

News Release

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S&P Global Australia Services PMI®

Australian service sector returns to contraction in October

Key findings

Business activity shrinks for the first time in nine months...

...as demand falls at the fastest pace since September 2021

Price pressures intensify

Australian service sector performance deteriorated in October, with activity contracting for the first time in nine months. Business activity shrank alongside poorer demand for Australian services, which included foreign demand. In turn, work outstanding also fell at a faster rate. That said, employment levels continued to rise in October as firms rebuilt their workforce while business confidence also improved. Overall price pressures meanwhile intensified.

The seasonally adjusted S&P Global Australia Services PMI® Business Activity Index posted at 49.3 in October, down from 50.6 in September. Slipping below the 50.0 no-change mark in October, the index pointed to a contraction of the Australian service sector following eight straight months of expansion. The rate of contraction was marginal, however.

Total new business fell in October, underpinned by a decline in demand. Anecdotal evidence suggested that weaker market conditions and higher interest rates affected incoming new orders in October. The decline in new orders was also the quickest since September 2021.

At the same time, foreign demand for Australian services also eased, albeit at a marginal rate. A higher interest rate environment and slowing global growth led to the fall in new business from abroad according to survey panellists.

As a result of the fall in demand, Australian service providers were able to focus on the completion of outstanding work, leading to lower levels of outstanding business. The rate at which work outstanding depleted was also the fastest in over a year.

Despite the fall in demand, employment levels continued to rise in the service sector and at a rate well above the series average. Firms reflected that employment levels inched up amid efforts to rebuild their workforce to pre-pandemic levels while some businesses continued to face difficulties in acquiring skilled labour.

S&P Global Australia Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-27 October 2022.

Comment

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

“The latest RBA interest rate decision and ongoing global inflationary pressures appeared to have weighed on economic conditions and affected the Australian private sector economy’s performance according to the latest PMI data. Demand declined at the fastest rate since September 2021, which led to weaker overall business activity.

“Meanwhile price pressures intensified once again in the service sector despite the easing of demand, thus outlining the constraints that private sector firms continue to face at the start of the fourth quarter.

“While the worsening of price pressures backs the further tightening of monetary policy, this will be set against a backdrop of contracting business activity which renders greater caution from the central bank.”

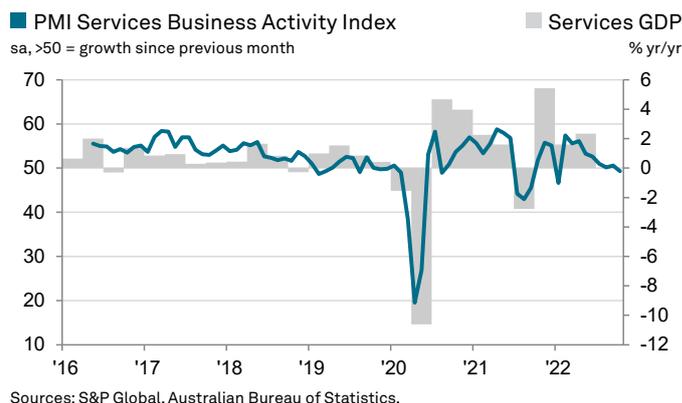
PMI®

by S&P Global

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Price pressures meanwhile worsened in October as both input costs and output prices rose at faster rates compared to the prior month. Rising wages, input and energy costs were blamed for the increase in overall input costs which firms continued to share with their clients.

Overall sentiment in the Australian service sector remained positive, nonetheless, with the level of business confidence rising from the September low. Firms were generally hopeful that further recovery from the COVID-19 effects and better economic conditions can help to boost activity.



S&P Global Australia Composite PMI®

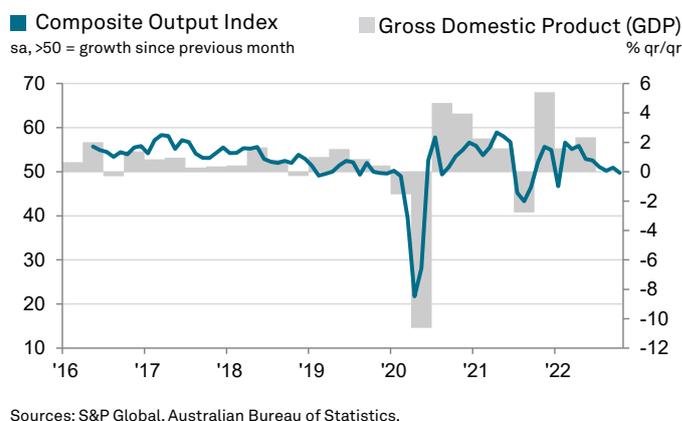
Australian private sector contracts with weak services performance

The Composite Output Index posted 49.8 in October, down from 50.9 in September, to signal a contraction of the Australian private sector following eight straight months of expansion. The downturn was primarily attributed to a weaker service sector performance as activity shrank for the first time in nine months.

Similarly, composite demand contracted in October and at the fastest rate since September 2021 on the back of falling inflows of new business for services firms. A higher interest rate environment and deteriorating economic backdrop drove the decline according to panellists, although the job market remained firm as employment growth picked up in October.

In terms of prices, inflationary pressures intensified in October amid higher wages and input costs which firms continued to pass on to clients.

Overall business sentiment improved with firms hopeful for further improvements of economic conditions to drive sales.



*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



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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