

News Release

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Judo Bank Flash Australia Composite PMI[®]

Private sector activity shows further signs of turnaround in February

Key findings

Flash Australia Composite PMI Output Index: 49.2 (Jan: 48.5), 4-month high

Flash Australia Services PMI Business Activity Index: 49.2 (Jan: 48.6), 4-month high

Flash Australia Manufacturing PMI Output Index: 48.9 (Jan: 47.7), 2-month high

Flash Australia Manufacturing PMI: 50.1 (Jan: 50.0), 2-month high

Australian private sector output shrank for a fifth straight month in February, according to Flash PMI[®] data. Lower demand for Australian goods and services led to overall business activity falling, though the rate of decline was marginal. Hiring activity meanwhile continued at a solid rate in February as firms stayed optimistic while price pressures declined.

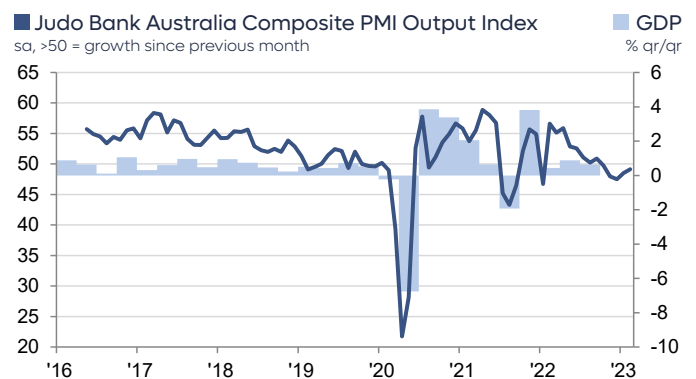
The Judo Bank Flash Australia Composite PMI Output Index* climbed from 48.5 in January (final reading) to 49.2 in February. The reading indicated a fifth consecutive month of private sector contraction but at the softest pace since last October.

A lower level of output recorded in the second month of 2023 was underpinned by both softer services activity and weaker manufacturing production. That said, the overall pace of decline eased and was mild overall.

A renewed deterioration in demand affected overall business activity as firms listed higher interest rates and economic uncertainties as reasons dampening demand. Foreign demand rose, however, attributed to better manufacturing sector export orders in February.

Amid a lack of demand, Australian goods producers and service providers worked through backlogged orders, which led to the level of work outstanding falling at a faster rate across both sectors. Some firms also reported improving labour supply leading to the depletion of backlogged work.

Indeed, firms across both the manufacturing and service sectors continued to hire at a solid rate in February. Anecdotal evidence suggested that some firms also raised their employment levels in anticipation of higher



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.
Data were collected 09-16 February 2023.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

“Australian business activity improved in February 2023 with a second consecutive small rise in the flash composite output index to 49.2. The economy has slowed from the strong rates of growth in 2022 to be on a more sustainable footing in early 2023.

“We still appear to be on the narrow path to achieve a soft landing for the economy in 2023.

“The small jump in the output index might prove to be a brief reprieve for Australian businesses seeing another fall in new business. Expectations for future output growth have also deteriorated suggesting that the business community expect a continued slowdown in activity over the first half of 2023 on the back of weaker global and domestic economic growth.

“Labour demand also eased in February across both the services sector and manufacturing industries. Overall labour demand remains in positive territory consistent with the hoarding of labour as the economy slows. This should keep unemployment low even as economic policy makers induce a necessary economic slowdown in 2023/24.

“Prices pressures eased further in the service industries yet remain elevated, while manufacturing price indicators barely moved in February. Despite the moderation, the price indicators continue to point to above target inflation in 2023.

“The February numbers highlight a further improvement in supply chain function within the Australian economy.

future output.

While the overall sentiment across the Australian private sector remained one of optimism, the level of business confidence slipped in February. Firms were concerned with the effects of rising costs and uncertain economic conditions on sales in the coming months.

Certainly, price pressures have eased in the Australian private sector with input cost inflation at the lowest in 16 months, though remaining above the series average. In turn, firms passed on higher costs to clients at the slowest pace since November 2021, although charge inflation also remained relatively elevated.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 49.2 in February, up from a final reading of 48.6 in January. This indicated a fifth straight month of contraction in services activity, albeit the slowest since last October.

Demand for Australian services returned to contraction after rising in January. Likewise for international demand, new business from abroad fell in February but at a slower pace than overall new orders.

Service providers nevertheless continued to hire to fulfil existing demand and in anticipation of future activity growth, with sentiment across the Australian service sector remaining positive. Meanwhile the rate of input cost inflation for Australian service providers declined in February which led to a slower increase in output charges.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI posted 50.1 in February, up from a final reading of 50.0 in January. This signalled a renewed expansion of the manufacturing sector, albeit one that was only marginal.

Manufacturing output remained in contraction as demand fell for a third straight month. That said, the rates at which new orders and output declined eased from January and were mild overall. In fact, foreign demand rose for the first time since last November.

Meanwhile, manufacturers were broadly optimistic and continued to expand their workforce capacity at a solid pace. At the same time, price and supply pressures eased, with supplier lead times lengthening at a slower rate while output price inflation softened in February.

That said, the overall level of business confidence declined according to the latest survey.

*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.

Supplier delivery times and the backlog of work are now broadly back to normal levels following the extreme results seen through the pandemic. It is good to see that Australian supply chains are normalising in line with global developments.

“At this stage the Judo Bank PMIs are pointing to a welcome slowdown in the economy that may help take upward pressure off interest rates. While this will do little to alter the RBA’s intentions to raise interest rates further over the months ahead, it does indicate that we may be close to the point where the RBA Board can pause the current tightening cycle.”

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

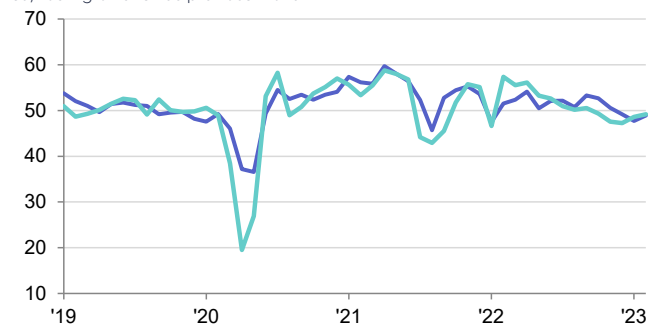
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.

■ Manufacturing PMI Output Index
■ Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global.

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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 0.5)

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.