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IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Services activity upturn quickens in March

Key findings

Further gains in activity and new business

Sustained expansion in employment levels

Business optimism remains strong

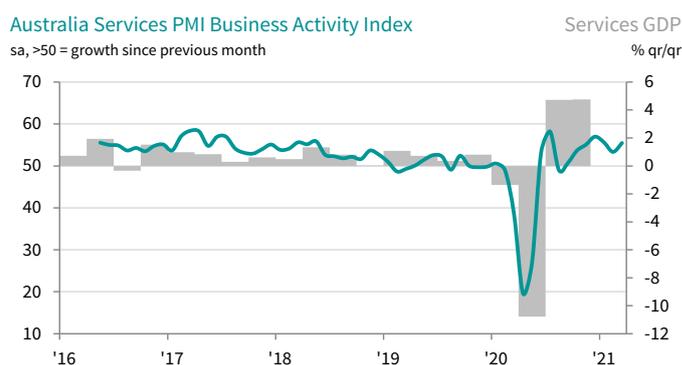
Data were collected 12-29 March 2021.

The upturn in the Australian services sector continued at the end of the first quarter of 2021. Business conditions improved further in March, as both activity and new business expanded at quicker rates than those seen in February. Stronger demand conditions encouraged service providers to increase employment levels for the fifth consecutive month. Businesses also remained confident that activity would continue to rise 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.

The seasonally adjusted Business Activity Index rose from 53.4 in February to 55.5 in March, signalling a continued sharp increase in activity. The latest reading extended the current sequence of expansion to seven months. Panellists noted that the easing of coronavirus disease 2019 (COVID-19) restrictions had provided a further boost to activity.

This was accompanied by a similarly faster expansion in incoming business inflows. New business received by Australian service providers rose at a sharp pace overall, with survey members often attributing this to the release of pent-up demand following the easing of COVID-19 measures. That said, strict international border restrictions remained in place, which led to new export orders falling for the fourteenth month in a row.



Sources: IHS Markit, Australian Bureau of Statistics.

Firms in the Australian services sector expanded employment levels for the fifth month running in the latest survey period, amid reports of higher output and demand requirements. Though easing from the series record reported in February, the pace of job creation was solid overall. Moreover, evidence of pressure building on capacity was apparent in the latest data, with the level of outstanding business increasing at the fastest pace since January 2020.

Input price pressures intensified during March, as average cost burdens faced by Australian service providers rose for the tenth month in succession. Though the pace of growth softened slightly from the previous survey period, input prices increased at a robust pace overall. Higher cost burdens were commonly attributed to higher costs of raw materials, as well as greater wage costs. As a result, firms partially passed higher cost burdens on to clients, as average prices charged for Australian services rose for the fifth month in a row. That said, the rate of inflation was the softest recorded for three months.

Finally, business confidence regarding the outlook for activity over the coming year remained at high levels. While the degree of optimism was the softest since August 2020, expectations for an expansion remained marked. Positive sentiment was underpinned by sustained improvements in business conditions as the pandemic receded, aided by a successful vaccination program and the lifting of international border restrictions.

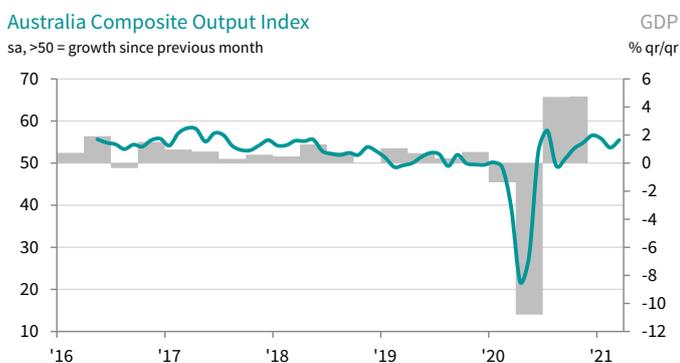
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IHS Markit Australia Composite PMI®

Private sector output growth quickens in March

Australia Composite Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, Australian Bureau of Statistics.

The Composite Index*, which measures combined services and manufacturing output, increased from 53.7 in February to 55.5 in March, indicating a sharper upturn in private sector activity.

Growth was driven by sustained expansions in manufacturing output and services activity during March. Growth in the larger services sector accelerated in comparison to February, while manufacturing output was broadly unchanged, and sharp overall. Incoming business also rose, with the pace of expansion the quickest reported for three months.

Stronger demand conditions encouraged private sector firms to increase aggregate employment levels for the fifth consecutive month in March, with job creation reported in both the manufacturing and services sectors. That said, the rate of job creation softened from February's series record, but remained solid overall. Despite greater capacity, private sector firms noted that the level of outstanding business rose at the quickest pace since July 2019.

Inflationary pressures remained at Australian private sector firms in March. Input prices increased at a series record pace, surpassing the previous record set in February. Businesses widely commented that rising input prices were the result of higher raw material and wage costs. Increased cost burdens led to private sector businesses raising output charges for the fifth time in as many months in March. The rate of inflation was broadly unchanged from February and was moderate overall.

*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, Usamah Bhatti, Economist at IHS Markit, said:

"March PMI data pointed to an ongoing upturn in business condition in the Australian service sector throughout the first quarter of 2021. Both activity and new business recorded further sharp expansions in March, with firms noting that the continued easing of COVID-19 restrictions had boosted client confidence across much of the services economy.

"Businesses in the sector were buoyed to continue expanding employment levels, with the latest rise the fifth in as many months. The pace of job creation remained solid, although softened from the record increase recorded in February.

"Business sentiment also remained elevated in the latest survey period, supported by expectations that the pandemic situation would continue to improve, as the final restrictions related to international borders were lifted. Moreover, businesses were hopeful that a successful vaccination program would further boost 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

March data were collected 12-29 March 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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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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