

S&P Global Australia Services PMI[®]

Renewed fall in business activity amid sharper reduction in new orders

May 2026

New business declines at fastest pace in almost two-and-a-half years

Inflationary pressures remain elevated

Employment falls for first time in 17 months

Services activity in Australia decreased for the second time in three months in May amid a sharper reduction in new business and rapid cost increases. Meanwhile, companies lowered their staffing levels for the first time since the end of 2024 and business sentiment waned to a two-and-a-half-year low.

The seasonally adjusted S&P Global Australia Services PMI[®] Business Activity Index dropped back below the 50.0 no-change mark in May, posting 48.7 following a reading of 50.7 in April. The index therefore signalled a second monthly reduction in business activity in the past three months.

Reduced demand, market uncertainty and higher prices due to the war in the Middle East were behind the fall in business activity, according to respondents.

Lower activity was recorded in the real estate & business services, transport & storage and finance & insurance sectors. Meanwhile, growth was maintained in consumer services and information & communication.

Service providers signalled a solid and accelerated reduction in new business, with the latest contraction the sharpest in just under two-and-a-half years. New business has now fallen in three successive months. Added to the impacts on demand and prices from the war in the Middle East, some panellists also linked lower new orders to rising interest rates.

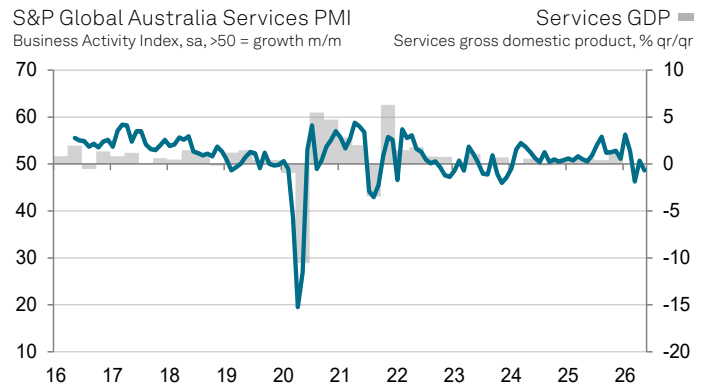
New export orders decreased for the second time in three months, and at a solid pace.

A worsening demand environment led service providers to scale back employment in May, thereby ending a sequence of job creation stretching back to January 2025. Although modest, the fall in staffing levels was the sharpest since August 2021.

Backlogs of work decreased solidly amid falling new orders, with the rate of depletion the fastest for a year-and-a-half.

Input costs continued to increase rapidly in May, feeding through to markedly higher selling prices. In both cases, rising fuel costs as a result of the war in the Middle East was the key factor mentioned by respondents. As a result, the transport & storage sector posted the sharpest rises in both input costs and output prices of the five monitored sectors.

The rate of input cost inflation eased from April but remained elevated as more than 35% of panellists reported a rise in



Data were collected 12-26 May 2026.

Sources: S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
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Comment

Andrew Harker, Economics Director at S&P Global Market Intelligence

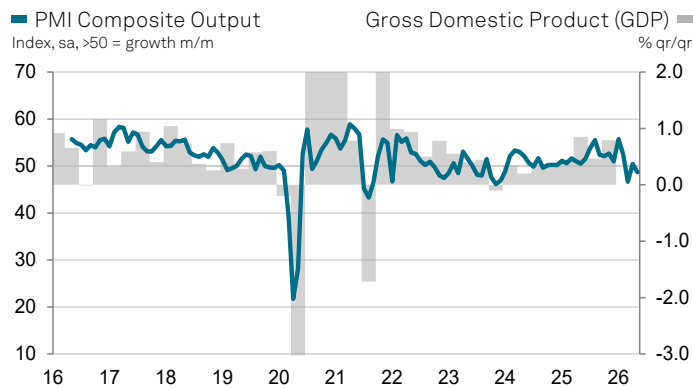
“May’s S&P Global Australia Services PMI report provides a downbeat assessment of the sector’s fortunes. The increases in fuel prices as a result of the war in the Middle East continued to bear down on businesses, with transport & storage firms facing the biggest challenge in this regard.

“Price pressures and general worries about the future path of the economy are increasingly hitting demand, while companies responded to the sharper fall in new orders by scaling back both activity and employment, the latter for the first time in almost a year-and-a-half.

“Taken alongside the contraction in manufacturing output reported by the PMI earlier in the week, the latest data suggest that the Australian economy is going to struggle to generate any growth during the second quarter of the year.”

prices during the month. Meanwhile, the increase in charges was only fractionally softer than April's 39-month high.

Worries about the prospect of a wider economic downturn, higher prices and rising interest rates led to a drop in confidence regarding the year-ahead outlook for business activity in May. Sentiment was the lowest since November 2023. Those respondents that expect activity to increase linked this to hopes of an end to the war in the Middle East, rising sales, business acquisition plans and AI development.



Sources: S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence. ©2026 S&P Global.

S&P Global Australia Composite PMI®

The Composite Output Index posted 48.7 in May, down from 50.4 in April and therefore signalling a renewed fall in private sector output in Australia midway through the second quarter of the year.

Business activity has now decreased in two of the past three months, with output falling across both manufacturing and services in May.

The fall in output reflected the sharpest reduction in new orders since December 2023. Meanwhile, employment decreased for the first time in 17 months.

Input costs continued to increase rapidly, while the pace of output price inflation was little-changed from the 44-month high posted in April.

Meanwhile, business confidence dropped to a two-and-a-half year low.

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@spglobal.com.

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