News Release

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Judo Bank Australia Services PMI®

New business falls for the first time since January

Key findings

Slowest rise in services activity in six months

Employment growth eases to 19-month low

Selling price inflation climbs to near one-year high

Australia's service sector expanded again entering the second half of 2024, according to the latest PMI® data. That said, the pace at which services activity grew weakened amidst a renewed fall in new business. Export work also declined. As a result, employment growth eased. Concurrently, Australian service providers also faced rising cost pressures, which led to selling prices being raised at the fastest pace in nearly a year.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index fell to 50.4 in July, down from 51.2 in June. The latest reading signalled a sixth successive monthly expansion in services activity, but at a pace that was marginal and the slowest in the current sequence.

Underpinning the latest slowdown in services activity growth was a renewed reduction in new business as underlying demand conditions softened. Although modest, the latest fall in new business was the first in six months and the fastest so far in 2024. Detailed sector data further revealed that new sales fell the quickest within the transport & storage sector.

A reduction in overseas client interest and subdued external conditions also led to export business contracting over the latest survey period. The pace of decline was solid, accelerating to the steepest in seven months in July.

Consequent of the fall in new sales, the level of outstanding business declined for a third successive month in July. Moreover, the pace of depletion was the fastest since December 2023 as firms worked through their backlogs. At the same time, the rate of job creation eased, decelerating to the slowest in 19-months amid a lowering of capacity pressures.

Turning to prices, average selling prices increased in July, with the rate of inflation climbing to the highest in 11 months. Stemming from rising input material, transport and wage costs, Australian service providers opted to share their additional cost burdens with clients, thereby leading to another increase in charges. Both rates of input

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"Growth in activity and employment in the services sector eased through July, while businesses and consumers, on average, saw an increase in price pressures. The most significant development in Judo Bank Services PMI report for July was a big lift in the input price index, indicative of an increase in business cost pressures at the start of the new financial year.

"Both the business activity and new business indexes eased through July, with the new business index dipping slightly under the neutral level. This indicates that, on average, Australian services sector businesses saw little to no change in activity levels throughout the month. Over the next two months of PMI releases, we will better understand how households use the FY25 government stimulus (tax cuts and cost-of-living support). With a portion to be spent, we anticipate an improvement in the key activity indicators in August and September.

"In recent months, the employment index has softened towards the neutral 50 level despite high levels of employment growth in official data releases. The difference likely stems from a more significant share of recent employment growth driven by labour demand in the public sector. With aggregate demand supported by stimulus and ongoing labour shortages in the economy, we expect market sector employment to continue to grow throughout the second half of 2024. The unemployment rate is expected to drift up because of the rise in working age population rather than a decline in employment.

"The share of service sector firms experiencing an increase in input prices in July rose significantly, with the index increasing 4.3 points to the highest level in a year. As the increase is likely a reflection of 1 July price changes for labour, energy and logistics, we expect the input price index will return to pre-June readings of approximately 62 in the coming months, still well above the pre-pandemic average of 56.8. The spike in the input price index in July 2023 likely reflects the large Fair Work Commission (FWC) adjustment to basic wages that cover approximately 20% of the workforce. The FWC announced a much more modest increase for 2024/25 which could be pointing to a broader range of cost pressure facing business than this time last year.

"The Prices Charged index which should signal consumer inflation trends increased to the highest level since December 2023, likely reflecting businesses passing on a portion of input price increases to consumers in July. This does not suggest that we will see a material decrease in the inflation rate in the September quarter.

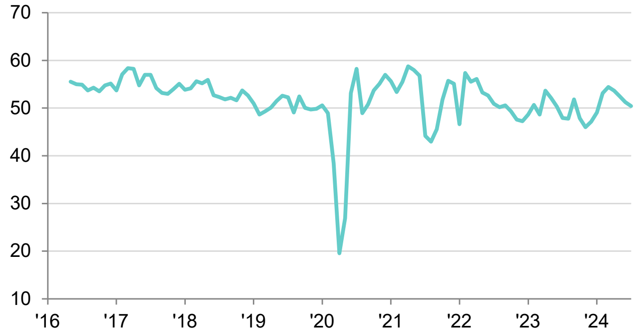
"While businesses are still optimistic that activity levels will improve over the next 12 months, the number of firms with this optimism remains close to its lowest level since the survey began in 2016. With stimulus working its way through to consumers in the coming weeks and a portion expected to flow through to businesses, we anticipate this index will start to see some improvement."

cost and output price inflation were above their respective series averages. The rise in input prices was also the most pronounced in a year.

Finally, sentiment in the Australian service sector remained positive at the start of the second half of 2024 with firms holding on to hopes that business development efforts can support sales growth in the year ahead. That said, the level of optimism was unchanged since June, which was already the lowest in seven months.

Judo Bank Australia Services PMI Business Activity Index

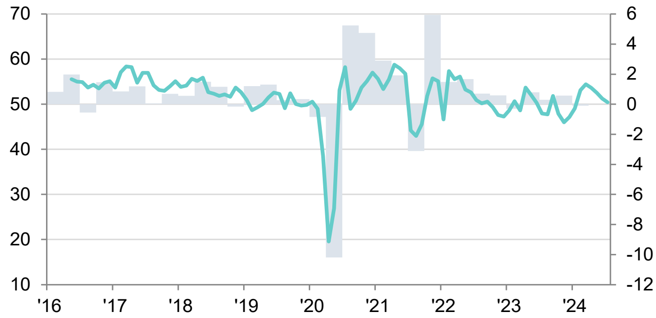
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 10-26 July 2024.

Australia Services PMI Business Activity Index | Services GDP

sa, >50 = growth since previous month | %qr/qr



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

Judo Bank Australia Composite PMI®

Private sector conditions worsen fractionally in July

The Composite Output Index posted 49.9 in July, down from 50.7 in June. Falling past the 50.0 neutral mark in July, the latest reading indicated that Australia's private sector output declined for the first time since January, albeit only fractionally. The latest downturn was centred on the manufacturing sector, although services activity growth also slowed.

New orders meanwhile fell across the board, including export business that declined at the fastest pace in almost four years.

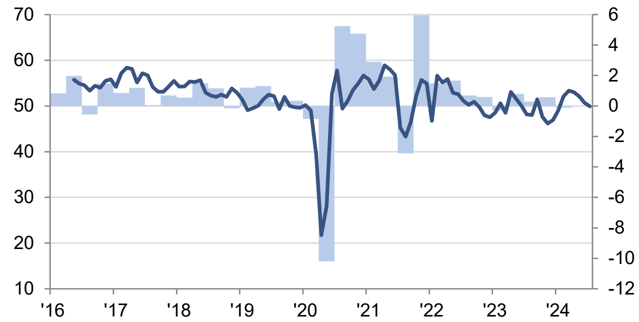
Overall employment growth was sustained, but at the slowest pace in nearly three years amidst falling manufacturing headcounts.

Price pressures intensified across both gauges of input costs and output prices, with the rates of inflation being the highest in 16- and five-months respectively.

Finally, firms remained optimistic overall in July, with confidence levels improving marginally from June's low.

Judo Bank Australia Composite PMI Output Index | GDP

sa, >50 = growth since previous month | % qr/qr



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

*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@spglobal.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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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