

NEWS RELEASE: Embargoed until 09:00 (AEST) 4 October 2018

Business activity continues to rise at weak pace.



Key findings

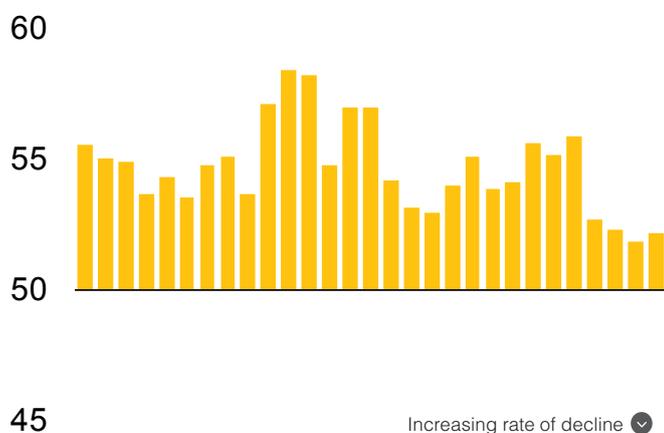
Business activity continued to expand in September, but the rate of increase remained relatively sluggish, picking up only slightly from August's recent low. New orders rose, but again, the rate of expansion was historically weak. Nonetheless, operating capacities were expanded, with employment growth edging up to a five-month high. Greater staff levels were reported as a factor driving input costs up, motivating firms to raise output charges.

Commonwealth Bank Services PMI[®]

May 2016 – September 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 in September to 52.2, from August's survey-low of 51.8, indicating stronger expansion of Australia's service sector. That said, as has been the case since June, the rate of growth was relatively soft and notably weaker than the long-run average.

Summary

Business Activity		Interpretation
Sep-18	52.2	Expansion, faster rate of growth
Aug-18	51.8	Expansion, slower rate of growth

Output has risen in each month throughout the survey's near two-and-a-half year history. The slower pace of expansion observed in September came amid reports of underwhelming demand conditions. Indeed, survey data pointed to a similarly-soft pace of increase in new business. Although new contract wins and greater marketing activity supported sales growth, some panellists mentioned building uncertainty and issues caused by the drought had weighed on new business volumes.

Despite muted growth in demand and business activity, Australian service providers enhanced their operating capacities in September by hiring extra staff. Employment grew markedly and at the fastest pace since April. Planned company expansion and forecasts of stronger sales performances underpinned the latest month of job creation. The level of outstanding business increased in September, however. The rate of backlog accumulation was mild, following August's marginal decline in unfinished work.

Amid stronger hiring, staff costs were reportedly a factor pushing up input prices in September. A weaker Australian dollar, increased energy costs and higher charges from suppliers were also cited by surveyed companies. Overall, expenses rose sharply, but to a weaker extent than in August. Efforts to stave off profit margin erosion were evidenced by a further monthly increase in selling charges. The rate of inflation was moderate and broadly in line with the survey average.

Lastly, business confidence remained elevated in September, with planned capacity enhancements, new product launches and positive economic growth projections underpinning optimism.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Sep-18	52.5	Expansion, faster rate of growth
Aug-18	52.0	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.

Having hit a survey low of 52.0 in August, the seasonally adjusted Commonwealth Bank Composite Output Index rose in September to 52.5. This signalled a stronger rate of private sector output growth and reflected accelerated expansions in both manufacturing and service sectors.

Comment

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

"The key services component of the Australian economy is growing at only a modest pace. There has been a clear loss of service sector momentum since mid-year. But still high readings for business expectations about the year ahead suggest activity has hit a pothole rather than started a more serious decline."

Mr Blythe added:

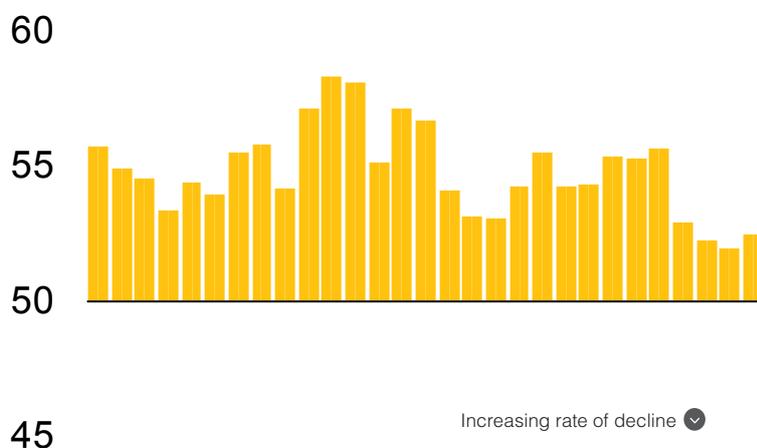
"The slowing reflects a mix of supply and demand factors. Growth in new orders has slowed. But business is reporting that the drought is weighing on growth and competition has increased. Nevertheless, the demand-supply balance is favourable enough to allow business to pass on further rises in salaries and fuel costs into selling prices."

Commonwealth Bank Composite PMI®

May 2016 – September 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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