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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Sustained upturn in services activity in January

Key findings

Further upticks in activity and new business

Fastest rise in employment since May 2019

Business optimism remains strong

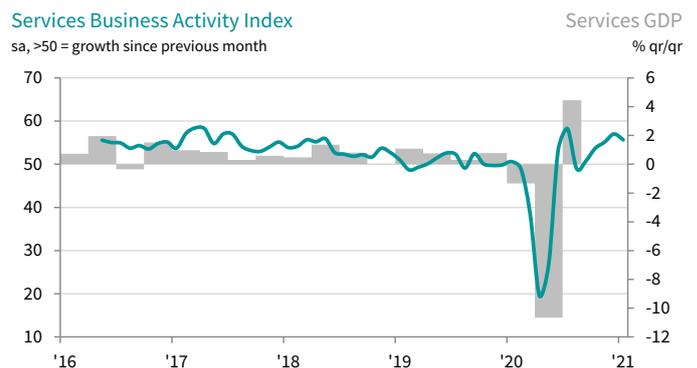
Data were collected 12-27 January 2021.

The upturn in the Australian service sector continued into January, as business conditions continued to improve following lockdown restrictions throughout 2020. Strong growth rates were sustained in both business activity and new business inflows. Improved demand conditions spurred service sector firms to increase job creation at the fastest pace for 20 months in January. Businesses also remained confident regarding the outlook for activity over the coming 12 months.

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.

At 55.6 in January, the seasonally adjusted Business Activity Index eased from 57.0 in December, signalling a continued strong increase in activity. The latest reading extended the current sequence of expansion to five months. Panellists commented that the resumption of projects placed on hold by the coronavirus disease 2019 (COVID-19) pandemic along with the reopening of interstate border boosted activity.

This was accompanied by a similar expansion in new business inflows. Despite softening slightly from December, new business rose at a strong pace overall. Survey respondents often attributed this to new clients as well as an easing in COVID-19 restrictions. Moreover, stronger demand stemmed



Sources: IHS Markit, Australian Bureau of Statistics.

from domestic markets, with export orders declining for the twelfth month in a row, as international restrictions remained in place.

Amid reports of higher demand and output requirements, Australian service providers expanded their workforce for the third month in a row. Firms increased employment levels at the fastest pace since May 2019. That said, the additional capacity allowed firms to make progress in reducing outstanding business. Backlogs fell for the sixth successive month, as firms opted to fulfil existing orders before starting on new projects.

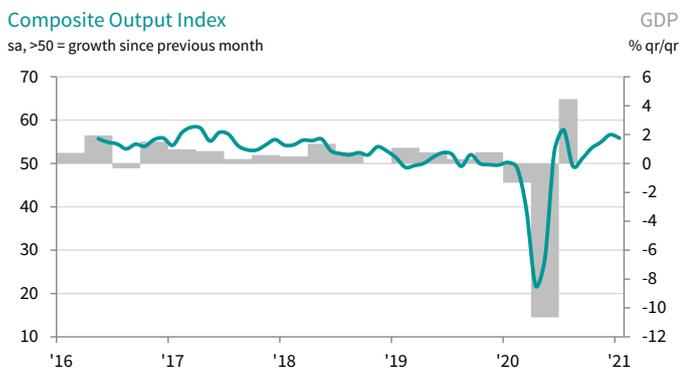
Input price inflation intensified in January, as average cost burdens rose for the eighth month running. Though the pace of growth softened slightly from December, input prices increased at a strong pace overall. Higher cost burdens were linked to increased freight and fuel costs, as well as greater wage costs. As a result, firms partially passed higher cost burdens on to clients, as prices charged for Australian services rose at the fastest pace since April 2018.

Finally, business confidence regarding activity over the coming year. While optimism softened from December, expectations for an expansion remained robust overall. Positive sentiment was underpinned by sustained improvements in business conditions as the pandemic faded, notably with a further easing in international restrictions.

continued...

IHS Markit Australia Composite PMI®

Upturn in private sector output continues in January



The Composite Index*, which measures combined services and manufacturing output, eased from 56.6 in December to 55.9 in January, indicating a strong, sustained expansion in private sector business activity.

Ongoing growth was driven by an acceleration in manufacturing output, and supported by further increases in services business activity. Despite softening slightly from December's three-and-a-half year high, new business inflows rose for the fifth month running, and at a strong pace overall. The rise in services new orders was strong, while manufacturing orders growth was marked overall.

Aggregate employment in the Australian private sector increased for the third month in a row in January, with job creation reported in both services and manufacturing sectors. The pace of expansion was modest, but the fastest since February 2019. Greater capacity contributed to a further fall in outstanding business as businesses were able to work through existing orders.

Inflationary pressures intensified at Australian private sector firms in January. Input prices rose for the eighth consecutive month, and at a marked pace overall due to higher raw material and freight costs. Increased cost burdens led to private sector firms raising output charges for the third month running. The rate of inflation was moderate, though still the fastest recorded since October 2018.

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, a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"Latest PMI data pointed to a sustained recovery in business conditions in the Australian service sector at the start of 2021. Both activity and new business recorded further strong expansions in January, with firms citing the lifting of interstate restrictions and resumption of projects on hold due to the COVID-19 pandemic."

"Companies in the service sector were thus encouraged to increase workforce numbers in the latest survey period, with the latest rise in employment levels the third in succession. Moreover, the increase was the sharpest seen since May 2019."

"Business sentiment also remained elevated at the start of the new year, supported by expectations that an improvement in the pandemic situation, particularly lifting international restrictions, would trigger a broad recovery in service sector activity and the wider economy."

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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

January data were collected 12-27 January 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

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