

NEWS RELEASE: Embargoed until 09:00 (AEST) 5 June 2018

# Service sector growth picks up to ten-month high.



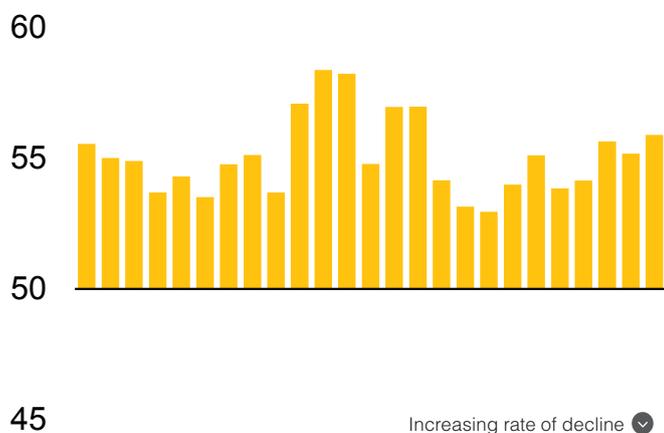
## Key findings

Australia's services activity continued to grow markedly in May. New business inflows increased at a strong pace, encouraging firms to raise workforce numbers. Additional staff hires were also reported to have been one of the factors driving up input costs. To offset this, firms took advantage of robust demand conditions and raised selling prices. Concurrently, business confidence remained firmly positive.

### Commonwealth Bank Services PMI<sup>®</sup> May 2016 – May 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 55.9 in May, rising from 55.2 in April, signalling the strongest rate of growth in service sector output since July 2017.

## Summary

Business Activity		Interpretation
May-18	55.9	Expansion, faster rate of growth
Apr-18	55.2	Expansion, slower rate of growth

According to anecdotal evidence, the upturn in business activity was driven by increased order book volumes. Survey data indicated a strong rise in new business during May amid successful marketing initiatives and new client wins. However, the expansion in new work was the weakest since January, having slowed for a third consecutive month.

The strong influx of new business also weighed on capacities across the Australian service sector. Backlogs of work increased in May, with the rate of accumulation quickening for the first time since February.

To accommodate for higher demand, firms improved output capabilities by hiring extra employees. Job creation has been observed in every month since data collection began over two years ago. However, the rate of employment growth was only moderate and slowed for the first time since January.

Overall sentiment towards future activity remained firmly positive in May, with 62% of the survey panel expecting output to rise over the coming 12 months. Forecasts of a general economic improvement, new customer wins and planned marketing campaigns were mentioned by panellists that foresee growth. The degree of confidence, albeit marked, was the softest since June 2016.

Lastly, on the price front, input cost inflation accelerated to a five-month high amid reports of higher labour, fuel and utility expenses. Some survey respondents noted that demand conditions were resilient enough to withstand higher prices and as such, passed greater cost burdens onto their clients. Nevertheless, output prices were hiked at the softest pace in ten months.

## Commonwealth Bank Composite PMI<sup>®</sup>

	Output	Interpretation
May-18	55.6	Expansion, faster rate of growth
Apr-18	55.3	Expansion, slower 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 edged up to 55.6 in May, from 55.3 in April, to signal a stronger rate of growth in private sector output. The upturn was led by service providers, while manufacturers observed a slower rise in production.

## Comment

Commenting on the Commonwealth Bank Services and Composite PMI data, CBA's Senior Economist, Gareth Aird, said:

*"The strongest reading on the services sector in 10 months is a particularly welcome result. Activity has accelerated and confidence is elevated which bodes well for both employment and output growth."*

Mr Aird added:

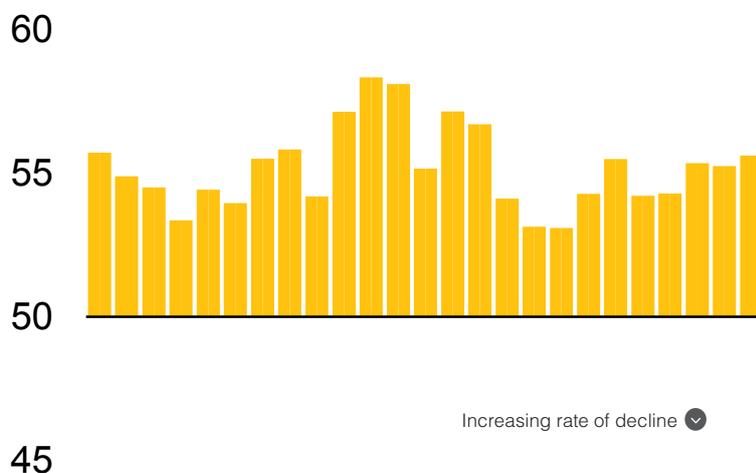
*"Not for the first time, firms have reported a lift in input costs, which accelerated to a five-month high. Output prices are also moving higher, though not at the same rate. This suggests some margin compression. Firms will look to pass this on in time if demand remains firm. As such, we may see consumer inflation lift a little from here."*

## Commonwealth Bank Composite PMI<sup>®</sup>

May 2016 – May 2018

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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**About Commonwealth Bank Services PMI<sup>®</sup> and the Purchasing Managers' Index<sup>™</sup> 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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