

NEWS RELEASE: Embargoed until 09:00 (AEDT) 3 November 2017

Business activity growth continues to slow in October.

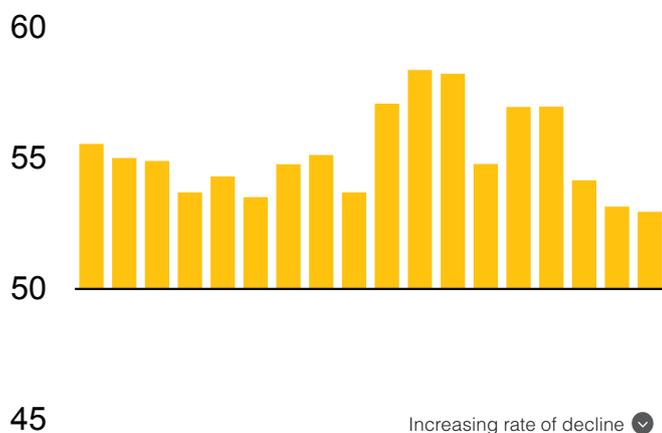
Key findings

Business activity levels in the Australian service sector improved in October, albeit at the weakest pace in the series' 18-month history. That said, output growth remained solid. Meanwhile, a softer upturn in new orders coincided with the slowest rate of job creation since data collection began. Nonetheless, firms reported that demand was strong enough to warrant increases in output prices, as input costs continued to tick-up.

Commonwealth Bank Services PMI[®] May 2016 – October 2017

(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 fell for a third successive month in October to 53.0, from 53.2 in September. This signalled another monthly rise in business activity, although one that was the weakest since data collection began one-and-a-half years ago.

Summary

Business Activity		Interpretation
Oct-17	53.0	Expansion, slower rate of growth
Sep-17	53.2	Expansion, slower rate of growth

Although business activity growth weakened, it remained solid overall. Panel members reported that new contract wins supported the rise in output. Indeed, new orders placed with service providers rose in October. The pace of expansion in new work was strong, despite easing since September.

Concurrently, outstanding work increased further. The rate of accumulation was moderate and broadly similar to September.

Softer growth of new work did not prevent service providers from raising selling prices. According to anecdotal evidence, sustained improvements in demand prompted companies to increase output charges. Moreover, the rate of inflation accelerated to the most marked in the series' 18-month history.

Meanwhile, input prices faced by Australian services firms remained on an inflationary path in October. Survey respondents signalled that higher wage bills underpinned the rise in cost burdens. Albeit sharp, the rate of input price inflation eased for the third consecutive month.

A number of panellists indicated that wages rose in line with difficulties in hiring staff. Staff levels increased in October, but the rate of job creation was the slowest registered since data were first collected in May 2016.

Lastly, a positive outlook regarding future activity levels was maintained in October. Organic growth and new marketing initiatives were cited by companies anticipating growth over the coming 12 months as reasons underpinning optimism.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Oct-17	53.1	Expansion, unchanged
Sep-17	53.1	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.

The seasonally adjusted Commonwealth Bank Composite Output Index remained in expansionary territory in October to indicate an increase in private sector activity. That said, with the index reading unchanged from September's 53.1, the rate of growth was maintained at the joint-slowest in the series' 18-month history.

Comment

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

"The services economy continues to make a solid contribution to activity in the Australian economy. The lift in new business and the elevated level of business expectations is an encouraging sign that the services contribution will continue into year end."

Mr Blythe added:

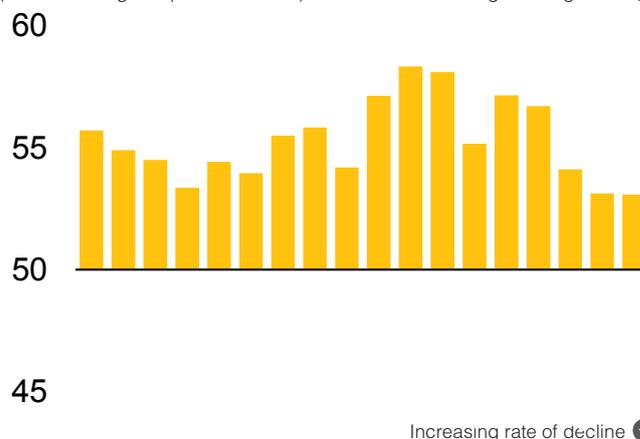
"Services sector readings are off their peaks. This step down, however, does not reflect weakness in demand. Service firms are increasing prices charged at a solid rate on the back of solid demand. Supply issues look more relevant. Some panellists, for example, report difficulties in hiring staff, with a flow on to wage costs."

Commonwealth Bank Composite PMI®

May 2016 – October 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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