

# News Release

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## S&P Global Australia Services PMI<sup>®</sup>

### Service sector expansion slows amid record high selling price inflation

#### Key findings

Marginal growth in activity and new business...

...amid record rate of output price inflation

Business sentiment dips to a 27-month low

The Australian service sector continued to improve in July, but at the slowest rate in the current positive sequence, according to the latest S&P Global PMI<sup>®</sup> data. Both activity and new business grew at the softest rates in six months amid reports of interest rate hikes and inflationary pressures dampening overall demand conditions. Similarly, new export business growth eased to the slowest in five months. Workforce expansion continued into July despite continued mentions of staff shortages by some firms. Meanwhile, Australian service sector firms noted a rise in spare capacity, as indicated by a renewed decline in the level of outstanding work. Turning to prices, severe inflationary pressures remained as the rate of increase in prices charged surged to a survey peak. Overall business sentiment dipped to a 27-month low.

The seasonally adjusted S&P Global Australia Services PMI<sup>®</sup> Business Activity Index posted at 50.9 in July, down from 52.6 in June. The index has now posted above the 50.0 no-change threshold for six months in a row, signalling a sustained sequence of services sector improvement. Activity expansion was reportedly driven by steady demand, said panellists. That said, the rate of growth was only marginal and the slowest in the current positive sequence.

In line with the aforementioned, new business expanded in July, but at a rate that was only marginal and the softest in the current six-month sequence of expansion. Interest rate hikes and inflationary pressures reportedly weighed upon the strength of July's upturn. Similarly, growth in foreign demand for Australian services eased to a five-month low amid reports of lingering COVID-19 disruption in key export markets.

Amid growing new business volumes, Australian service sector firms increased their staffing levels for an eleventh month running. That said, the rate of workforce expansion eased from June, with survey respondents continuing to report voluntary resignations, difficulties in hiring, and

S&P Global Australia Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.  
Data were collected 11-27 July 2022.

#### Comment

Laura Denman, Economist at S&P Global Market Intelligence, said:

*"Latest S&P Global PMI<sup>®</sup> data brought about mixed feelings regarding the current and future health of the Australian service sector. On one hand, the economy recorded a sixth month of overall expansion in business activity and new business. However, both increased at marginal rates that were the slowest in their respective sequences. With firms reporting that interest rate hikes and sustained inflationary pressures were dampening overall demand, July's record high selling price inflation certainly presents itself as a further downside risk to sector health in the near future.*

*"Furthermore, staffing levels have continued to expand for an eleventh straight month in July, but firms are continuing to cite staff shortages and difficulties in hiring new workers. As a result, Australian service sector firms are beginning to raise wages to attract and maintain employees. Should firms pass on the additional costs to clients, we may see even higher output price inflation."*

PMI<sup>®</sup>

by S&P Global

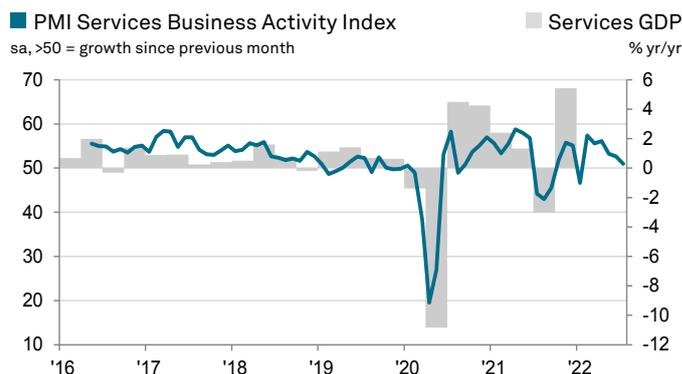
overall labour shortages.

Concurrently, July data pointed to greater spare capacity across Australian service sector firms, as signalled by a renewed decline in backlogged work. Anecdotal evidence suggested that softer demand pressures allowed firms to tackle outstanding work.

On prices, input cost inflation remained significant and among the steepest on record. Firms reportedly raised wages in a bid to attract and maintain workers. Supplier price increases, including costs of freight, electricity and raw materials also drove high input cost inflation in July, according to panel members.

Amid a continued market recovery and rising market demand, firms continued to partly pass on increasing input cost burdens to clients. Selling price inflation surged to a survey-record high at the start of the third quarter.

Finally, optimism remained across the Australian service sector as firms hoped for sustained COVID-19 recovery and effective product launches. That said, the degree of confidence slipped to the lowest since April 2020. Anecdotal evidence highlighted concerns towards future sales performances, further interest rate hikes and the rising cost of living.



## S&P Global Australia Composite PMI®

### Private sector growth continues to ease in July

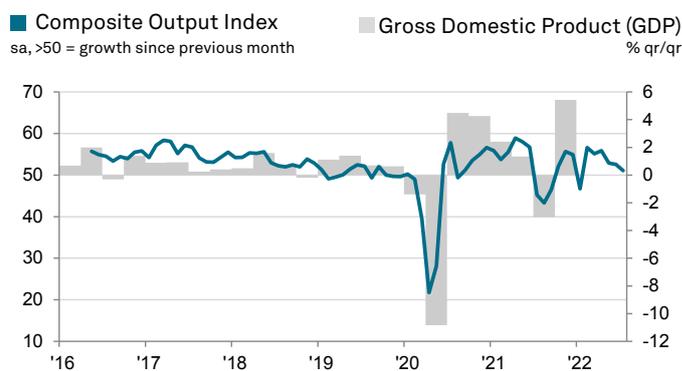
The Composite Output Index posted 51.1 in July, down from 52.6 in June to signal a mild increase in overall output. Notably, the upturn was the softest recorded over the current six-month positive sequence.

Similarly, composite demand growth eased to a six-month low, reflecting a slower rise in new orders across Australia's service sector. Interest rate hikes and the rising cost of living dampened overall demand, according to some survey respondents.

Total private sector employment expanded in July and was supported by both monitored sectors. That said, the strength of the upturn eased from June amid reports of voluntary leavers and staff shortages.

Meanwhile, inflationary pressures remained severe in July, with input cost inflation remaining historically elevated and selling price inflation surging to a fresh record high.

Concerns surrounding prices and future demand levels led business sentiment to slip to a 27-month low.



\*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

■ Manufacturing PMI Output Index  
■ Services PMI Business Activity Index  
 sa, >50 = growth since previous month



Source: S&P Global.

Australia Services PMI Input Prices Index  
 sa, >50 = inflation since previous month



Source: S&P Global.

### Survey methodology

The S&P Global Australia Services PMI™ is compiled by S&P Global 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. Data collection began in May 2016.

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.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### Flash vs. final data

Since May 2016 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

### About S&P Global

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