

NEWS RELEASE: Embargoed until 09:00 (AEDT) 5 February 2020

Services activity growth signalled by PMI at start of 2020



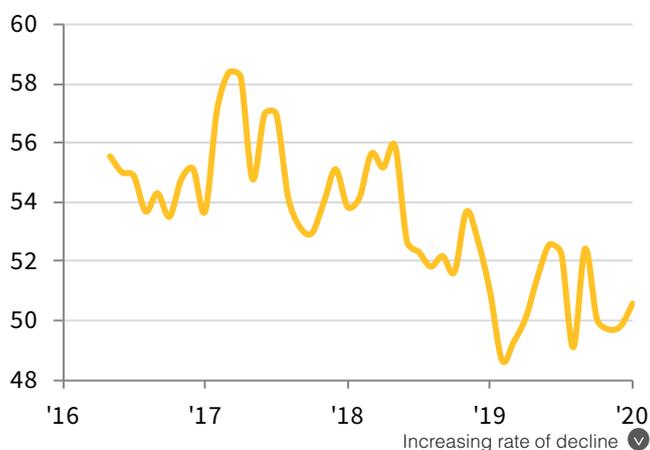
Key findings

Latest PMI data showed a recovery in Australian service business activity at the start of the year, led by accelerated order book growth. Export services also rose further while firms added more workers in January as backlogs of work continued accumulating. Business confidence strengthened to a four-month high. On the price front, inflationary pressures were solid, with the rise in output prices quickening, driven by greater demand for services.

Commonwealth Bank Services PMI[®] May 2016 – Jan 2020

(50 = no change on previous month)

Increasing rate of growth 



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 rose from 49.8 in December to 50.6 in January, indicating a slight increase in the level of activity for the first time in three months.

Summary

Business Activity	Value	Interpretation
Jan-20	50.6	Expansion, change of direction
Dec-19	49.8	Contraction, slower rate of decline

The health of the service sector improved at the beginning of the year, as indicated by a return to growth of business activity following two months of decline. While output was higher, the rate of increase in services activity was marginal, restricted by bushfires in some parts of Australia, according to anecdotal evidence.

Demand conditions also strengthened, which was reflected not only by a further rise in total new orders, but that growth was the fastest for seven months and solid overall. Higher sales were also partially supported by rising export businesses, which increased for a second straight month in January. Order book growth added to workloads. The level of outstanding business continued to rise in the month and at the quickest rate since September.

Increased backlogs, greater hiring and planned expansions contributed to a rise in employment at the start of the year, with the rate of increase the fastest since last August. Greater output meanwhile enhanced the pricing power of firms. Prices charged for Australian services were raised at the fastest pace for three months in January amid another solid, albeit slower, increase in business costs. Higher expenses were linked to higher prices for fuel and increased wages.

Finally, longer-term prospects also improved. The Future Output Index, a measure of sentiment, rose to the highest since September last year. Optimism was mainly connected to planned capital investments, business expansions, government infrastructure spending, higher sales forecasts and new marketing strategies. Some firms however expressed concerns about the negative impact on activity of bushfires and the coronavirus outbreak in China.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Jan-20	50.2	Expansion, change of direction
Dec-19	49.6	Contraction, faster rate of decline

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.

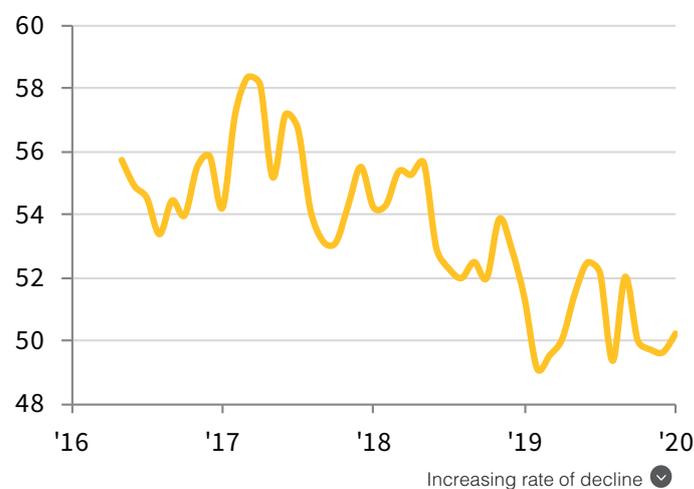
The seasonally adjusted Commonwealth Bank Composite Output Index rose from 49.6 in December to 50.2 in January, indicating an increase of private sector business activity for the first time in three months at the start of the year. The latest reading primarily reflected renewed growth in services business activity as manufacturing output declined at a survey-record rate.

Commonwealth Bank Composite PMI®

May 2016 – Jan 2020

(50 = no change on previous month)

Increasing rate of growth 



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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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