

NEWS RELEASE: Embargoed until 09:00 (AEST) 3 August 2017

Fastest rise in new work and employment for three months.



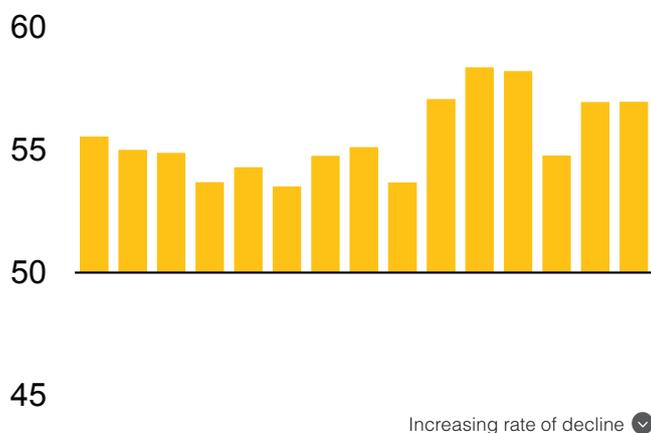
Key findings

The Australian service sector continued to expand markedly during July. Activity rose at an unchanged rate, while new work increased to the highest degree in three months. Capacity remained under pressure, however, with backlogs rising further. That led to further gains in employment. Price data showed accelerated rises in both input costs and output charges, whilst business confidence remained highly positive.

Commonwealth Bank Services PMI[®] May 2016 – July 2017

(50 = no change on previous month)

Increasing rate of growth 



The headline figure derived from the survey is the Commonwealth Bank 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 was unchanged at a reading of 57.0 in July. At this level, the index is indicative of strong growth and extends the current period of expansion to 15 months, with the latest increase again above the average for that period.

Summary

Business Activity		Interpretation
Jul-17	57.0	Expansion, unchanged
Jun-17	57.0	Expansion, faster rate of growth

Supporting the latest rise in business activity was a further uptick in levels of incoming new work. Amid reports of a positive economic climate, firmer demand and successful promotional work, the rate of growth in new business was the best recorded for three months.

A similar trend was seen for employment in July, with service providers adding to their workforce numbers to the greatest degree since April. Rising workloads at units was the principal reason underpinning growth in employment.

Higher capacity helped to restrict backlog accumulation during the latest survey period. Whilst levels of work outstanding continued to increase, marking a fifteenth successive month of growth, the rate of expansion was the slowest recorded by the survey since the start of 2017.

With employment levels continuing to rise, and reports of higher wages being paid, anecdotal evidence suggested that operating expenses related to the service sector workforce increased. Moreover, suppliers were reported to be passing on their own price rises. The net impact was a strong rate of input price inflation that was the highest recorded by the survey to date.

Efforts to protect margins were subsequently bolstered during the month. This was reflected by an acceleration in output price inflation to a modest pace.

Finally, with around two-thirds of the survey panel indicating expectations for a rise in activity over the coming 12 months, business confidence remained high. Optimism was linked to hoped for improvements in demand, planned new products and higher marketing activities, plus expected organic company growth.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Jul-17	56.7	Expansion, slower rate of growth
Jun-17	57.2	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 weakened slightly in July, but remained well above the 50.0 no-change mark to signal strong growth of the combined output of the manufacturing and service sectors. Posting 56.7, the index was only slightly down on June's 57.2.

Comment

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

“The dominant services sector remains in very good shape. Not only are services generating strong growth in activity and jobs, but these trends are expected to continue.”

Mr Blythe added:

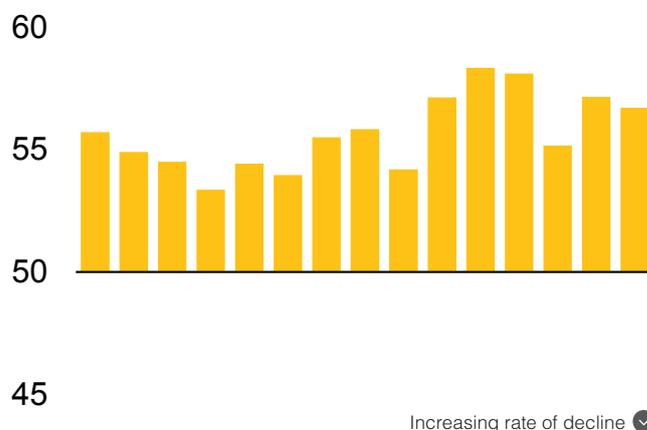
“Strong growth is bringing with it some new problems for business. Some panellists are reporting capacity pressures with a flow on to wages and operating costs. Input costs are up as a result. Strong demand is allowing higher costs to be partly reflected in prices charged. Businesses need to remain focused on productivity improvements and capacity expansion as a way of dealing with these challenges.”

Commonwealth Bank Composite PMI®

May 2016 – July 2017

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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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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