

NEWS RELEASE: Embargoed until 09:00 (AEST) 3 May 2018

Business activity grows markedly in April.



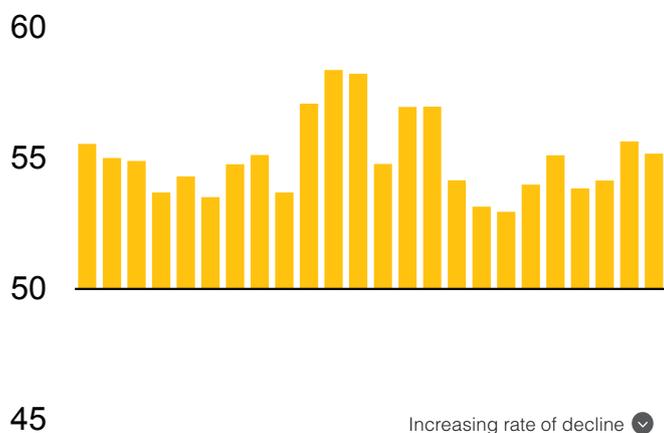
Key findings

A strong expansion in Australian service sector activity was recorded at the start of the second quarter. Employment growth edged up to a seven-month high amid another month of marked new business growth. Greater staffing levels helped ease capacity pressures, but also contributed to a rise in operating costs, encouraging firms to increase selling charges. Overall, business confidence remained firmly positive.

Commonwealth Bank Services PMI[®] May 2016 – April 2018

(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 posted 55.2 in April, down from 55.6 in March, to signal a strong, albeit marginally softer, pace of expansion in service sector output.

Summary

Business Activity		Interpretation
Apr-18	55.2	Expansion, slower rate of growth
Mar-18	55.6	Expansion, faster rate of growth

The marked improvement in output was supported by strong inflows of new business. Increased marketing activity and new contract wins were reported to have boosted demand during April. The pace of expansion in new work, albeit slightly weaker, was broadly in line with the seven-month high observed in February.

In order to manage current and future influxes of new business, Australian service providers recruited additional staff during April. The rate of job creation quickened to a seven-month high and was solid overall.

Nonetheless, robust demand continued to test operating capacities in the Australian service sector, with backlogs of work rising further in April. That said, the rate of accumulation was only modest and eased to the weakest since November last year.

At the same time, higher payroll numbers led to an increase in cost burdens, according to survey respondents. Wage bills increased due to pay rises and new job hires. There were also reports of higher utility costs.

In response, Australian service providers raised selling charges. Panellists suggested that strong demand conditions had enabled them to pass on to their clients part of the rise in input prices.

A confident outlook towards future output was maintained during April, with 67% of panellists expecting activity to increase over the coming 12 months. Planned new marketing initiatives and forecasts of further improvements in demand were linked to positive sentiment.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Apr-18	55.3	Expansion, slower rate of growth
Mar-18	55.4	Expansion, faster rate of growth

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 posted 55.3 in April, down from 55.4 in March. The latest figure pointed to a strong, albeit fractionally weaker, pace of expansion in Australian private sector output growth.

Comment

Commenting on the Commonwealth Bank Services and Composite PMI data, CBA's Chief Economist, Michael Blythe, said:

"Australia's services sector was humming at the start of Q2. The headline index may have declined a little in April, but the index level is pointing to strong expansion."

Mr Blythe added:

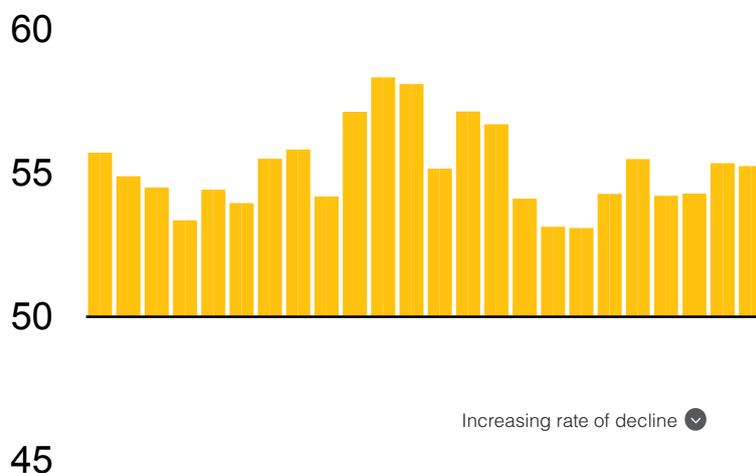
"Strong growth in business is supporting jobs growth. But it is also allowing services firms to pass on some of the impact of rising input prices. Survey respondents are still highlighting the impact of higher energy costs, and they are reporting that wages bills are lifting as workforces expand and pay levels lift."

Commonwealth Bank Composite PMI®

May 2016 – April 2018

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

For further information, please contact:

Commonwealth Bank of Australia

Lisa Macnamara

Group Corporate Affairs
Institutional and Business Banking
Telephone +61 2 9118 6919
Email media@cba.com.au

IHS Markit

Joe Hayes

Economist
Telephone +44 1491 461 006
Email joseph.hayes@ihsmarkit.com

Bernard Aw

Principal Economist
Telephone +65-6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia

Marketing and Communications
Telephone +65 6922-4239
Email jerrine.chia@ihsmarkit.com

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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