

NEWS RELEASE: Embargoed until 09:00 (AEDT) 4 October 2017

# Services activity growth weakens further in September.

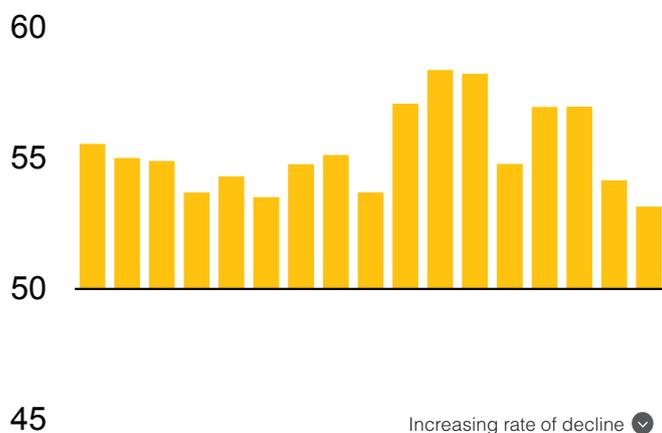
## Key findings

September survey data revealed a further slowdown in Australian service sector business activity growth, with the pace of expansion the weakest seen since the series began in May 2016. However, growth in new orders picked up since August, which supported the strongest increase in employment in 2017 to date. Meanwhile, input prices continued to increase sharply, despite the rate of inflation weakening for the second month in a row.

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

The seasonally adjusted Business Activity Index fell from 54.2 in August, but remained above the crucial 50.0 value at 53.2 in September. This signalled a further expansion in services business activity, though the rate of growth was the weakest seen since data collection began in May 2016.

## Summary

Business Activity	Value	Interpretation
Sep-17	53.2	Expansion, slower rate of growth
Aug-17	54.2	Expansion, slower rate of growth

Although business activity growth moderated to a fresh survey low, new business placed at services companies expanded at a quicker pace at the end of the third quarter. According to panellists, new projects and an improvement in underlying client demand supported increased sales.

Stronger growth in new orders underpinned a further increase in employment at Australian services companies during September. Moreover, the rate of job creation picked up to a solid pace that was the quickest in nine months.

Despite the sustained upturn in staff numbers, capacity pressures persisted in September, as shown by a further rise in backlogs of work. However, the rate of accumulation was moderate overall.

Services companies in Australia signalled a further sharp increase in operating costs at the end of the third quarter. This was despite the rate of input cost inflation softening for the second month running. Anecdotal evidence indicated that a combination of supplier prices hikes and greater labour costs had pushed up overall cost burdens.

As part of efforts to protect their margins, service providers raised their prices charged again in September. The extent to which selling prices increased was solid and similar to that seen in the previous month.

Optimism towards future activity growth strengthened to a three-month high in September. Around two-thirds of monitored companies (67%) expect activity to increase over the next year, with confidence commonly linked to new marketing strategies and forecasts of expanding customer bases.

## Commonwealth Bank Composite PMI®

	Output	Interpretation
Sep-17	53.1	Expansion, slower rate of growth
Aug-17	54.1	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.

Composite PMI data for Australia indicated that overall growth momentum eased for the third month running in September. This was shown by the seasonally adjusted Commonwealth Bank Composite Output Index declining from 54.1 in August to 53.1 in September. Although the rate of expansion was solid, it was the slowest in the 17-month series history.

## Comment

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

"The pace of service sector activity declined during the September quarter. But PMI readings remain at levels consistent with decent growth in the services economy. And the key leading indicator components relating to employment, new business and business expectations remain at elevated levels."

Mr Blythe added:

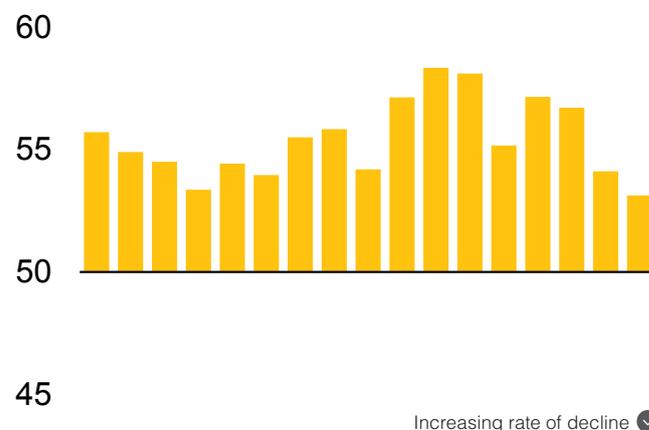
"The services sector is experiencing the same rapid increase in input costs as reported in the Manufacturing PMI. But services have been more successful in passing this cost increase through to prices charged. This outcome suggests that the demand side of the services equation remains resilient".

## Commonwealth Bank Composite PMI®

May 2016 – September 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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