

News Release

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Judo Bank Flash Australia Composite PMI[®] Service sector drives renewed growth in private sector output

Key findings

Flash Australia Composite PMI Output Index: 52.2 (Mar: 48.5), 10-month high

Flash Australia Services PMI Business Activity Index: 52.6 (Mar: 48.6), 10-month high

Flash Australia Manufacturing PMI Output Index: 49.8 (Mar: 47.5), 2-month high

Flash Australia Manufacturing PMI: 48.1 (Mar: 49.1), 35-month low

Flash PMI[®] data for April signalled a renewed expansion in business activity in the Australian private sector. The return to growth was centred on service providers however, as manufacturers recorded a sustained drop in production amid waning demand. There were further positive signs on the employment front as staffing levels rose for the twentieth month running. Meanwhile, the rate of input cost inflation continued to soften, but output prices increased at a slightly stronger pace.

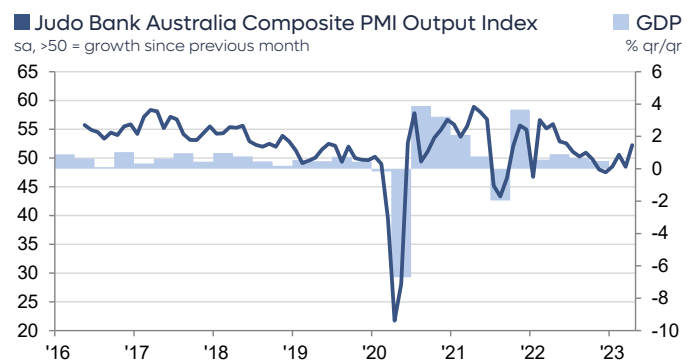
The Judo Bank Flash Australia Composite PMI Output Index* rose to 52.2 in April from a final reading of 48.5 in March. The figure thus signalled a renewed expansion in private sector activity, the second in the past three months. The rate of growth reached a ten-month high.

Underlying data showed that the overall return to growth was mainly due to a solid expansion in service sector activity, which increased at the fastest pace since June last year. On the other hand, manufacturing production fell for the fifth month running, albeit marginally.

Differing trends were also seen with regards to new orders, where a slight increase in the service sector contrasted with the sharpest fall in manufacturing new business in 20 months. Overall, new orders were unchanged in April, following two months of decline.

A stabilisation of new business limited the extent to which companies were able to deplete backlogs of work, which decreased at the slowest pace since last November.

Meanwhile, employment rose for the twentieth successive month, and at a solid pace that was the



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.
Data were collected 05-18 April 2023.

fastest since January. Rising staffing levels were seen across both monitored sectors.

Although input costs continued to rise sharply in April, the rate of inflation eased for the fifth month running to the slowest since September 2021. The rate of output price inflation ticked higher however, reflecting the trend in the service sector.

Finally, companies remained optimistic that output will increase over the coming year, although sentiment eased across both monitored sectors and was lower than the average across the seven-year series history. Service providers were more optimistic than their manufacturing counterparts.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index moved back above the 50.0 no-change mark in April, up to 52.6 from 48.6 in March. The index signalled a solid expansion in services activity, and one that was the fastest since June last year.

Some panellists reported tentative signs of demand picking up. As such, new business increased slightly, ending a two-month sequence of decline. Rising new business encouraged companies to continue increasing their workforce numbers. Employment expanded at the sharpest pace in five months.

Input costs continued to increase rapidly in April, often linked to higher salary payments. However, the rate of inflation softened to a 17-month low. Meanwhile, selling prices rose at a solid pace, and one that was slightly faster than that seen in the previous month.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI fell to 48.1 in April from 49.1 in March, signalling a second successive monthly deterioration in business conditions in the manufacturing sector.

The overall decline in the health of the sector was largely due to a solid and accelerated fall in new orders. New business decreased for the fifth month running, and at the fastest pace since August 2021. New export orders were also down, falling to the largest degree in 32 months.

With new orders declining, manufacturers also reduced their output for the fifth month running, although the latest contraction was only marginal.

Firms continued to expand staffing levels, extending the current sequence of job creation to two-and-a-half years. That said, the rate of increase eased to the softest over this period amid waning demand and declining backlogs of work.

The rate of input cost inflation slowed for the third month running and was the softest since August 2020 amid some reports of commodity prices easing. Output price inflation likewise eased over the month.

*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.

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The flash PMI readings for April reveal a growing divergence between the performance of Australia's manufacturing sector and the broader service industries. Manufacturing activity remains soft, a reflection of weaker demand for goods and a gradual slowdown in construction activity in Australia. The April flash results for the services sector have bounced strongly, bringing into question the broader economic slowdown. All the key activity indicators are up in the month.

"Business activity for the services sector surged in April to the highest level since the middle of 2022 and well into expansionary territory. This suggests that activity is picking up once again after a slowdown over the past year.

"The April services results reinforces that if there is a risk to the soft landing view of the Australian economic outlook, it is for a more resilient economy rather than a hard landing.

"The services employment index, which had remained comfortably in expansionary territory even as broader activity indicators slowed last year, has jumped to a five month high.

"The flash employment result confirms what the latest Labour Force report from the Australian Bureau of Statistics shows. Despite record population growth over the past six months, the demand for labour is strong enough to provide employment to new workforce entrants and to maintain unemployment rates near 50 years lows.

"The result is a significant addition to demand in the economy through workforce growth which in the absence of an offsetting increase in the capacity of the economy, may put upward pressure on prices in important markets, and ultimately inflation and interest rates.

"There is nothing in these results that suggests that the Australian economy is headed for recession. To the contrary, they point to a lift in Australia's economic momentum through the middle of 2023.

"Manufacturing prices continue to ease, in line with global trends and is further confirmation that the original 'pandemic' inflation shock is now past. Manufacturing input price inflation fell again and is back to pre-pandemic levels. This only confirms what has been well understood for some time.

"The risk to inflation is from excess demand in the economy putting upward pressure on domestic prices in energy, housing, and labour markets. The good news is that services input costs rose at a slower pace in April continuing the downtrend that has been in place since mid-2022. The bad news is that the service input prices index remains well above a level consistent with the RBA's 2% to 3% inflation target.

"The flash PMI readings for April will be one of the most contemporary insights on Australia's economy at the disposal of the RBA Board when they meet in early May. Considering the RBA Board minutes from March made a strong case for further policy tightening at the time, these results suggest another 25bp rate hike in May is likely.

"That decision will most likely hinge on the March quarter CPI to be released on 26th April. The April flash PMI, strong employment outcomes in March and a resurgence in parts of the housing market all suggest that another rate hike in May is more likely than not."

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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@ihsmarkit.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. ihsmarkit.com/products/pmi.html.