

NEWS RELEASE: Embargoed until 09:00 (AEST) 5 September 2017

# Slower service sector growth signalled in August.

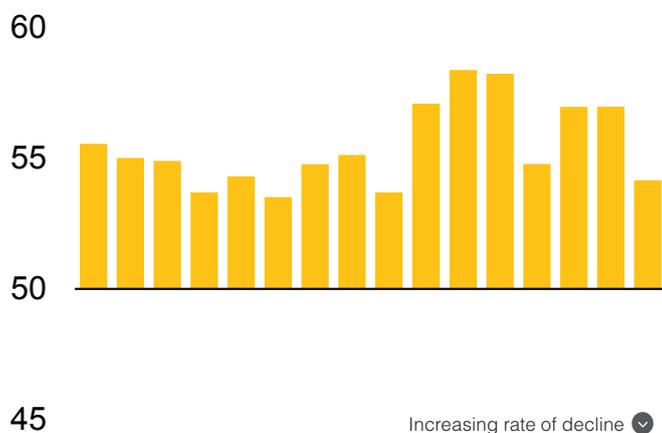
## Key findings

Activity levels in the Australian service sector continued to rise in August, but at the slowest rate since the start of 2017 as new business growth also weakened. However, companies continued to add to their workforce numbers at a noticeable rate, which enabled them to broadly keep on top of their workloads. Latest data showed operating costs continuing to increase, which led to the strongest rise in output prices recorded by the survey since July 2016.

### Commonwealth Bank Services PMI<sup>®</sup> May 2016 – August 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.

August's seasonally adjusted Business Activity Index dropped to a level of 54.2, down from 57.0 in July. Although indicative of a solid expansion of the sector that maintained the trend of rising activity seen throughout the survey history to date, the latest index reading was the lowest recorded since January.

## Summary

| Business Activity | Value | Interpretation                   |
|-------------------|-------|----------------------------------|
| Aug-17            | 54.2  | Expansion, slower rate of growth |
| Jul-17            | 57.0  | Expansion, unchanged             |

The weaker increase in activity was linked in part to slower growth of incoming new business. Whilst companies continued to indicate that the economic climate remained broadly positive, which enabled them to secure new contracts, the rate of growth in new work was the slowest recorded by the survey to date.

Service providers continued to add to their workforce numbers during August, in line with the trend seen throughout the survey history. The rate of growth also matched July's three-month high as firms responded to increased bookings, higher enquiries and further gains in new work by boosting employment.

Whilst enabling companies in the main to keep on top of overall workloads – backlogs of work were up only slightly in August – higher employment was also reported to have pushed up average operating costs for service providers. The latest survey data showed operating expenses rising sharply and at a pace that was only slightly lower than July's survey high.

Pressure on margins subsequently encouraged firms to raise their own charges during the month. The result was the strongest increase in average output charges recorded by the survey since July 2016.

Finally, despite slipping to a three-month low, business confidence amongst Australian service providers remained high. Client demand is expected to improve further in the next 12 months, underpinned by organic market growth, the planned introduction of new product ranges and improved marketing.

## Commonwealth Bank Composite PMI®

|        | Output | Interpretation                   |
|--------|--------|----------------------------------|
| Aug-17 | 54.1   | Expansion, slower rate of growth |
| Jul-17 | 56.7   | 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 remained above the 50.0 no-change mark during August for a sixteenth month in succession. However, falling for a second successive month to reach a ten-month low of 54.1, down from 56.7 in July, the index signalled a slowdown in the rate of expansion.

## Comment

Commenting on the Commonwealth Bank Services and Composite PMI data, Gareth Aird, Senior Economist at the Commonwealth Bank, said:

*“Australia’s services sector is in good health. Employment growth, in particular, is indicative of expansion in the sector.”*

Mr Aird added:

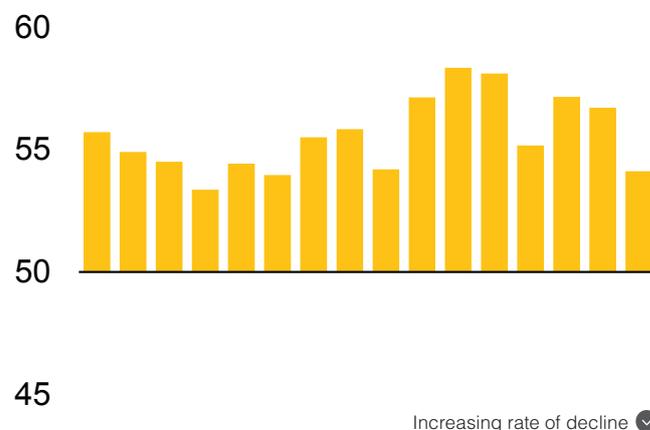
*“The pullback in the headline index is a little disappointing, but the broader trends remain encouraging. The sharp lift in operating expenses is being offset by an increase in prices charged. This suggests that demand growth has picked up. And it should exert some upward pressure on the inflation pulse of the economy.”*

## Commonwealth Bank Composite PMI®

May 2016 – August 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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