News Release

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S&P Global Australia Services PMI®

Weaker demand mixes with capacity constraints to push service sector further into contraction

Key findings

New business shrinks at quicker pace in November

Cost pressures intensify for firms

Business confidence deteriorates further

S&P Global Australia Services Business Activity Index

sa, >50 = growth since previous month

Source: S&P Global.

Data were collected 11-28 November 2022.

Australian service sector performance worsened in November, with activity hit by an adverse combination of weak demand and capacity limitations. Challenging economic conditions and flooding issues dragged new orders lower midway into the fourth quarter, likewise also negatively affecting business confidence. Meanwhile supply and manpower issues persisted even as firms continued to hire. Concurrently, input costs continued to rise sharply for service providers in Australia.

The seasonally adjusted S&P Global Australia Services PMI® Business Activity Index posted at 47.6 in November, down from 49.3 in October. This marked a second consecutive month in which the PMI remained below the 50.0 neutral level to signal sustained contraction. Furthermore, the rate at which services activity shrank was the fastest since January.

Demand for Australian services fell in November and at the sharpest pace in over a year. Survey respondents frequently linked the fall in new orders to a weaker economic backdrop, flooding issues and as a result of rising interest rates. Foreign demand performed no better, similarly declining for a second straight month.

While softer economic conditions had a part to play, pushing sales lower, service providers also cited capacity issues as a reason for the decline in activity. Despite firms hiring at an above-average pace in November, as they sought to re-establish pre-pandemic workforce levels, instances of labour shortages continued to be reported. Sub-sector data showed that firms in the consumer services sector hired at the fastest pace among those tracked. Moreover, vendor performance also deteriorated amid supply chain issues, input and manpower constraints.

Meanwhile, price pressures continued to build for firms in the Australian service sector. Input prices rose at the fastest pace in three months as steeper wages and fuel

Comment

Jingyi Pan, Economics Associate Director at S&P Global Market Intelligence, said:

"The latest PMI data indicated that Australian service providers were facing a multitude of pressures on their businesses in November emanating from weak demand, capacity pressures and cost inflation. As a result, poorer services performance dragged on overall private sector output.

"These issues have further affected sentiment in the private sector, especially services with the level of business confidence amongst service providers at the third lowest on record. Overall, firms were the least upbeat on the 12-month outlook since April 2020.

"The concern is that the elevated price pressures may keep the central bank on the tightening path for longer, adding on to the tensions for firms from slowing domestic and global growth."

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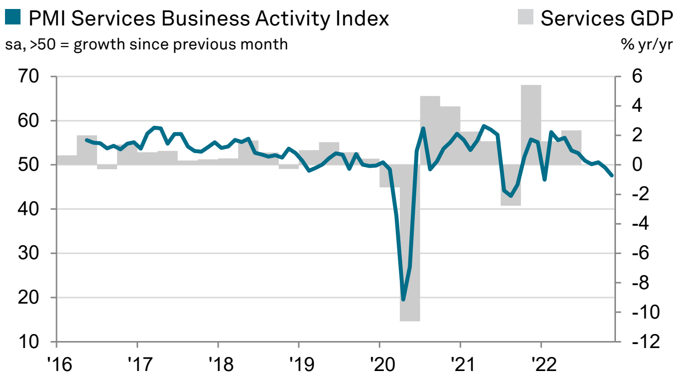
costs contributed to higher overall operating expenses. Prices climbed the quickest within the information & communication sector.

In turn, firms shared their increased cost burdens with customers in November, though the rate at which they were able to pass on these costs slowed from October as downstream demand waned.

Finally, the overall level of business confidence eased to the third lowest on record. While firms were broadly hopeful for better business performance in the year ahead, some found it challenging to navigate the weaker economic backdrop amid supply issues.



Sources: S&P Global, Australian Bureau of Statistics.

S&P Global Australia Composite PMI®

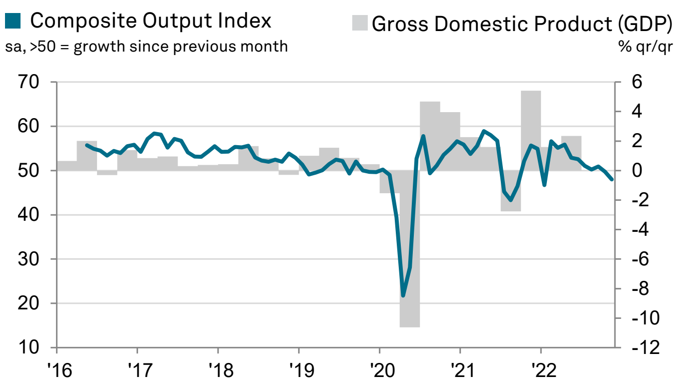
Australian private sector further contracts as services performance worsens

The Composite Output Index posted 48.0 in November, down from 49.8 in October, to signal a second successive month of service sector contraction in Australia. A decline in services activity mainly accounted for the downturn while manufacturing output remained in growth, albeit at a marginal rate.

Deterioration of economic conditions, flooding issues and a higher interest rate environment led to falling demand for Australian services while incoming new orders for Australian manufactured goods slowed. Firms nevertheless hired at a solid pace across the private sector.

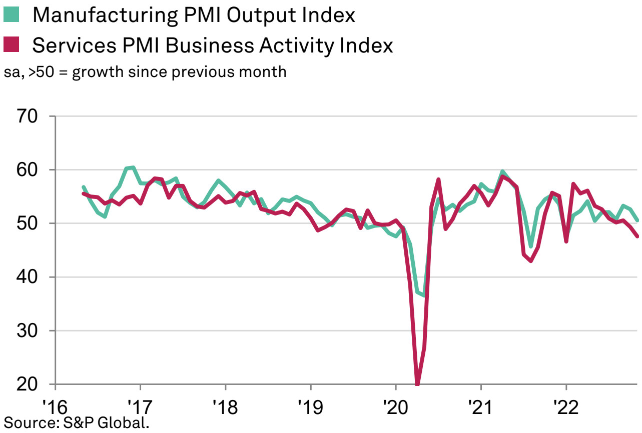
In terms of prices, inflationary pressures intensified in November on the back of higher wages, input and energy costs, which firms continued to pass on to clients.

Business confidence dimmed midway into the fourth quarter as firms grew less optimistic with regards to the year ahead outlook in light of the challenging current economic backdrop.

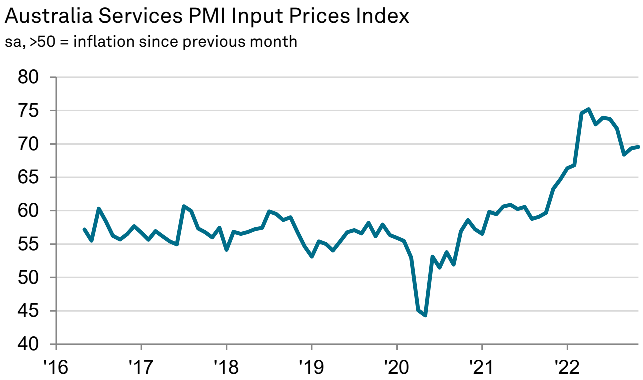


Sources: S&P Global, Australian Bureau of Statistics.

*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.



Source: S&P Global.



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 Services PMI values is 0.0 (0.6 in absolute terms).

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

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