News Release

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Judo Bank Flash Australia Composite PMI®

First fall in business activity recorded since March

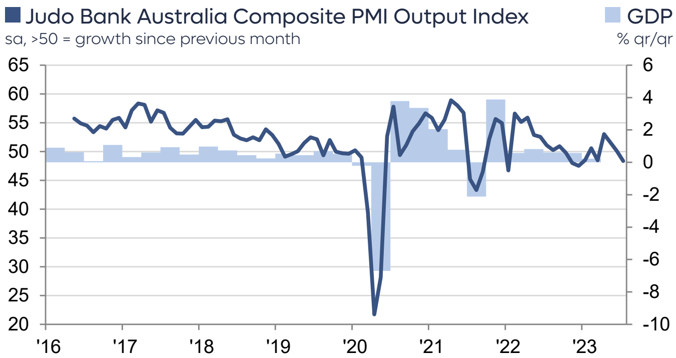
Key findings

Flash Australia Composite PMI Output Index: 48.3 (Jun: 50.1), 7-month low

Flash Australia Services PMI Business Activity Index: 48.0 (Jun: 50.3), 7-month low

Flash Australia Manufacturing PMI Output Index: 50.4 (Jun: 48.6), 8-month high

Flash Australia Manufacturing PMI: 49.6 (Jun: 48.2), 5-month high



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

Business activity in Australia's private sector fell for the first time in four months during July amid a renewed contraction in the service sector as interest rate rises hit customer confidence and budgets. More positively, manufacturing output ticked higher. Wage increases meanwhile fed through to stronger inflationary pressures.

The Judo Bank Flash Australia Composite PMI® Output Index* dipped below the 50.0 no-change mark in July, falling to 48.3 from 50.1 in June. Latest data pointed to a modest reduction in private-sector activity, the first in four months.

In a reversal of the recent trend, services was the main source of private sector weakness in July. Services activity decreased for the first time in four months, while manufacturing production increased, ending a seven-month sequence of contraction.

New orders were broadly unchanged in July, following three consecutive months of growth. Services new business increased fractionally, while manufacturing new orders continued to fall, albeit at a softer pace. Total new business was undermined by a further reduction in new export orders, with declines seen across both monitored sectors.

Staffing levels increased for the twenty-third successive month, but the rate of job creation was only slight and the softest in 2023 so far. Higher workforce numbers meant that companies were again able to deplete backlogs of work.

The rate of input cost inflation accelerated to a four-month high in July amid faster rises across both monitored sectors. Service providers widely linked higher costs to rising staff pay. Selling prices also increased at a faster pace, but here the acceleration was centred on the service sector as charge inflation in manufacturing hit a 34-month low.

Although companies continued to forecast output growth for the coming year, business confidence dipped to the lowest since the initial COVID-19 outbreak in April 2020. Sentiment weakened in services, but improved at manufacturers.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index dropped below the 50.0 no-change mark in July, posting 48.0 from 50.3 in June. The data were therefore indicative of a drop in services activity during the month, ending a three-month sequence of growth. The reduction was modest, but the strongest in the year-to-date.

Several respondents linked lower activity to the impact of increased interest rates, which negatively impacted client confidence and budgets.

While services new orders continued to rise, the rate of expansion was only fractional amid a renewed fall in new business from abroad. Employment growth also slowed and was at a seven-month low.

Rates of both input cost and output price inflation quickened, with companies overwhelmingly linking higher expenses to increases in staff pay. The rise in selling prices was the fastest since January.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI rose to a five-month high of 49.6 in July, from 48.2 in June. The index continued to signal deteriorating business conditions across the sector, but the latest decline was only marginal.

Helping to alleviate the deterioration in the overall health of the sector was a renewed rise in manufacturing production, the first in eight months. In some cases, higher output reflected work on outstanding business amid greater staffing levels.

Total new orders and new export business both declined again in July, but at reduced rates amid some signs of demand stabilisation. There were several reports of new orders from customers in the US.

The pace of input cost inflation ticked higher at the start of the third quarter but remained relatively muted. Meanwhile, selling prices increased at the softest pace since September 2020.

Finally, business confidence strengthened slightly since the previous survey period.

*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 activity eased in July with the composite Flash PMI output index falling below 50.0 for the first time in six months. The main contributor to the soft reading for July was a dip in business activity for the services sector, which had previously been staging a recovery in 2023.

"The good news is that this gradual easing in activity will help take pressure off inflation and interest rates, but it will need to be sustained for the rest of 2023 and into 2024. The results also suggest that the Australian economy remains on the 'narrow path' for a soft landing.

"The economy is still growing with no signs of impending recession. Activity levels are easing only gradually. Indeed, manufacturing activity picked up a little in July.

"The employment index fell again in July but remains in expansion above 50. Labour demand across the economy remains solid and above a level that we would typically see when output and new orders were as soft as they have been recently. This suggests that labour hoarding continues as activity slows.

"The concerning feature of the July Flash report is the price indicators which ticked higher in the month. The service sector inflation indicators remain elevated, consistent with inflation of around 4-5%, well above the RBA target of 2% to 3%.

"The disinflationary trend evident in the PMI price indicators over the course of 2022 appears to have ceased. With the exception of manufactured good final prices, the inflation measures are at a level in July broadly similar to what we had at the start of 2023.

"Both manufacturing and service sector input prices rose in July suggesting the new financial year has potentially brought with it an increase in business costs. While the next major inflation number is the official Q2 results from the ABS, it is the July data that will be of most interest. The July numbers will give us a good idea of whether inflation is falling in line with what we are seeing in other countries in recent weeks, or if Australia is set to experience a more sticky inflation trend in 2023/24."

Contact

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

Casey Van Liessum
Director, Communications
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

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.

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

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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.