

News Release

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S&P Global Australia Services PMI[®]

Service sector growth continued to soften in August

Key findings

Business activity expanded at slowest rate in seven months

Rates of input price inflation continue to ease

Lowest level of business confidence since April 2020

The overall health of Australia's service sector improved for a seventh consecutive month in August, but at a rate that was the slowest in the current positive sequence. A further softening in business activity growth was recorded in August as overall demand levels expanded only marginally. Job creation continued for a twelfth consecutive month though at the slowest pace in seven months. At the same time, inflationary pressures eased from the record highs recorded earlier in the year. That said, the degree of confidence continued to weaken with overall business sentiment at the lowest level since the start of the COVID-19 pandemic.

The seasonally adjusted S&P Global Australia Services PMI[®] Business Activity Index posted at 50.2 in August, down from 50.9 in July. The index posted above the 50.0 no-change mark for a seventh month running signalled another period of expansion in Australia's service sector. The rate of growth, however, was the slowest in the current sequence.

Volumes of new business increased in August but again only marginally (despite growth strengthening). Anecdotal evidence suggested that increasing tourist volumes and a sustained COVID-19 recovery helped to strengthen overall demand conditions. Improvements in the tourism industry also reportedly contributed to an acceleration in the growth of new export business in August. Firms that registered weaker sales and activity frequently mentioned that inflationary pressures and recent interest rate hikes were weighing on demand.

August data pointed to spare capacity within the Australian service sector as indicated by a second consecutive decline in backlogs of work. Moreover, the rate of contraction was the sharpest in 11 months amid reports that subdued demand growth allowed firms to focus on working through outstanding work.

Meanwhile, employment levels rose in August, stretching the current sequence of job creation to one year. The rate

S&P Global Australia Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-26 August 2022.

Comment

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

“August’s sluggish expansion in business activity was a sign that inflationary pressures and recent interest rate hikes were weighing on sales. Despite accelerating slightly from July, latest survey data indicated that new business growth remained only slight and below the historical average. This has led to growing uncertainty amongst firms towards future economic conditions as business sentiment dipped to levels not seen since April 2020, the beginning of the pandemic. Anecdotal evidence also suggested that firms remain hugely worried about inflationary pressures and the negative impacts on demand those will have on their businesses over the coming year.”

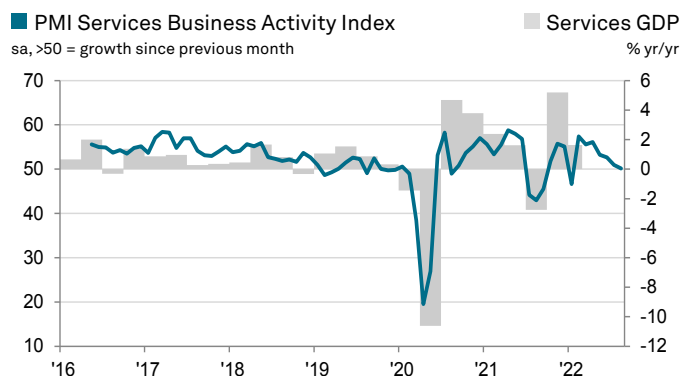
PMI[®]

by S&P Global

of expansion, however, was the slowest in seven months. Survey respondents linked overall workforce expansion to current demand and production conditions though some firms reportedly cut numbers of casual workers.

Turning to prices, August data pointed to a slight easing in inflationary pressures. Rates of both input and output cost inflation continued to ease from the survey peaks recorded in earlier months but remained historically sharp. Panellists frequently linked higher wages to input cost inflation - rising prices of transport, energy, and supplier goods in general were also cited. Reportedly, firms continued to reflect increasing input cost burdens in the form of higher selling prices.

Amid hopes for a sustained COVID-19 recovery, new product launches and upcoming expansion plans, the Australian service sector remained optimistic towards the 12-month outlook on output in August. That said, the degree of confidence remained well below the historical average and at the lowest since April 2020. Concerns surrounding the impacts that recent interest rate hikes and current inflationary pressures will have on future economic conditions were frequently cited by survey respondents as reasons to be downbeat.



S&P Global Australia Composite PMI®

Marginal private sector growth in August

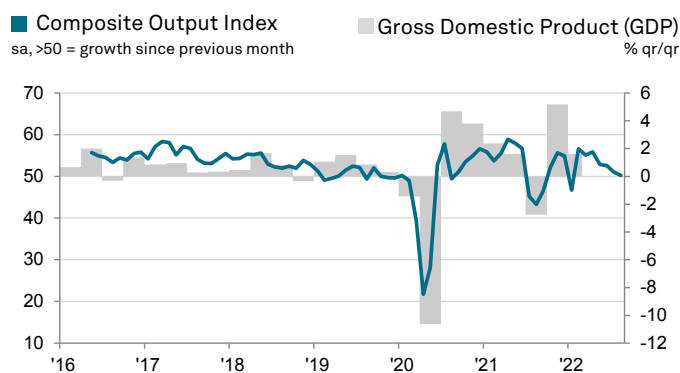
The Composite Output Index posted 50.2 in August falling from 51.1 in July. Despite signalling a seventh consecutive month of improvement in Australia's private sector economy, the rate of growth was the slowest in the current positive sequence and was only fractional.

Firms who registered lower output levels frequently mentioned that recent interest rate hikes and current inflationary pressures were weighing on demand. That said, composite demand continued to expand in August at a rate ever so slightly quicker than July.

Staffing levels continued to increase into August though the pace of job creation eased to a seven-month low.

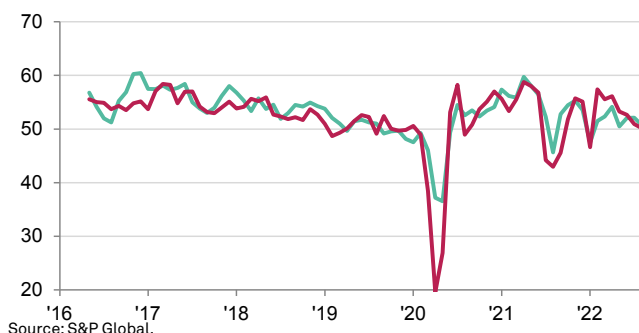
Despite remaining historically sharp, inflationary pressures softened in August with the rates of both input and output cost inflation dipping to six-month lows.

Overall business sentiments across Australia's private sector remained positive but were at the lowest since April 2020.



*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



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.

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).

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