

NEWS RELEASE: Embargoed until 09:00 (AEDT) 4 January 2018

Activity growth accelerates to five-month high.



Key findings

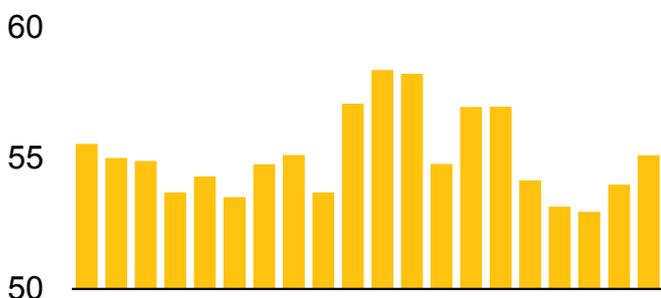
Output growth in the Australian service sector gathered further momentum during December, with the pace of expansion accelerating to the quickest since July. New orders grew at a slightly faster pace, while the rate of backlog accumulation accelerated to a seven-month high. However, confidence eased to the lowest since May, while job creation slowed. Meanwhile, output price inflation climbed to a survey peak, reflecting increased input costs.

Commonwealth Bank Services PMI[®]

May 2016 – December 2017

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

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 in December to 55.1, from 54.0 in November, to indicate a strong rate of growth that was the fastest since July.

Summary

Business Activity		Interpretation
Dec-17	55.1	Expansion, faster rate of growth
Nov-17	54.0	Expansion, faster rate of growth

Higher business activity was linked to the beginning of new project work by some panellists. Others mentioned that order receipts had been favourable during December. Indeed, new business placed with Australian service providers rose. The rate of expansion quickened for the second month running to the most pronounced since September. Firms attributed stronger demand to a positive economic environment and successful tendering.

Greater order book volumes exerted pressure on operating capacity however. Outstanding business increased markedly and at an accelerated rate that was the highest since May.

Despite the marked rise in unfinished work, businesses hired additional staff at a weaker pace during December. Nonetheless, the rate of job creation was broadly in line with the series average.

Supportive demand conditions encouraged firms to raise selling prices. Output charge inflation edged higher, accelerating to the fastest rate in the 20-month survey history. Concurrently, input costs increased to a sharper extent amid reports of greater labour expenses. Furthermore, some panellists were impacted by the recent implementation of the container deposit scheme.

Business optimism was retained overall during December, but the degree of confidence moderated to a seven-month low. Nonetheless, the majority of panellists (65%) anticipated output to rise over the coming 12 months, attributing the positive outlook to planned company expansions and growth forecasts.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Dec-17	55.5	Expansion, faster rate of growth
Nov-17	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 from 54.3 in November to 55.5 in December, to signal a strong and quickened rate of output growth across the Australian private sector. Furthermore, the upturn was the fastest since July.

Comment

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

"The combination of strong and rising services activity at the end of 2017 indicates that the Australian economy will enter 2018 with a respectable momentum behind it. Robust readings in the New Business Index and the Business Expectations Index support this view".

Mr Blythe added:

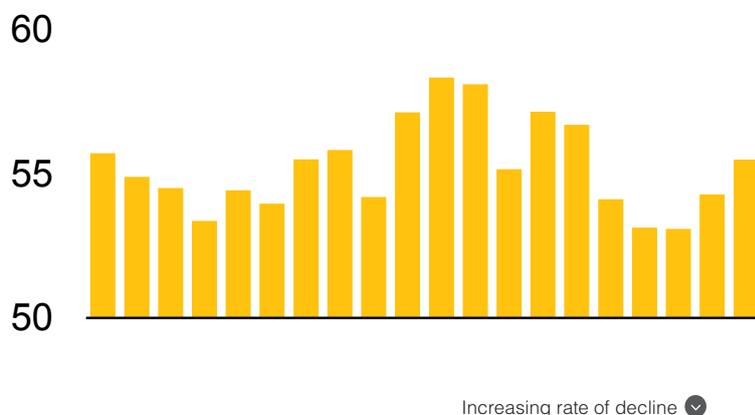
"The large lift in the Outstanding Business Index at the end of 2017 suggests capacity constraints are biting more sharply. The robust demand reported by panellists that is driving capacity pressures is putting pressure on labour costs and output prices. These developments will bear careful watching."

Commonwealth Bank Composite PMI®

May 2016 – December 2017

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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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