

# News Release

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## Judo Bank Flash Australia Composite PMI<sup>®</sup> Private sector output growth renews

### Key findings

**Flash Australia Composite PMI Output Index: 50.2 (Aug: 48.0), 4-month high**

**Flash Australia Services PMI Business Activity Index: 50.5 (Aug: 47.8), 4-month high**

**Flash Australia Manufacturing PMI Output Index: 48.2 (Aug: 49.7), 4-month low**

**Flash Australia Manufacturing PMI: 48.2 (Aug: 49.6), 3-month low**

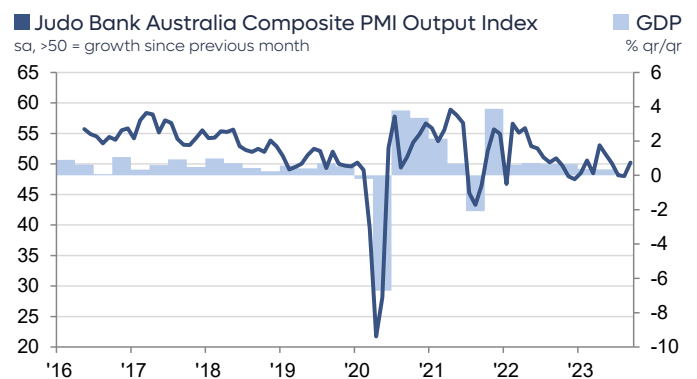
Business activity in Australia's private sector returned to growth in September, owing to a renewed expansion in the service sector. Greater client interest pushed up overall new orders, while employment levels also rose. While the rate of input cost inflation remained unchanged in September, firms raised their selling prices at a slower rate amid reduced optimism on future output.

The Judo Bank Flash Australia Composite PMI<sup>®</sup> Output Index\* posted 50.2 in September, up from 48.0 in August. Climbing above the 50.0 no-change mark, the latest data indicated a return to expansion for Australia's private sector. Although marginal, the latest reading is consistent with the fastest increase in output since May.

Australia's private sector returned to expansion following two straight months of contraction. This was driven primarily by improvements in the service sector as manufacturing sector output fell at a faster rate in September.

Greater client interest within the service sector supported the expansion of overall new orders in the latest survey period, while manufacturing new orders remained under pressure from deteriorating economic conditions and higher interest rates. Service providers also saw increased new business from abroad, though this failed to lift overall new export business back into growth.

Meanwhile, employment levels across both manufacturing and services continued to rise at the end of the third quarter as firms hired to cope with ongoing operations. In turn, the level of backlogged work fell



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

again in September with higher workforce capacity supporting the clearance of outstanding work.

Overall input cost inflation sustained at a rate unchanged from August and above the long-run average, attributed primarily to higher-than-average service sector cost inflation. In contrast, selling price inflation eased to a five-month low as private sector firms raised prices at a slower rate to retain customers and drive sales. This coincided with the level of business confidence easing from August on the back of concerns over the impact from softer global growth and the tightening of financial conditions.

### Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index rose to 50.5 in September from 47.8 in August. Posting above the 50.0 no-change mark, the latest data was indicative of a renewal of services activity growth.

Incoming new business, including new business from abroad, increased in September, contributing to higher services activity. In turn, firms raised their employment levels at a faster rate.

The rate of input cost inflation was little changed from August while selling prices rose at a slower rate, though in both cases inflation remained above the respective series averages.

Overall business sentiment remained positive in September, though the level of confidence fell further below the series average.

## Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI fell to 48.2 in September, from 49.6 in August, signalling continued deteriorating business conditions across the sector. Although modest, the latest decline was the fastest since June.

A sharper fall in new orders led to manufacturing output shrinking for a tenth straight month in September. Consequently, firms reduced their purchasing activity and inventory holdings.

That said, employment levels rose with some manufacturers still facing a shortage of labour to support ongoing operations. Staffing constraints also led to a marginal lengthening of lead times.

Input cost inflation eased amid the drop in purchasing activity, while firms also raised their own selling prices at a slower rate.

Sentiment within the Australian manufacturing sector remained positive in September, though the level of business confidence fell to the weakest since June.

\*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:**

“Economic and business activity bounced back in September following the weakening trend since May. The bounce in economic activity was concentrated in the services sector, which recorded a significant increase across the key activity indicators following a soft patch in July and August.

“As it has been for most of the year, manufacturing activity remains tepid, with the flash manufacturing PMI and other key indicators holding below the neutral 50 level. The good news is that Australia’s manufacturing sector is not deteriorating after a soft start to 2023. We appear to be achieving the soft landing with few signs of a recession in manufacturing at this stage.

“The jump in service sector activity indicators is consistent with the better-than-expected economic data of recent weeks, highlighting the resilience of the Australian economy to declining real wages and higher interest rates.

“A critical element of Australia’s economic resilience is the continued strength in labour demand. At no stage has the services sector employment index fallen below the neutral 50 level despite broader activity indicators falling into contractionary territory at various times this year. The composite employment index jumped to a five-month high in September.

“The continued strength in employment reflects the high levels of job advertising and elevated job vacancies. With strong population growth providing new labour supply, strong demand has quickly been translated into actual employment outcomes, as evidenced by the 64,900 increase in total employment in August.

“Critically, the flash PMI report indicates that demand in the economy is holding up, and business activity remains on a sound footing. As we have seen in other economies over the past six months, the debate is not about a hard or soft landing. Recent data, including the Judo Bank PMI, suggests the risk is for ‘no landing’ for the economy.

“The inflation indicators remain elevated at levels pointing to above-target CPI over the next 6-9 months. Input prices were unchanged in September, indicating further cost pressures in the economy. Rising oil and petrol prices may be impacting business costs and inflation expectations.

“The final prices index was down a little in the September flash report. This breaks a modest upward trend of the last four months but is at a level that suggests inflation over the second half of 2023 could be higher than desired.

“We are also watching to see if Australian businesses have difficulty passing on cost pressures to final prices as the economy slows. There is some evidence of this in the SME sector at this stage.

“The flash PMI for September continues the trend of stronger-than-expected data seen in Australia over the past three weeks. While the jump in key indicators points to economic resilience and inflation stickiness, the RBA Board is expected to remain patient at the first meeting of new Governor Michele Bullock. If economic data fails to slow in line with the RBA forecasts, the Board may need to respond with a further tightening of monetary policy later this year, most likely in early November on Melbourne Cup day.”

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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@ihsmarkit.com](mailto:economics@ihsmarkit.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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html)