

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

Service sector activity rises strongly in March.



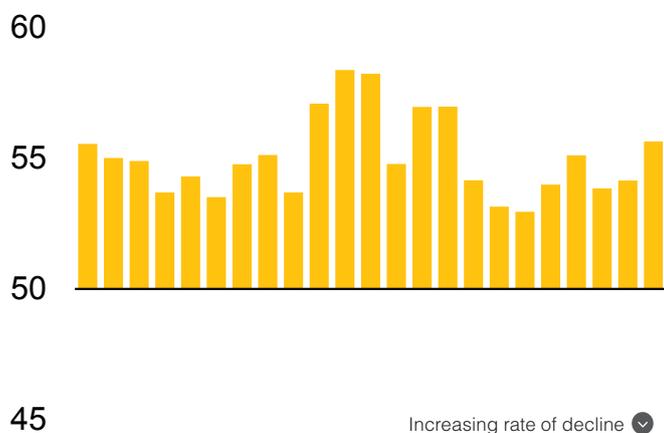
Key findings

Australian services activity expanded strongly and at the fastest pace in eight months during March. New orders grew markedly, leading to a further accumulation of backlogs of work. To accommodate for greater workloads, businesses recruited additional staff at the sharpest rate since September 2017. In turn, employment growth contributed to another month of rising costs, prompting selling charge hikes.

Commonwealth Bank Services PMI[®] May 2016 – March 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 increased to 55.6 in March, from 54.2 in February, signalling the sharpest rate of output growth in eight months.

Summary

Business Activity		Interpretation
Mar-18	55.6	Expansion, faster rate of growth
Feb-18	54.2	Expansion, faster rate of growth

Supporting the latest rise in service sector activity was a similarly-strong gain in new business. According to anecdotal evidence, demand from both new and existing clients was greater during March. The rate of new order growth was broadly in line with the seven-month high observed in the previous survey month.

Rising sales tested operating capacities, as evidenced by another increase in outstanding business. Backlogs of work have risen in each month since the survey began in May 2016. That said, the rate of accumulation eased to a four-month low in March and was slightly weaker than the series average.

In line with elevated demand, Australian service providers hired additional staff to cope with the additional workload. In fact, the rate of job creation accelerated to a six-month high, with some panellists expecting further improvements in new business inflows.

However, expanded employment boosted operating costs, according to panellists. Input prices rose sharply during March amid reports of increased wage bills. Furthermore, firms noted that strong input demand enabled suppliers to raise their prices. In turn, service providers increased output charges to share part of the greater cost burden with their clients.

Lastly, business sentiment remained strongly positive during March, with firms anticipating activity to benefit from a broader improvement in the economic climate. Almost two-thirds of survey participants forecast output growth over the coming 12 months.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Mar-18	55.4	Expansion, faster rate of growth
Feb-18	54.3	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 increased to 55.4 in March from 54.3 in February, to indicate a strong rate of private sector activity growth. While output expanded at a faster pace in the service sector, production growth at manufacturers softened to a six-month low.

Comment

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

"Australia's pivotal services sector remained in great shape in the first quarter of 2018, continuing the momentum seen at the end of 2017. Business activity is strong, supported by a rapid expansion in new business, and expectations for the year ahead remain elevated."

Mr Blythe added:

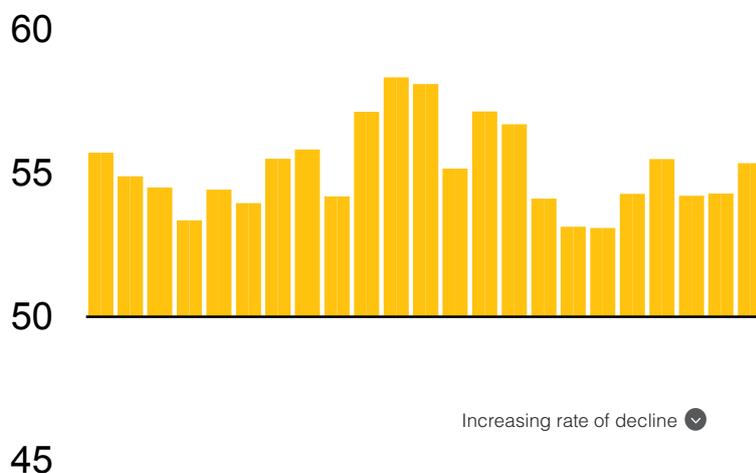
"Strong activity is flowing through to labour demand. Panellists are also indicating that strong labour demand is boosting salaries, and that other input costs are also rising. The survey results indicate that service firms are taking advantage of robust demand conditions to pass on this increased cost burden."

Commonwealth Bank Composite PMI®

May 2016 – March 2018

(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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