

News Release

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Judo Bank Flash Australia Composite PMI[®] First fall in new orders since March

Key findings

Flash Australia Composite PMI Output Index: 47.1 (Jul: 48.2), 19-month low

Flash Australia Services PMI Business Activity Index: 46.7 (Jul: 47.9), 19-month low

Flash Australia Manufacturing PMI Output Index: 49.5 (Jul: 49.8), 2-month low

Flash Australia Manufacturing PMI: 49.4 (Jul: 49.6), 2-month low

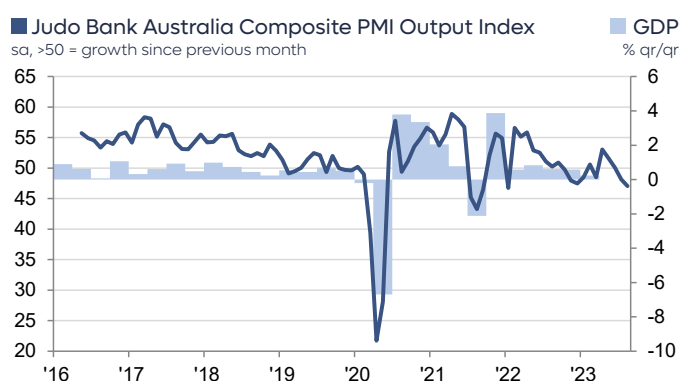
Business activity in Australia's private sector fell in August as new orders shrank for the first time in five months. Higher interest rates constrained demand for both goods and services, though the labour market remained tight as firms in both sectors raised their workforce capacity with greater confidence of output rising in the 12 months ahead. Price pressures meanwhile eased, driven by softer service sector inflation.

The Judo Bank Flash Australia Composite PMI[®] Output Index* posted below the 50.0 no-change mark in August, falling to 47.1 from 48.2 in July, to indicate a solid and accelerated reduction in private sector activity. Business activity has now fallen a fourth time in the first eight months of the year, with the rate of decline accelerating to the quickest since January 2022.

The service sector remained the main source of private sector weakness in August, with services activity shrinking at the fastest pace in 19 months. In contrast, manufacturing output only declined slightly.

The latest downturn in activity was attributed to a renewed decline in new orders. Both the manufacturing and service sectors saw new business contract modestly in August, with the latter recording its first new order decline in five months. Tightening of financial conditions coupled with cost of living pressures limited clients' ability to spend, according to panellists. This was more prominent domestically as new export business shrank only marginally.

Meanwhile, staffing levels rose across Australia's private sector despite lower new orders and output. Firms in both the manufacturing and service sectors continued



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 09-18 August 2023.

to hire midway into the third quarter with hopes that business activity will improve. The level of business confidence among private sector firms rose to the highest in seven months, reflecting improved sentiment among both manufacturers and service providers.

Price pressures eased in August, though this was exclusively service sector driven. Manufacturing input cost inflation quickened amid indications of worsening supply conditions, which in turn led to higher output price inflation, though both rates remained historically subdued.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index declined from 47.9 in July to 46.7 in August. Posting below the 50.0 no-change mark, the latest data was indicative of a second consecutive monthly fall in services activity.

A renewed contraction in new business, attributed to the effects of higher interest rates and softening economic conditions, led to the latest reduction in services activity.

As a result, price pressures fell with slower increases in input costs supporting lower selling price inflation. The rates of both input cost and output price inflation were nevertheless above their respective historic averages in August.

Business confidence meanwhile rose among service providers to a seven-month high in the latest survey. Firms were optimistic for better sales, and this also supported a solid expansion of staffing levels among

service providers in August.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI fell to 49.4 in August, from 49.6 in July. The index continued to signal deteriorating business conditions across the sector, though the latest decline was again marginal.

Fewer new orders led to manufacturing output shrinking fractionally in August. In turn, firms lowered their purchasing activity, though average staffing levels continued to rise alongside sentiment about the 12-month outlook for production. The level of business confidence among Australian manufacturers stood at the highest since February.

Meanwhile, lead times lengthened for a second consecutive month in August, underpinned by supply delays and labour constraints, according to panellists. This was accompanied by another monthly increase in input cost inflation, though the rate of inflation remained below the series average. Manufacturers shared their increased cost burdens with their clients, leading to a faster increase in output prices.

*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 readings provide further evidence that a cyclical slowdown in the Australian economy is underway with another drop in both the output and new orders indexes. We have now seen two consecutive months of sub-50 readings on these critical activity indexes confirming the slowdown in economic growth has continued right through the winter months.

“The previously resilient services industries have displayed the most rapid loss of momentum in activity over the past three months, while Australia’s manufacturing sector has stabilised with activity readings just below the neutral 50 level.

“In contrast to the weakness in activity indicators in recent months, the employment index has picked up and is now again comfortably above the neutral level. Both services and manufacturing employment is expanding, confirming the persistence of labour demand and employment shortfalls for many Australian businesses.

“As is typical at this stage of any economic cycle, we are probably witnessing some labour hoarding by businesses who are not convinced that the current slowdown in activity will be long-lasting. There is also the possibility that chronic labour shortages and skills mismatches are keeping the demand for labour elevated despite the cyclical slowdown in the economy.

“Businesses remain confident about the outlook with the future activity index, a proxy for business confidence in the PMI survey, up strongly in August. This renewed optimism will make it less likely that business leaders will look to trim their workforces into a short-lived economic slowdown.

“A stronger labour market reduces the probability of a lasting slowdown in economic activity, as aggregate demand is supported by ongoing employment growth. This is great news unless it impedes the return of inflation to the RBA’s target, in which case, it might mean a further substantial lift in interest rates could be required at some stage in the next 6-12 months.

“The inflation indicators are not moving in the right direction. The disinflation trend that was evident throughout 2022 has come to an end in 2023 as both input prices and final price indexes have stopped falling in the past six months. Final prices remain elevated at levels that we judge to be consistent with inflation of at least 4%, rather than the RBA’s desired 2% to 3%.

“The price indexes jumped in July as the new financial year brought with it a host of upward price adjustments across the economy. Unfortunately, the elevated July price readings have eased only slightly in August and now show a modest upward trend over the past four months.

“The price indexes suggest that the lower-than-expected June quarter CPI results will not be sustained into Q3. We will receive the ABS monthly inflation indicator for July next week which should shed further light on the extent of inflation pressures coming through in the new financial year.

“Despite relatively low wage growth reported in the official Wage Price Indexes, it is too early to be confident that wage pressures will not rise above the RBA’s current expectation of 4% annual growth in 2023. This may mean firm tightening bias to the RBA’s policy deliberations for the rest of the year.”

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

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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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