

News Release

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Judo Bank Flash Australia Composite PMI[®] Australian private sector activity slows amid higher interest rates

Key findings

Flash Australia Composite PMI Output Index: 47.3 (Nov: 48.0), 11-month low

Flash Australia Services PMI Business Activity Index: 46.9 (Nov: 47.6), 11-month low

Flash Australia Manufacturing PMI Output Index: 49.6 (Nov: 50.6), 11-month low

Flash Australia Manufacturing PMI: 50.4 (Nov: 51.3), 31-month low

Australian private sector output shrank for a third successive month in December, according to Flash PMI[®] data. Weaker demand for Australian goods and services underpinned the decline in activity. Also as a result of the fall in new orders, employment expanded at a slower rate while business optimism stayed muted. Input cost inflation eased but selling prices continued to rise rapidly.

The Judo Bank Flash Australia Composite PMI Output Index* eased from 48.0 in November (final reading) to 47.3 in December. The reading indicated a third consecutive month of private sector contraction and the fastest since January.

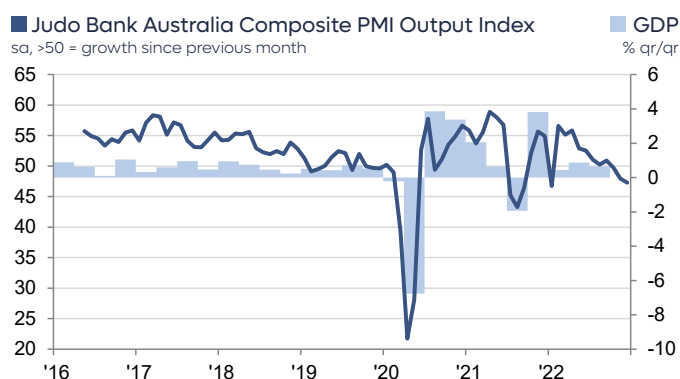
Output fell in December as incoming new orders for Australian goods and services reduced at a faster rate, while manufacturing production was also affected by capacity issues. According to survey respondents, higher interest rates and a deterioration in economic conditions led to lower new orders.

Foreign demand likewise deteriorated, attributed to a downturn in international new business across both manufacturing and services.

As a result of the fall in demand, private sector firms worked through their existing orders, resulting in a faster depletion in backlogged work.

Employment levels meanwhile continued to rise in the final month of 2022 as firms persisted in efforts to rebuild their workforces to pre-pandemic levels. The rate of workforce expansion dipped to the lowest in 11 months amid weaker demand conditions, however.

Cost pressures for private sector firms also declined in December, with input cost inflation falling across both the



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.
Data were collected 5-13 December 2022.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Flash PMIs for December reveal a slowdown in activity across the Australian economy as we finish 2022. The service sector is clearly slowing having recorded three consecutive readings below 50 in the December quarter. The Flash Services PMI for December, at 46.9, is fast approaching levels typically associated with a contraction in economic activity.

"The December results are one of the most up to date readings on the Australian economy and show that higher interest rates are starting to have the desired impact on activity. The Flash PMI readings for December are still well above levels that would normally be associated with recession. What we are seeing could be the first signs of a desired soft landing for the Australian economy in 2023.

"The demand for labour is also slowing, particularly in the services sector, reflecting softer activity and forward orders. Slower demand for labour will take pressure off a super-tight labour market and reduce upward pressure on wages in 2023.

"Unfortunately, there are few signs of an easing of inflation with cost pressures across the supply chain still elevated in December. This combination of slower activity and elevated inflation raises the spectre of stagflation in 2023. More likely, these inflation pressures will dissipate if economic activity remains subdued.

"The slowing in this leading indicator of Australian economic activity will be welcomed by the RBA. Tighter monetary

manufacturing and service sectors. That said, the overall level of selling price inflation rose as firms continued to share their cost burdens with clients.

Finally, sentiment in the Australian private sector remained positive in December but the level of business confidence was below the average for 2022 as a whole.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 46.9 in December, down from 47.6 in November, to indicate a third straight month of contraction.

Demand for Australian services, including foreign demand, declined again in December, leading to a reduction in business activity. Survey respondents frequently linked the corrosion of demand to higher costs of living and interest rates.

In turn, employment levels rose at a slower rate in the Australian service sector. Input cost inflation also eased to a ten-month low, though firms were able to pass on cost hikes at a faster rate in December, leading to higher selling price inflation.

The overall level of business confidence inched up in the final month of the year but remained well below the series average.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI posted 50.4 in December, down from a final reading of 51.3 in November. This marked the thirty-first successive month in which conditions in the manufacturing sector strengthened, but the latest improvement was the softest in the current sequence.

Manufacturing output shrank for the first time since January, albeit at a marginal rate. The fall was underpinned by a deterioration in demand conditions with new orders for Australian manufactured goods declining for the first time since August 2021.

Supply and manpower constraints were also reported to have limited production. Lead times lengthened at a faster rate in the manufacturing sector in December, attributed to supply chain issues and domestic flooding. Concurrently, staffing levels rose but there were reports of skilled labour shortages limiting the pace of job creation.

The fall in demand meanwhile impacted on the level of business confidence and buying activity among manufacturers. That said, the lowering in demand also led to price pressures easing with both input costs and output prices rising at slower rates in the final month of 2022.

*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.

policy is having the desired effect, that is, a gradual slowing in domestic demand that should eventually filter through to lower inflation.

"This important leading indicator of Australian economic activity raises the prospect of an extended pause in the rate hiking cycle. As the rate hikes of 2022 continue to work through the economy over the first half of 2023, the RBA appears to have some scope to sit back and watch for a while.

"The critical question for policymakers is whether the softening in activity will be sustained in 2023. Any acceleration in economic activity while inflation pressures remain elevated could entrench inflation within the economy and lead to another wave of rapid rate hikes in late 2023."

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

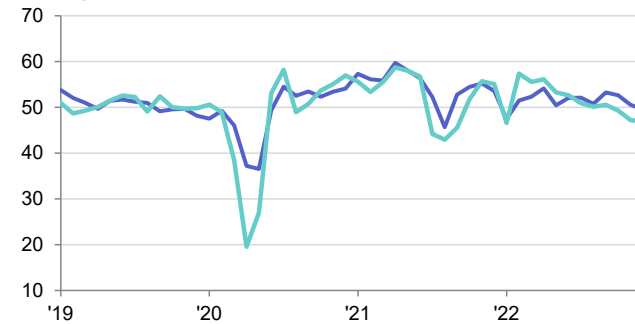
sa, >50 = improvement since previous month



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 0.6)

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.