

Embargoed until 0900 AEDT 3 February 2022

IHS Markit Australia Services PMI®

Including IHS Markit Australia Composite PMI®

Services output contracts as Omicron variant hits sector

Key findings

Demand and output fall as COVID-19 situation worsens

Price pressures mount at record rate

Business confidence declines at start of 2022

Data were collected 12-27 January 2022.

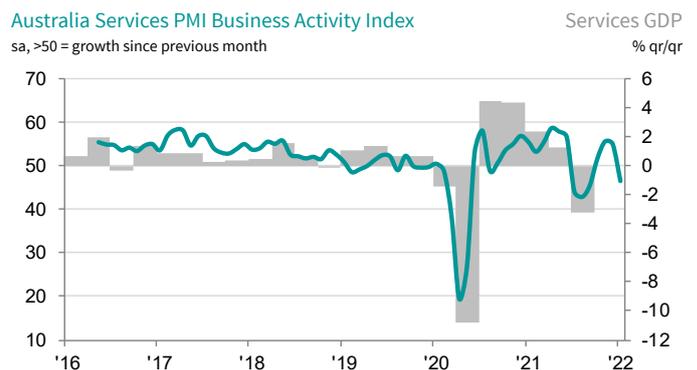
Australia's service sector shrank at the start of 2022, according to the latest IHS Markit PMI™ data. The worsening of COVID-19 conditions in the country led to lower demand and output recorded in January, although service providers continued to expand their workforce. Meanwhile, lingering supply issues caused backlogged work to continue accumulating while prices rose. Overall optimism eased amid COVID-19 uncertainties.

The headline figure derived from the survey is the IHS Markit 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 posted below the 50.0-no change mark at 46.6 in January, down from 55.1 in December 2021, to signal a contraction in service sector activity. This followed three consecutive months of expansion.

The deterioration of COVID-19 conditions in Australia led to demand falling at the start of the year. Fear surrounding the resurgence in COVID-19 cases contributed to lower services consumption. As a result, services output eased sharply with sub-sector data showing Real Estate & Business Services leading the drop. Foreign demand was similarly affected, falling at a faster rate in January.

That said, employment levels remained on the rise as firms



Sources: IHS Markit, Australian Bureau of Statistics.

continued to expand their workforce capacity to cope with workloads. Anecdotal evidence suggested that difficulties in hiring and absenteeism due to COVID-19 limited firms' ability to further increase their workforce numbers.

Backlogged work meanwhile continued to build in January and at a faster rate when compared to December. Panellists reported that COVID-19 disruptions fuelled the growth in work outstanding with the Information & Communication sector seeing the biggest build-up of backlogs.

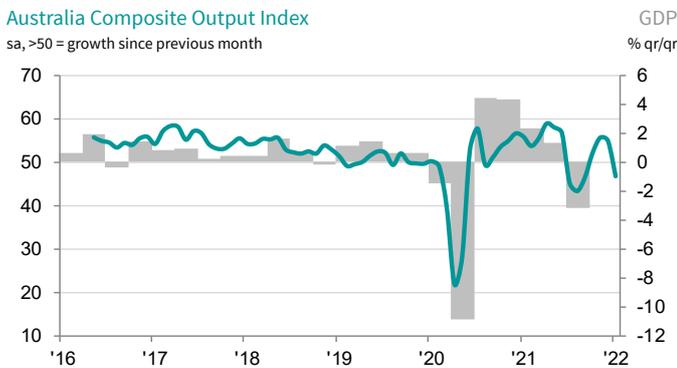
On prices, both input costs and output prices rose at record rates in January to reflect heightened inflationary pressures within the Australian service sector. Survey respondents reported higher prices across a range of categories including input materials, transportation and wages. Sub-sector data indicated that the Consumer Service sector experienced the sharpest increase in selling prices.

Overall sentiment in the service sector stayed positive in December, but business confidence eased sharply to the lowest in twenty-one months. Sentiment within the sector was dampened by uncertainties surrounding elevated COVID-19 case counts.

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IHS Markit Australia Composite PMI®

Private sector output shrank in January

Australia Composite Output Index
sa, >50 = growth since previous month

Sources: IHS Markit, Australian Bureau of Statistics.

The Composite Index*, which measures combined services and manufacturing output, fell to 46.7 in January from 54.9 in December 2021. This indicated a contraction of private sector output following three straight months of expansion in Australia.

Both manufacturing and service sectors output declined in January amid the surge in COVID-19 infections. While demand for Australian manufactured goods stayed resilient, services new orders fell according to the latest survey, weighing on overall demand. Foreign demand was likewise negatively affected.

Expansion of workforce numbers nevertheless continued across both the manufacturing and service sectors, albeit at slower rates with firms facing difficulties in hiring. Consequently, backlogged work accumulated at a faster pace, attributed also to persistent supply chain issues.

Price pressures meanwhile worsened, particularly in the service sector, leading to overall input costs and output prices rising at record rates. Survey respondents cited higher raw materials costs, transportation fees and wages contributing to the increase in prices.

Overall sentiment remained positive across both the manufacturing and service sectors in January, though the level of optimism eased across both sectors with concerns of the negative COVID-19 impacts.

**Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

“The surge in COVID-19 cases heavily impacted business confidence in the service sector, leading to lower demand and a sharp decline in activity. That said, employment conditions remained resilient in the face of the Omicron wave with firms indicating their desire to keep hiring.

“Supply issues meanwhile snowballed amid the worsening of COVID-19 conditions. Staff absenteeism, delivery delays and material shortages led to further accumulation of backlogged work, thus reflecting capacity constraints even as demand eased.

“Price pressures in the service sector also worsened because of constraints, which remains a trend worth watching moving forward. This is particularly so given the risk of inflation worsening with the unleashing of pent-up demand following the recovery from the Omicron COVID-19 wave.”

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Survey methodology

The IHS Markit Australia Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Survey dates and history

January data were collected 12-27 January 2022.

Survey data were first collected May 2016.

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Flash vs. final data

Flash services data were calculated from 80-90% of final responses. Flash composite data were calculated from 80-90% of final responses.

Since May 2016 the average difference between final and flash Services Business Activity Index values is 0.0 (0.7 in absolute terms). Since May 2016 the average difference between final and flash Composite Output Index values is 0.0 (0.6 in absolute terms).

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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