

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

Stronger demand supports faster growth of activity in June.



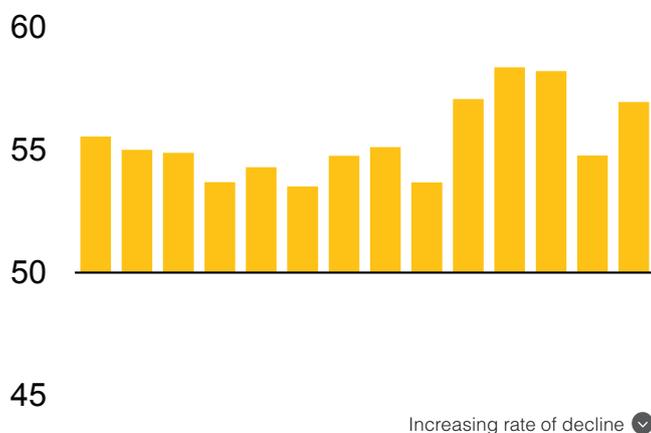
Key findings

Australia's service sector remained comfortably inside expansionary territory during June. Both activity and new business rose at stronger rates, whilst increased workloads encouraged companies to take on additional staff. Although input costs continued to rise, inflation was the lowest in 14 months, and companies raised their own charges marginally. Buoyed by trends in demand, optimism regarding the future hit a new survey high.

Commonwealth Bank Services PMI[®] May 2016 – June 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.

June's headline index improved to 57.0, up from 54.8 in May. Signalling a faster increase in activity, the latest index reading also indicated a greater rate of growth than the 14-month series average.

Summary

Business Activity	Value	Interpretation
Jun-17	57.0	Expansion, faster rate of growth
May-17	54.8	Expansion, slower rate of growth

A combination of improved marketing and greater demand were reported to have underpinned growth of activity. Incoming new business rose at a faster rate, supported by generally better market conditions and success from aforementioned promotional work.

Rising volumes of new orders tested company capacity. This was highlighted by the latest survey showing another round of backlog accumulation, although the latest growth was the lowest recorded by the survey since January.

A number of service providers commented that labour shortages had also led to growth in backlogs. Companies where possible added to their workforce numbers, the net result being a further rise in overall service sector employment. The rate of growth was solid and slightly faster than seen in May.

Skill shortages and increased demand for staff helped to push up wages and subsequently overall operating costs in June. With suppliers also reported to be raising prices, overall input costs faced by Australian service sector companies continued to rise. However, the rate of inflation was the lowest since the start of the survey in May 2016. Similarly, output charges rose at a slower pace as competitive pressures weighed on pricing power according to panellists.

Finally, companies retained a high degree of confidence regarding future activity. The latest survey showed that exactly 70% of the survey panel are forecasting growth in the coming year. Organic company expansion, better economic conditions and increased marketing are all expected to bolster activity over the coming 12 months.

Commonwealth Bank Composite PMI[®]

	Output	Interpretation
Jun-17	57.2	Expansion, faster rate of growth
May-17	55.2	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 improved to 57.2 in June, up from 55.2 in May. The manufacturing and service sectors both recorded stronger growth in activity during the month, in both instances driven higher by increased levels of incoming new work.

Comment

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

“Much of the recent growth in the Australian economy reflects a buoyant services sector. The ongoing positive Services PMI readings tells us that the services sector will remain a key driver. Together with strongly positive readings from the Manufacturing PMI, the Australian economy appears to be in respectable shape as at mid-year”.

Mr Blythe added:

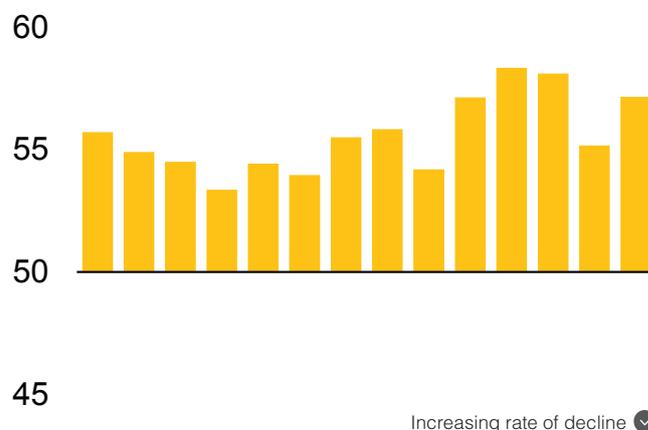
“Some service providers noted skill shortages and increased demand for labour were impacting on wages growth. A pick up in wages growth from current very low rates would help the key consumer part of the Australian economy. These pressures are yet to show in output prices. But it adds to other signals warning that our very benign inflation backdrop will not continue indefinitely.”

Commonwealth Bank Composite PMI[®]

May 2016 – June 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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