

NEWS RELEASE: Embargoed until 09:00 (AEDT) 5 February 2018

Service sector output growth slows to three-month low.



Key findings

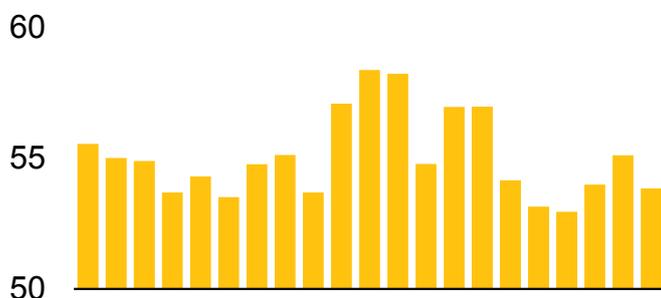
January survey data signalled a slowdown in Australian service sector activity growth, with the pace of expansion easing to a three-month low. Furthermore, both incoming new orders and employment increased to the weakest extents since data collection began 21 months ago. On the price front, output charges rose at the slowest rate since July 2017 amid a softer upturn in input costs.

Commonwealth Bank Services PMI[®]

May 2016 – January 2018

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

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 registered 53.8 in January, down from 55.1 in December, to signal the slowest pace of expansion in Australian service sector output since last October.

Summary

Business Activity		Interpretation
Jan-18	53.8	Expansion, slower rate of growth
Dec-17	55.1	Expansion, faster rate of growth

Although activity growth weakened during January, the upturn was solid overall. Panellists associated higher output with positive economic conditions and new product launches.

Australian service providers also signalled a rise in new business inflows, supported by new contract wins and successful marketing. That said, the rate of new order growth was the least marked since data collection began in May 2016.

Despite a weaker upturn in demand, capacity pressures persisted in January, as shown by a further rise in backlogs of work. The rate of accumulation slowed, but remained strong relative to the series average.

Job creation was sustained in January amid activity growth and increased backlogs of work. That said, in line with a decelerated expansion in new business, employment growth was the weakest observed over the 21-month survey history.

Nonetheless, confidence strengthened in January to a four-month high. Around two-thirds of monitored companies forecast output to rise over the next year, with positive sentiment attributed to planned expansion into foreign markets, organic business growth and new marketing initiatives.

Input cost inflation, albeit strong, slowed markedly in January to a fresh survey low. Firms raised selling prices in efforts to share additional cost burdens with customers. However, output price inflation eased to the slowest since July 2017.

Commonwealth Bank Composite PMI®

	Output	Interpretation
Jan-18	54.2	Expansion, slower rate of growth
Dec-17	55.5	Expansion, faster 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 declined to 54.2 in January, from 55.5 in December, marking the weakest pace of private sector output growth since October 2017.

Comment

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

"The rate of expansion in the Australian services sector slowed a little in early 2018. But service providers remain strongly positive on the outlook for the year ahead. More than two-thirds of respondents expect a lift in activity".

Mr Blythe added:

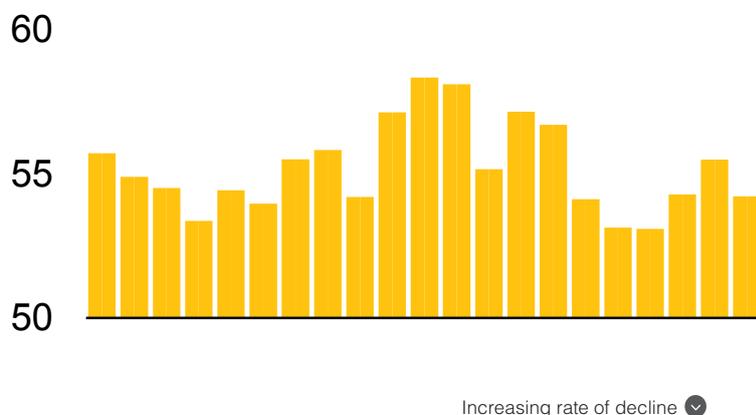
"Despite the slower pace of expansion in January, capacity pressures continued to rise. The Outstanding Business Index, for example, remains well above average levels. These pressures are playing out in a positive way in the labour market and payrolls are expanding with business growth. But, as with the earlier Manufacturing PMI, some panellists are indicating that rising cost burdens are being passed on down the pricing chain".

Commonwealth Bank Composite PMI®

May 2016 – January 2018

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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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