

News Release

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Judo Bank Flash Australia Composite PMI[®] Softer fall in business activity

Key findings

Flash Australia Composite PMI Output Index: 47.4 (Nov: 46.2), 2-month high

Flash Australia Services PMI Business Activity Index: 47.6 (Nov: 46.0), 2-month high

Flash Australia Manufacturing PMI Output Index: 46.0 (Nov: 47.2), 2-month low

Flash Australia Manufacturing PMI: 47.8 (Nov: 47.7), 2-month high

Australia's private sector activity contracted again at the end of 2023 as demand conditions, including foreign demand, remained under pressure due to the current economic backdrop. Input cost inflation eased, but firms raised their charges at a faster rate. Overall employment continued to grow, while optimism improved from November.

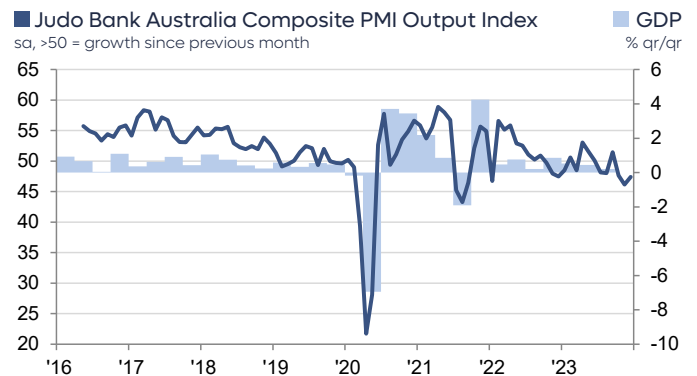
The Judo Bank Flash Australia Composite PMI[®] Output Index* posted 47.4 in December, up from 46.2 in November. This signalled a third successive month of business activity decline, though one that was softer than that seen in November, when output decreased to the largest extent in 27 months.

Underpinning the sustained decline in private sector activity was subdued demand conditions. Incoming new orders fell for a third straight month and across both the manufacturing and service sectors. A tenth consecutive monthly reduction in new export business was also observed. Survey respondents indicated that both domestic and external economic conditions remained subdued, affected by elevated interest rates.

Amid falling new orders, the volume of backlogged work shrank for the eighteenth month in a row.

That said, cost pressures eased for Australian private sector firms with the rate of input price inflation falling to the lowest since August 2021. This was mainly a result of softer cost increases in the service sector. Firms nevertheless raised their selling prices at a faster rate, citing the need to cover higher input and labour costs.

Higher labour costs coincided with a further increase in employment, though job creation was exclusively



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 05-12 December 2023.

driven by the service sector as manufacturing staffing levels decreased for the second month running.

The overall level of business confidence, while remaining below-average among Australian private sector firms, was the highest in three months amid hopes for growth in 2024.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted below the 50.0 no-change mark for a third successive month in December to signal sustained services activity contraction. At 47.6 in December, however, the index was up from 46.0 in November to signal a slower pace of decline.

Soft demand conditions weighed on services activity with anecdotal evidence pointing to high inflation and borrowing costs negatively affecting client spending. In turn, service providers continued to work through their outstanding business, extending the depletion of backlogged work to one-and-a-half years.

Input price inflation meanwhile eased, though firms raised charges at a quicker rate to cover costs.

Overall employment conditions improved with services firms hiring at the fastest rate in three months. Optimism among firms also rose in the latest survey period.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI rose to 47.8 in December, up from 47.7 in November. This marked the tenth straight month in which manufacturing sector conditions worsened, but the latest deterioration was

slightly slower than in the previous survey period.

Manufacturing output contracted at a quicker pace in the final month of the year despite a slower fall in incoming new orders. Both the rates of contraction for output and new orders remained solid amid softening economic conditions and pressure from high interest rates.

Consequently, headcounts in the manufacturing sector declined for a second consecutive month while firms also cut input purchasing, leading to further paring of input inventory stock.

Price pressures meanwhile intensified with manufacturers passing on higher costs, stemming from rising raw material and energy prices, to clients at a faster rate. Overall sentiment in the manufacturing sector improved, but the level of optimism remained well below the long-run average.

*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 December Flash PMI report showed some minor improvements in business activity heading into the end of the year but confirms that the economy remains on a soft-landing trajectory. The composite output index increased slightly while the new orders index fell slightly. Both key activity indicators remain below 50, in line with a growth ‘pause’, and are well above levels indicative of economic recession.

“Complicating the economic picture are the still strong employment readings and elevated price indexes.

“Services business activity rose from a cyclical low point in November to around the average level seen since July, excluding the one-off jump in September. This confirms recent data that shows the economy is well advanced in its cyclical downturn.

“New business activity slowed in December. While the index level remains consistent with a soft landing, the pipeline of work for Australian services industries is light, suggesting the economy will remain sluggish in early 2024.

“The Judo Bank Flash Manufacturing PMI for December was virtually unchanged from November, holding just below the neutral 50.0 index level where it had been for most of the year. The good news is that we are not seeing a further deterioration in Australian manufacturing activity. That is, there are no signs that manufacturing is taking further steps down towards recessionary levels.

“Manufacturing employment was below 50.0 for the second consecutive month in contrast to the services sector employment index, which remains above 50.0. Manufacturing input and output prices rose slightly in December but are broadly at levels consistent with 2-3% inflation.

“This will probably be of little comfort to the RBA because service sector inflation dominates the overall story in Australia. Indeed, the manufacturing price indicators show no signs of deflation in domestic goods production. Adding to this is the weak Australian dollar, preventing a meaningful fall in imported goods prices and limiting Australia’s benefit from global goods price deflation.

“The services sector input prices index softened through December, reaching a new cyclical low. Despite this, input and final cost readings remain well above levels consistent with a 2-3% inflation rate. While there needs to be a further easing of services inflation pressures in 2024, the broad trend is moving in the right direction.

“Services sector employment jumped in December with the respective index rising back to 52.3, the monthly average outcome for this series in 2023. Despite sustained weak readings on activity, Australia’s service industries are still expanding their workforces. This is more than an atypical labour-hoarding dynamic. Unlike pre-pandemic, employment over the past two years has been much stronger than other underlying activity indexes.

“For the RBA and Treasury, these results are consistent with the soft landing view of the economic outlook. There are few signs that the economy is likely to tip into a steeper downturn next year. Most importantly, the strong employment results suggest the economy may prove resilient in 2024. It is hard to see a sharp downturn in the economy while employment and incomes are expanding.”

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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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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.judobank.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