# News Release

Embargoed until 0900 AEDT 3 March 2023

# Judo Bank Australia Services PMI®

## Service activity returns to growth in February

### Key findings

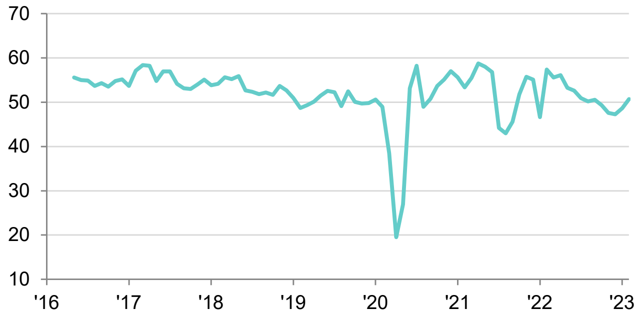
**Activity expands with the clearance of backlogs**

**Price pressures recede in February**

**Business sentiment stays positive despite confidence at 34-month low**

Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month




Sources: Judo Bank, S&P Global.

Data were collected 09-23 February 2023.

The Australia service sector returned to expansion midway into the first quarter of 2023 according to the latest PMI data. Service sector activity rose for the first time since last September amid broadly stable demand and firms working through their outstanding orders. Hiring activity continued at a solid pace while price pressures eased. That said, business confidence declined on the back of lingering concerns over costs and the economic outlook.

The seasonally adjusted Judo Bank Australia Services PMI® Business Activity Index posted 50.7 in February, up from 48.6 in January. With the PMI climbing above the 50.0 neutral mark, this signalled a return to expansion for the Australian service sector in February for the first time in five months.

Higher activity was supported by firms working through their existing orders and with better supply performance according to survey respondents. Indeed, the level of backlogged work declined at one of the fastest rates on record in February. Consumer services firms saw the fastest improvement in activity.

Meanwhile overall demand conditions were little changed in February after improving at a solid pace at the start of the year. New business at service providers declined marginally, reflecting sales being affected by higher interest rates and uncertain economic conditions. In contrast, however, new export business improved in the Australian service sector on the back of better tourism activity.

Concurrently, employment levels in the Australian service sector continued to rise at a solid rate according to the latest survey. Service sector firms saw a need to continue hiring to sustain the latest expansion in activity. That said, the rate at which staffing levels rose was weaker than the 2022 average amid the lack of demand growth.

The slowdown in demand conditions, alongside improvements in the supply chain, also affected prices, whereby input cost inflation slipped to the lowest rate in 14 months. The slower increase in costs, stemming from supplier, transport and labour cost hikes, also led to Australian services raising their charges at a weaker pace in February.

Finally, overall sentiment in the Australian service sector remained positive in February. However, the level of business confidence fell to the weakest since April 2020. Despite lower cost pressures, Australian services remained concerned about rising prices, whilst higher borrowing costs added to the uncertain outlook.

## Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Service sector activity improved further in February and is now back in expansionary territory. The activity index, which rose 2.1 points to an index level of 50.7, is the highest it has been since July 2022. This is a clear indication that the slowdown in economic activity over the second half of 2022 has run its course.

"Australia's service industries have started 2023 on a firm footing although new business activity and future activity expectations are still on a gradual softening trend, reflecting an expectation within the business community that higher interest rates are yet to be fully felt across the economy.

"Although the employment index fell in February, it remains well above the neutral 50 level indicative of on-going demand for labour. The composite employment index, which reflects the demand for labour across both services and manufacturing industries, is at a level consistent with a stable unemployment rate, if not a potential for some further modest falls in the months ahead. The Judo Bank PMI labour demand indicators do not suggest that a sustained rise in the unemployment rate is on the cards over the first half of 2023.

"There is further good news on the inflation front with final prices in the service industries dropping by 2.6 points in February to be at the lowest level since November 2021. This is consistent with 'peak inflation' in the December quarter and a gradual decline in price pressures coming through over the first half of 2023.

"The composite output price index, which is probably the best indicator of consumer price inflation trends in this survey, continues to decline and in February was at the lowest level since August 2021.

"Of some concern, however, is the stabilisation of input prices across the Australian economy at what are still very high levels by historical standards. This suggests that wage and energy cost pressures are still being felt by Australian businesses in early 2023.

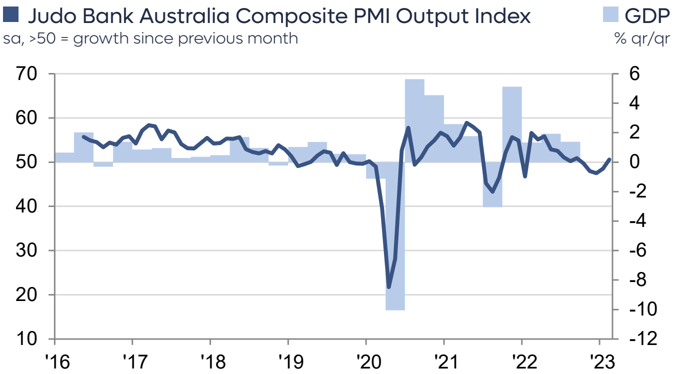
"In February these cost pressures were being absorbed in margins. The extent to which this continues or if businesses pass these higher costs onto final prices is likely to be determined by the overall strength of demand in the economy.

"Far from an economy tumbling into recession in 2023, the February PMI's are telling us the Australian economy is still expanding and employing workers while price pressures persist. A soft landing is still the most likely outcome for Australia over the next 12 months, but the risks are prominent and in the short-term are skewed towards a more resilient economy and more stubborn inflation.

"For the Reserve Bank these risks suggest that a further tightening of monetary policy will be required over the next three months. I expect to see a 25bp rate hike next week at the March Board meeting and further rate hikes that take the cash rate to between 4% and 4.5% by the end of this year."

# Judo Bank Australia Composite PMI®

## Private sector expansion resumes in February




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

The Composite Output Index rose past the 50.0 neutral mark, from 48.5 in January, to 50.6 in February. This signalled a return to expansion for the Australian private sector after four straight months of contraction.

The latest improvement was supported by service activity growth as manufacturing output stagnated in February. Firms also worked through their backlogs amid a lack of new orders growth.

Despite the absence of demand growth, hiring activity continued at a solid pace. Input cost inflation also remained at an above-average rate even as it eased to a 16-month low. In turn, firms continued to share their cost burdens with clients at a slower, yet rapid, pace.

Overall sentiment across the private sector remained positive in February amid hopes for better sales. However, the level of business confidence sank to the lowest since the COVID-19 related lockdowns of early 2020 with firms concerned over higher interest rates and worsening economic conditions.

*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.

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### Survey methodology

The Judo Bank 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).

### About Judo Bank

Judo Bank is Australia's first purpose-built challenger bank for small and medium-sized businesses (SMEs) and the first fully licensed Australian bank to IPO in 25 years. Judo was founded by a small group of experienced lending professionals and its purpose is to be the most trusted SME business bank in Australia. The company's relationship-led lending model, which brings back the craft of relationship banking, is enabled by its legacy free, digital, cloud-based technology architecture. Lending products are originated and distributed through direct and third-party channels and are funded by deposits, wholesale debt and regulatory capital. www.judo.bank

### About S&P Global

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### About PMI

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.