

News Release

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Judo Bank Australia Services PMI®

Services activity slows in December amid softer demand

Key findings

Business activity contracts at a quicker pace

Employment levels expand at slowest rate in 16 months

Input cost inflation falls to ten-month low

Australian service sector performance deteriorated in December amid challenging conditions according to the latest PMI data. Higher interest rates negatively affected demand for services in Australia, which fed through to slower employment growth. Meanwhile excess capacity continued to build with firms working through existing orders amid reduced new business. That said, on a more positive note, price pressures eased in the final month of 2022.

The seasonally adjusted S&P Global Australia Services PMI® Business Activity Index posted 47.3 in December, down from 47.6 in November. This marked a third consecutive month in which the headline index remained below the 50.0 neutral level to signal a sustained contraction in activity. Moreover, the rate of decline quickened from November to the fastest since the start of 2022.

Market conditions remained softer in December with incoming new business down for a third straight month. A weaker economic climate coupled with higher interest rates negatively affected underlying demand. Sub-sector data revealed that sales, and also business activity, declined to the sharpest degree within the finance & insurance sector in December.

Foreign demand for Australian services also declined in December. Service providers frequently linked this downturn to deteriorating global conditions and international trade activity, with the transport & storage sector facing the quickest fall in international new business.

On the back of underlying sales and activity, service sector firms also grew more cautious with hiring, with employment levels rising at the slowest rate in the current growth sequence that commenced September 2021. That said, anecdotal evidence also suggested that some firms experienced difficulties hiring while rebuilding their workforce to pre-pandemic levels.

The slight rise in employment, allied with weaker trend in sales, meant that excess capacity accumulated within the

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

“Services sector activity continued to slow in December with sub-50 readings for business activity, outstanding work, exports and new business activity. The economy is clearly responding to higher interest rates and softer demand over the final months of 2022.

“The business activity index, at 47.3 in December, is down slightly from the 47.6 reading in November. The activity index fell below the 50 level in October and has remained there since. Activity was strong earlier in 2022 hitting a high point of 56.1 in April.

“Australia’s service industries boomed in 2022 and are now slowing down as higher interest rates and the rising cost of living crimp demand. It is unclear how much further service sector activity will need to slow before the RBA feels comfortable enough to pause its tightening cycle. The December report is consistent with a soft landing for the economy in 2023. The question remains if this will be adequate to bring inflation back to the RBA’s 2% to 3% target band by 2024.

“The new business index is also soft, holding below 50 since October. The index in December was 48.8, up on November’s 48.3, but consistent with a slowdown in demand across the economy.

“The demand for labour across the services sector has slowed rapidly in December with an index reading of 50.7, well down on November’s 54.0. The services sector employment index has been strong throughout 2022 with index readings in the mid-50s. Given the dominance of service sector employment in the economy, this index will be critical to Australia’s economic prospects in 2023. If the demand for labour contracts and we see higher unemployment emerge later in the year, the RBA should be satisfied that tighter monetary policy is working to reduce wage and inflation pressures across the economy.

“Despite the slowdown in demand and activity evident in the latest PMI results, the price indicators continue to point to elevated inflation pressures. Input costs are easing, in line with lower commodity prices, but the extent to which service sector costs have fallen is much less than we are seeing in the manufacturing sector. Domestic energy and labour costs are keeping upward pressure on prices within Australia’s service industry. As a result, the prices charged index remains well above pre-COVID levels at 57.2. This suggests inflation will remain well above desired levels well into 2023.”

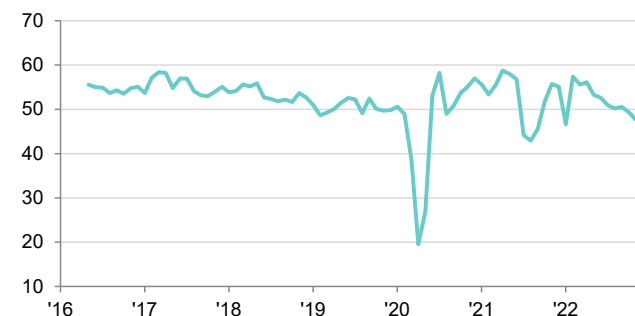
Australian service sector. This was indicated by a quicker depletion of backlogged work, which fell overall for a sixth successive month.

Easing price pressures for Australian service providers was recorded in December. Although still above-average, input cost inflation slipped to the lowest since February. Higher prices nonetheless persisted due to increased wages, input and fuel prices. These were predominately passed on to clients, leading to higher prices charged in the final month of 2022. The rate of output price inflation weakened alongside input costs, however.

Finally, sentiment within the Australian service sector remained positive at the end of 2022. Approximately 45% of survey respondents maintained a positive view on business activity in 2023, with hopes of better economic conditions ahead. However, confidence remained historically subdued. Of the 10% of firms that signalled pessimism, there were concerns of further economic slowdown and higher interest rates in the coming months.

Judo Bank Australia Services PMI Business Activity Index

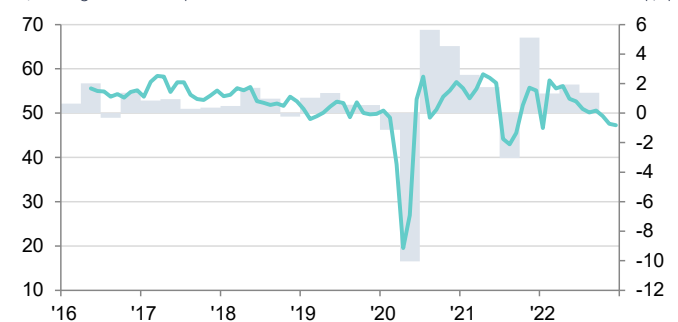
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global.
Data were collected 05-20 December 2022.

Australia Services PMI Business Activity Index Services GDP

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

Judo Bank Australia Composite PMI®

Australian private sector continues to slowdown

The Composite Output Index posted 47.5 in December, down from 48.0 in November, to signal a third consecutive contraction in private sector output. Business activity further declined in services while manufacturing output contracted for the first time in 11 months according to PMI data.

The deterioration of economic conditions in a higher interest rate environment led to demand shrinking across both manufacturing and service sectors in the final month of 2022. Workforce expansion continued across the private sector, however, albeit at a slower pace.

Meanwhile the fall in demand reversed some of the inflationary pressures faced by Australian service providers with input cost inflation softening to its lowest since November 2021. Firms also passed on these cost increases at a weaker rate.

Overall business sentiment improved marginally to end the year, although confidence remained historically subdued.

Judo Bank Australia Composite PMI Output Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

*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@ihsmarkit.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).

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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.