

News Release

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Judo Bank Flash Australia Composite PMI®

Further slowdown in pace of business activity contraction

Key findings

Flash Australia Composite PMI Output Index: 48.1 (Dec: 46.9), 4-month high

Flash Australia Services PMI Business Activity Index: 47.9 (Dec: 47.1), 3-month high

Flash Australia Manufacturing PMI Output Index: 49.2 (Dec: 45.5), 5-month high

Flash Australia Manufacturing PMI: 50.3 (Dec: 47.6), 11-month high

Australia's private sector activity continued to decline at the start of 2024. That said, the pace of reduction eased alongside a slower fall in new business. This was amidst improvements in business sentiment while employment levels also continued to rise. Selling price inflation notably eased to a 34-month low in January.

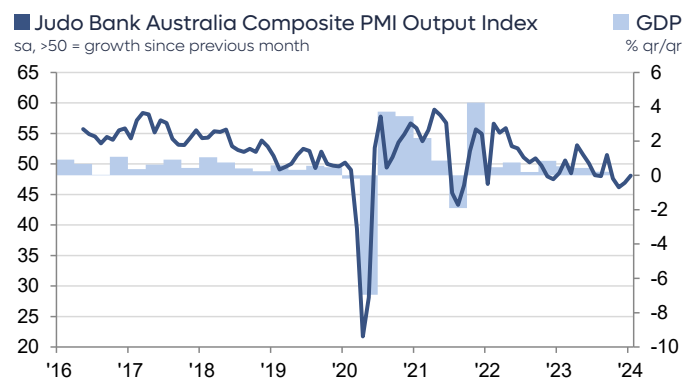
The Judo Bank Flash Australia Composite PMI® Output Index* posted 48.1 in January, up from 46.9 in December. This signalled a fourth consecutive month of business activity decline, though at the slowest pace in the current sequence.

Incoming new business continued to fall at the start of the year, but the pace of contraction moderated to the slowest since new orders began decreasing last October. Softer new business declines in both the manufacturing and service sectors underpinned the latest change. A similar picture was seen for foreign demand, as new export business fell only slightly in January.

A softening downturn coincided with business confidence improving at the start of 2024, with the Future Output Index posting the highest reading since August 2023. Firms grew more hopeful that economic conditions can improve with prospects of lower interest rates in 2024. Private sector firms also continued to raise their employment levels, albeit with job creation exclusive to the service sector.

Amid the sustained fall in new orders, the volume of backlogged work shrank for the nineteenth month in a row, but similarly saw the pace of contraction ease.

Costs continued to increase at an above-average rate



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 10-19 January 2024.

on the back of rising shipping and raw material prices. That said, charge inflation eased to the lowest since March 2021, coming in below the series average as firms reined in price increases to drive sales.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted below the 50.0 no-change mark for a fourth successive month in January to signal sustained services activity contraction. At 47.9 in January, however, the index was up from 47.1 in December to indicate a slower pace of decline.

The slowdown in business activity contraction was underpinned by a shallower fall in new business. This was as sentiment improved within the Australian service sector on the back of hopes of economic conditions improving in 2024. Firms also continued to hire, though with the pace of workforce expansion slowing at the start of the year.

Cost pressures rose sharply in the latest survey period as higher transport and input material costs led to average input prices rising at a faster pace in January. That said, Australian service providers shared their increased cost burdens at a slower rate as demand deteriorated. Both input cost and output price inflation rates remained above their respective series averages, however.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI rose to 50.3 in January, up from 47.6 in December. Rising past the 50.0 neutral mark, the latest reading signalled the

first improvement in manufacturing sector conditions in 11 months, albeit one that was only marginal.

Supporting the rise in the headline PMI index was a marked deterioration in lead times, with suppliers' delivery times having lengthened to the largest extent since August 2022 amid mentions of shipping delays due to port congestions and conflicts in the Middle East.

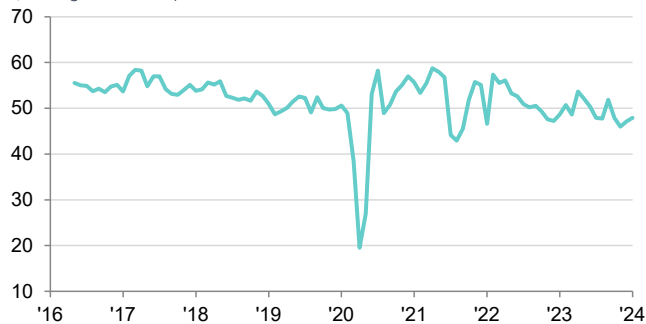
Incoming new orders and output meanwhile remained in contraction, but saw the rates of decline ease from December. Employment also fell at a slower rate as a result while business confidence rose to a five-month high.

Despite rising supply delays, input prices rose at a slower rate in January which contributed to softer selling price inflation as Australian manufacturers passed on rising costs at a slower pace.

*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

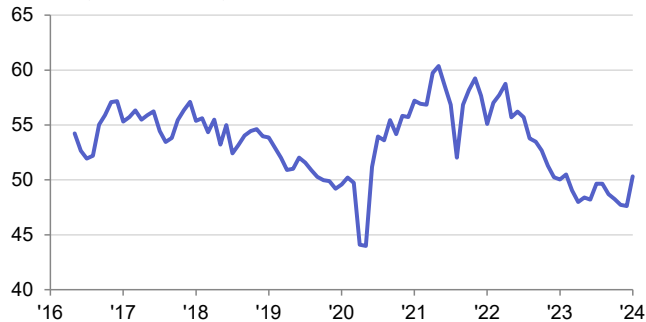
sa, >50 = growth since previous month



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 Judo Bank Flash PMI for January provides a first look at the economy in the new year. Encouragingly, we have seen a modest improvement in business conditions in January, with a stabilisation in service sector activity and a pick-up in manufacturing output.

"Business confidence has also improved, measured by the future output index, which rose to the highest level in five months in January. Excluding the spike in August last year, it is the highest reading in a year.

"The employment index was broadly stable, at a level consistent with a further expansion of hiring in the new year.

"Given the changes in consumer spending patterns over the last five years, we must be careful with Australian economic data over the new year. The rise of the Black Friday and Cyber Monday sales events has brought forward consumer spending into November and early December. While this appears to have only had a modest impact on spending in the run-up to Christmas, the more significant effect seems to have been a reduction in the post-Christmas sales spend.

"This shift in spending patterns impacts more than just retail sales as businesses adapt to the new spending patterns. It may also affect employment and business activity. This makes the February results on the economy critical for understanding how the economy is performing early in the new year.

"The price indicators eased slightly through January, although there are signs that shipping disruptions and the local wharf dispute are starting to impact domestic supply chains, with manufacturers' suppliers' delivery times extending in the month. The Supplier Delivery Times index is now the lowest since the tail end of the pandemic disruptions in August 2022.

"This does not appear to be having a big impact on input costs, which are slightly lower over the past two months. It could be getting in the way of a more significant drop in the input cost index. Final prices, which should more accurately align with CPI inflation, have fallen further in January, suggesting that supply chain disruptions are mostly impacting operating margins as businesses absorb the cost impacts of delays and rising shipping costs.

"The January Flash PMI suggests that the Australian economy remains on the RBA's 'narrow path' for a soft landing in economic activity and a further gradual decline in inflation pressures in 2024. There are certainly no signs of a more severe decline in economic activity, which would raise the prospect of a hard landing for the economy in 2024.

"While the manufacturing sector was the weakest aspect of the survey in late 2023, January has seen a significant jump in output and new orders. This has reduced concerns that a potential recession in the manufacturing sector could lead to a broader economic downturn.

"Even as the economy has slowed over the past year, labour demand has held up a lot better than would have been expected by looking at past economic cycles. Inflation pressures remain elevated, with both input price and output price indexes at levels consistent with CPI inflation above the RBA's target band."

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