the 12-month outlook for production and business activity.

On prices, both input cost and output price inflation accelerated for private sector firms and this was across both manufacturing and service sectors. Manufacturing input prices and output charges both increased at record rates, underpinned by the considerable supply-side constraints that are afflicting goods producers.

*\*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

## Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

*“The recent contraction of the Australian service sector eased in September according to the latest IHS Markit Australia Services PMI. Furthermore, even as new orders and business activity remained in contraction, business sentiment remained positive while employment levels returned to expansion.*

*“Price pressures however worsened in September, sustaining the double whammy on the service sector alongside the COVID-19 disruptions that had affected services to a far greater extent compared to manufacturing.*

*“IHS Markit expects the Australian economy to grow by 3.3% in 2021 with vaccination rates expected to hit targets into end 2021 to provide a recovery in economic activity following the strict COVID-19 containment measures seen in Q3 2021.”*

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### Survey methodology

The IHS Markit Australia Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

### Survey dates and history

September data were collected 13-28 September 2021.

Survey data were first collected May 2016.

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### Flash vs. final data

Flash services data were calculated from 80-90% of final responses. Flash composite data were calculated from 80-90% of final responses.

Since May 2016 the average difference between final and flash Services Business Activity Index values is 0.0 (0.7 in absolute terms). Since May 2016 the average difference between final and flash Composite Output Index values is 0.0 (0.6 in absolute terms).

### About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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### About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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