

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

Service sector output growth eases to survey low.



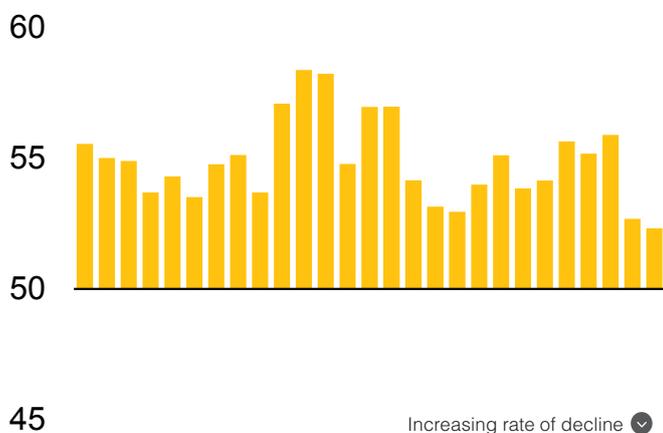
Key findings

The Australian service sector observed a further month of cooling business activity growth during July. Amid reports from panellists of softer demand from both domestic and foreign clients, output increased at the weakest pace since the survey began in May 2016. Slowing growth momentum also weighed on business confidence, which dipped to a 25-month low. Nonetheless, backlogs of work continued to be accumulated, prompting a solid increase in staff levels.

Commonwealth Bank Services PMI[®] May 2016 – July 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 dipped further in July to 52.3, from 52.7 in June, indicating the weakest rate of growth in service sector output since the survey was inception in May 2016.

Summary

Business Activity		Interpretation
Jul-18	52.3	Expansion, slower rate of growth
Jun-18	52.7	Expansion, slower rate of growth

Overall, service sector business activity rose to a modest degree in July. However, weakening demand and faltering market sentiment reportedly weighed on output growth. Survey data signalled new business rising at the weakest pace in six months amid reports of increased competition and fewer sales to both domestic and international customers.

Despite slower output growth, around 60% of firms were optimistic that business activity would continue to rise over the coming year. Planned expansions into new markets and positive sales forecasts were cited as reasons underpinning confidence. That said, sentiment eased to the weakest in just over two years, with some panellists projecting slower economic growth.

Nonetheless, demand conditions remained sufficiently strong to increase capacity pressures. Backlogs of work rose for a twenty-seventh successive month in July, but the rate of accumulation was the weakest since August last year. Concurrently, firms hired extra staff to boost output capabilities. The rate of job creation was solid overall, despite easing slightly.

Increased labour costs were a principal factor driving up operating expenses in July, according to panellists. Higher wages and fuel costs subsequently led to the sharpest rise in input prices for 11 months. As part of efforts to protect profitability, service sector companies raised output prices for the first time since May. Overall, the rate of charge inflation was moderate.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Jul-18	52.3	Expansion, slower rate of growth
Jun-18	52.9	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 posted 52.3 in July, down from 52.9 in June to signal a moderate expansion in private sector output. However, the rate of growth eased to a new survey low, having softened in each of the past two months.

Comment

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

"The slowing in services activity evident around mid-year continued into the early part of Q3. As with the earlier Manufacturing PMI, however, services firms maintain a positive view on the outlook for the year ahead and are still hiring in anticipation of rising demand."

Mr Blythe added:

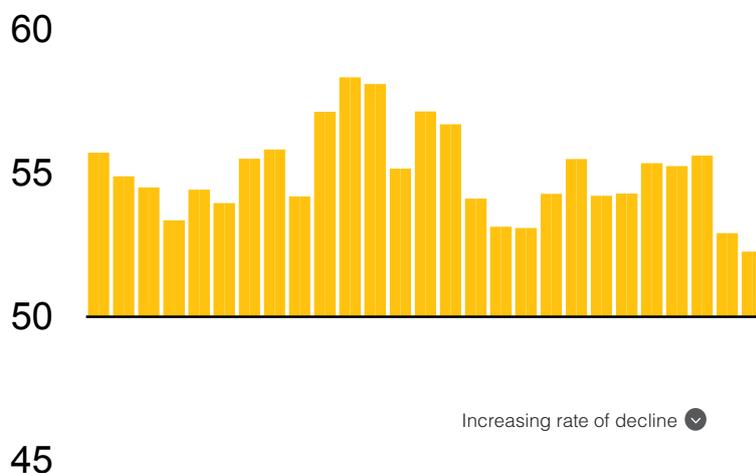
"The other parallel with the manufacturing PMI is rising input prices flowing through to prices charged. Higher fuel prices is part of the story. But survey respondents are now 'frequently' reporting higher wages and labour costs as well."

Commonwealth Bank Composite PMI®

May 2016 – July 2018

(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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