News Release

Embargoed until 0900 AEDT 3 November 2021

IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Service sector returns to expansion in October

Key findings

New orders and output return to growth as lockdowns ease

Input price inflation accelerates

Business confidence improves in October

Growth of Australia’s service sector was renewed in October as COVID-19 lockdowns eased. Business activity and new orders both saw their first expansion in four months. Employment levels continued to rise in line with higher demand. Cost pressures persisted with input price inflation worsening, though Australian service providers remained broadly optimistic that things will continue to improve with the easing of restrictions.

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 51.8 in October from 45.5 in September, signalling an expansion of activity from a state of decline. The rate at which business activity increased was moderate and broadly in line with the survey average since 2016. Panellists widely noted the lifting of COVID-19 lockdowns underpinned the improvement in economic conditions.

Demand likewise improved for the first time since June, which was prior to when the latest COVID-19 Delta wave struck the Australian service sector hard. Service providers reflected the easing of COVID-19 restrictions in October enabled an increase in demand for services. Foreign demand for Australia services, however, remained in contraction with border restrictions still in place.

Growth in new orders meanwhile invited Australian service providers to continue expanding their operating capacity with employment levels rising for a second consecutive month in the sector. That said, anecdotal evidence suggested some labour constraints were present with firms unable to acquire labour or losing staff as a result of vaccination policies.

Backlogged work meanwhile continued to decline, though the rate of decline was marginal. Both an improvement in the ability to fulfil outstanding work as lockdowns eased and lingering COVID-19 impact were listed as reasons for the drop by panellists.

On prices, both input costs and output prices continued to increase in the Australian service sector. While input cost inflation accelerated to a three-month high, output prices rose at a marginally slower rate in October. Both sub-indices nevertheless continued to indicate persistent price pressures for Australian services firms and their clients, attributed to increases in input material, transportation and labour costs.

Overall business confidence improved in October to a level slightly above the series average (since 2016) as firms viewed the coming 12 months with greater optimism that business activity will continue to improve as COVID-19 restrictions gradually ease.

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Output returns to expansion with easing of restrictions

The Composite Index*, which measures combined services and manufacturing output, rose sharply to 52.1 in October from 45.5 in September. This indicated a renewal of private sector output growth following a three-month period of contraction.

Demand and output in the service sector followed manufacturing back into expansion in October, helped by the lifting of COVID-19 lockdowns in Australia. This contributed to the improvement in overall output and new orders in the private sector.

Expansion of workforce numbers likewise continued across both manufacturing and services, though the rates of growth eased slightly in comparison with September. Some instances of labour constraints were reported across sectors as firms attempted to expand their operating capacity to meet demand.

On prices, manufacturing sector input cost and output charge inflation accelerated to record paces amid ongoing supply constraints. While services input prices likewise rose at faster speeds, they were passed on at a slower rate to customers, offsetting some of the pressure from the manufacturing sector in the composite tally. That said, overall price pressures remained steep by historical standards, but firms across both sectors emerged more optimistic with regards to future output in October.

*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.
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
October data were collected 12-27 October 2021.
Survey data were first collected May 2016.

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