

News Release

Embargoed until 0900 AEDT 24 October 2023

Judo Bank Flash Australia Composite PMI[®] New business down for second time in three months

Key findings

Flash Australia Composite PMI Output Index: 47.3 (Sep: 51.5), 21-month low

Flash Australia Services PMI Business Activity Index: 47.6 (Sep: 51.8), 10-month low

Flash Australia Manufacturing PMI Output Index: 45.6 (Sep: 49.0), 41-month low

Flash Australia Manufacturing PMI: 48.0 (Sep: 48.7), 6-month low

October saw a renewed decrease in business activity in Australia, reversing the return to growth posted in September. Output was reduced amid lower new orders and a drop in confidence in the outlook, while cost pressures remained elevated. On a more positive note, employment continued to rise.

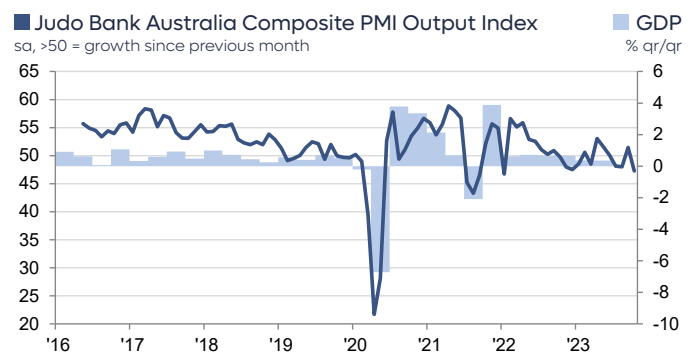
The Judo Bank Flash Australia Composite PMI[®] Output Index* posted below the 50.0 no-change mark for the third time in the past four months during October. At 47.3, down from 51.5 in September, the reading was the lowest in 21 months and represented a solid monthly decline in activity.

Output was down across both the manufacturing and services sectors, with the pace of reduction more pronounced in the former.

The fall in business activity coincided with a renewed decrease in new orders, which fell for the second time in the past three months. A generally weak demand climate, inflationary pressures and high interest rates were among the factors leading to lower new business, according to respondents. New export business was also down, and for the eighth successive month.

Input costs continued to rise rapidly, with the rate of inflation ticking up to a three-month high. Increased fuel costs pushed up input prices across both monitored sectors, while service providers also highlighted rising wages. Output prices also increased, but weaker customer demand impacted pricing power, resulting in the softest pace of charge inflation since March 2021.

Companies continued to raise workforce numbers in October, with job creation seen across manufacturers



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 11-19 October 2023.

and service providers alike. That said, the pace of increase was only slight, having softened to the joint-lowest in 2023 so far. Meanwhile, backlogs of work were reduced solidly, and to the greatest extent in seven months.

A positive outlook for business activity over the coming year was maintained at the start of the final quarter, but confidence dropped to the weakest in three-and-a-half years and was some way below the series average given the present challenging demand climate.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index moved back below the 50.0 no-change mark in October, posting 47.6 from 51.8 in September. Activity has now decreased in three of the past four months, with the solid decline the most marked in the year-to-date.

Renewed reductions in total new business and new orders from abroad were also signalled amid challenging market conditions and a customer response to higher interest rates.

Cost pressures remained elevated, often reflecting increased wages but also in part due to higher fuel prices. Companies raised their own selling prices accordingly, albeit at the slowest pace since March as demand conditions weakened.

October data pointed to a twenty-sixth successive monthly increase in employment, albeit one that was only modest.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI dropped to 48.0 in October from 48.7 in September, moving further below the 50.0 no-change mark and signalling an eighth successive monthly deterioration in business conditions at the start of the fourth quarter.

Latest data pointed to marked reductions in both output and new orders as demand conditions deteriorated. Moreover, in both cases the falls were the most pronounced in almost three-and-a-half years.

More positively, employment continued to increase, extending the current sequence of job creation to three years.

Input costs rose sharply, with the rate of inflation hitting a seven-month high. Rising fuel costs was one of the key factors pushing up prices, according to respondents. Output charges also increased, albeit at a slower pace than in September.

Weakening market conditions meant business confidence dipped to a three-and-a-half year low, although companies still predicted that output will increase over the coming year.

*The Judo Bank Flash Australia Composite Index is a GDP-weighted average of the Judo Bank Flash Manufacturing Output Index and the Judo Bank Flash Services Business Activity Index. Flash indices are based on around 85% of final survey responses and are intended to provide an advance indication of the final indices.

Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

“The October Flash PMI output index has declined back to recent cyclical lows around 47, following the bounce above the neutral 50 level in September. Australia’s business activity indicators in the PMI survey continue to show that the economy has slowed in 2023, in line with the forecast soft landing that most economists expect.

“New orders weakened in October and are below the 50 neutral level, indicative of a soft landing across the economy. The Output and the New Orders Index would have to fall substantially further to be consistent with a broader economic recession.

“Other report components highlight the significant challenges policymakers face in returning the economy onto a sustainable footing. Despite consistent soft output and new orders readings in 2023, the employment index remains comfortably above 50.

“This is telling us that the slowdown in business activity thus far has not translated into a significant reduction in hiring intentions. Australian businesses are still looking to expand their workforce, consistent with ongoing net new job creation in the official employment report.

“Of most significant concern is further evidence of inflation ‘stickiness’. That is, both the input and output price indexes remain elevated and do not signal a return of inflation to the RBA’s target anytime soon.

“Business cost pressures remain elevated, with the input price index broadly stable in October at around the same level it has been for most of 2023. Input prices are back to where they were in 2021 although down from the highs of 2022. The current index is well above the levels seen prior to the pandemic.

“The most significant cost pressure is likely related to labour costs. However, businesses are reporting broader cost increases in various areas, including transport, raw materials, and insurance costs.

“Output prices have drifted lower over the past two months, suggesting that Australian businesses are finding it increasingly difficult to pass on cost pressures to final prices as the economy slows.

“Cost pressures are now impacting both final prices and profitability, which could start to impact business investment and hiring plans.

“Despite the recent softening of final prices, the index is still above level consistent with the 2-3% inflation target.

“The RBA will receive the final October readings before the board meeting on Melbourne Cup day. These latest results should not materially impact the interest rate decision. A strong case exists for a further modest upward adjustment to the Australian cash rate target, to ensure the economy remains on the so-called ‘narrow path’. If we are to avoid recession, Australia will need an extended period of below-trend growth to ensure inflation returns to target by 2025.”

Contact

Warren Hogan
Chief Economic Advisor
Judo Bank
T: +61 414 498 675
warren.hogan@judo.bank

Casey Van Liessum
Director, Corporate Affairs
Judo Bank
T: +61 403 119 671
casey.vanliessum@judo.bank

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
T: +65-6439-6022
jingyi.pan@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82-2-6001-3128
sungha.park@spglobal.com

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Survey methodology

The Judo Bank Flash Australia Composite PMI® is compiled by S&P Global from responses to questionnaires sent to survey panels of around 400 manufacturers and 400 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined by S&P Global as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.

Services: Business activity, new business, new export business, outstanding business, employment, input prices, prices charged, future activity.

A diffusion index is calculated for each manufacturing and services 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.

Composite indices for are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the 'Composite PMI' but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The 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.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average differences between final and flash index values for the headline indices are:

Composite Output Index = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.1 (absolute difference 0.6)

Manufacturing PMI = 0.1 (absolute difference 0.4)

Underlying final 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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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. www.spglobal.com/marketintelligence/en/mi/products/pmi