

News Release

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Judo Bank Flash Australia Composite PMI[®] Expansion in business activity driven by services

Key findings

Flash Australia Composite PMI Output Index: 51.4 (Jul: 49.9), 3-month high

Flash Australia Services PMI Business Activity Index: 52.2 (Jul: 50.4), 3-month high

Flash Australia Manufacturing PMI Output Index: 46.1 (Jul: 46.4), 5-month low

Flash Australia Manufacturing PMI: 48.7 (Jul: 47.5), 3-month high

Business activity in Australia's private sector returned to growth in August, underpinned by rising services activity. Overall new orders also rose while employment growth accelerated alongside rising business confidence. Meanwhile, selling price inflation eased despite average input costs rising at the fastest pace since March 2023.

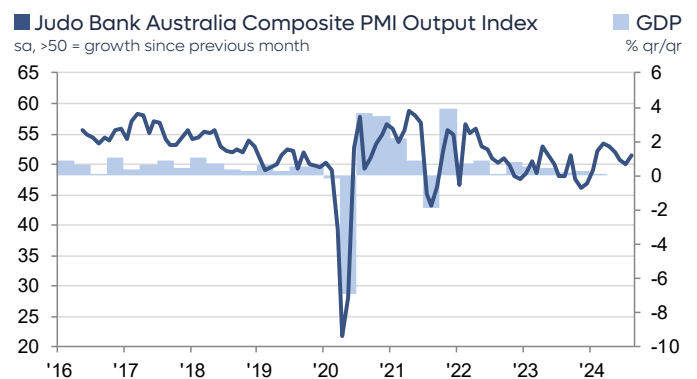
The Judo Bank Flash Australia Composite PMI[®] Output Index* rose to 51.4 in August, up from 49.9 in July. Rising above the 50.0 neutral mark, the latest data signalled that business activity returned to growth after falling fractionally in July. The latest upturn was the fastest in three months and was driven by an acceleration in services activity growth despite manufacturing production contracting at a faster pace.

Total new orders rose for the first time since May, although a divergence in sectoral trends was present with rising services new business contrasting with another reduction in goods new orders. The opposite was true for export orders, however, where higher overall new business from abroad was underpinned by improvements in manufacturing export demand.

Employment levels rose as a result of the uptick in new work and activity. This was again exclusive to the service sector, though manufacturing staffing levels stabilised after falls seen in June and July.

With higher workforce capacity, the level of unfinished business fell across the Australian private sector for the twenty-sixth month in a row.

Higher raw material, transportation and labour costs meanwhile led input prices to rise at the fastest pace in



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 09-19 August 2024.

17 months. In contrast, the rate of output price inflation softened to the slowest since January as firms opted to lift prices at a weaker pace in an effort to boost sales.

Finally, business confidence in the Australian private sector improved in August. Whilst still below average, optimism levels rose across both the manufacturing and service sectors in the latest survey period.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 52.2 in August, up from 50.4 in July. The latest data indicated that the rise in services output further extended the sequence of expansion that began in February, with activity increasing at the fastest pace in three months.

Central to the acceleration in the pace of activity growth was a renewed expansion in new business in August. Anecdotal evidence pointed to improvements in underlying demand conditions and a widening of customer bases, which reportedly drove the solid rise in new work. Meanwhile, new business from abroad fell at the slowest pace in the current three month sequence of decline, with the rate of decrease only marginal.

Higher new work inflows led to another increase in staffing levels, which supported the clearance of backlogged work in August.

Average input prices meanwhile rose at the fastest pace in nearly a year-and-a-half, but service providers raised selling prices at the softest pace since January in a bid to support sales.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI ticked up to 48.7 in August, from 47.5 in July. The index signalled that the health of the sector deteriorated for a seventh straight month, albeit at the slowest pace since May.

Incoming new orders for Australian manufactured goods fell as market conditions remained subdued. This led to a further reduction in production levels. Whilst marked, the pace of contraction in manufacturing new orders was the weakest in three months. At the same time, new export orders returned to growth, aiding the softer fall in total new sales.

Meanwhile, firms reduced their purchasing activity and inventory levels against a backdrop of subdued overall demand. Nonetheless, employment conditions stabilised.

Lead times for inputs worsened to the most pronounced extent since July 2022 in August, attributed by firms to shipping delays around the Red Sea and Southeast Asia. Higher shipping costs contributed to another sharp increase in average input costs, though operating expenses rose at a slightly softer pace than in July. The rate of selling price inflation ticked up to a three-month high, however.

*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 Flash PMI report showed an improvement in activity indicators, further upward pressure on business costs but a welcome weakening in final prices. The report highlights that the economy continues to expand in the September quarter while the demand for labour is also rising.

“The Australian economy is at a critical juncture. With less restrictive monetary policy than may similar economies and new fiscal stimulus entering the economy in July it is not at all clear that inflation is on a trajectory back to the central bank’s target.

“Even though economic growth is weak by Australian standards, demand in the economy is in line with long-term growth rates and labour demand remains strong.

“The composite output index increased in August after a loss of momentum over the previous three months. While the manufacturing output index remains below 50, service sector business activity jumped higher from the July low.

“Manufacturing sector new orders remain weak, well into contractionary territory but service sector new business activity improved in August.

“Australia’s economy is dominated by service industries which account for more than 80% of activity. Service sector activity has remained at expansionary levels throughout the past seven months to August, rising to very strong levels in March and April.

“The August Flash Business Activity result rose from July and is consistent with demand in the economy running near the long-term trend rate. This implies that excess demand remains in the economy at the start of the 2024/25 financial year and thus, inflationary pressures are still burbling away in the September quarter.

“This is reinforced by the lift in service sector input prices to the highest index reading since March 2023. Business cost pressures have increased markedly since the start of the financial year with the August input price index at a higher level than was recorded at any time in the five years prior to the pandemic inflation surge.

“The final prices index dipped in the Flash report for August which suggests that Australian business is finding it difficult to pass on these cost pressures. This will need to be monitored over the months ahead. Further declines in the final prices index would suggest some easing of inflation pressures, although with costs still elevated this would have a negative implication for business margins and profitability.

“The August Flash PMI report highlights the continued inflation risks in the economy with activity improving, presumably on the back of the tax cuts that commenced in July and business costs pressures rising, the certainty with which financial markets are pricing the next move in the RBA’s cash rate as a cut, remains perplexing.

“There is nothing in these results that allows us to reduce the probability that the RBA may still have to raise the cash rate further before a concerted easing cycle can begin.”

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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