News Release

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Judo Bank Australia Services PMI®

Fastest services activity expansion in nearly two years

Key findings

Growth in new business sustained in March

Backlogs accumulate for the first time since May 2022

Inflation rates soften

Australia's service sector expanded at a faster rate towards the end of the first quarter of 2024, according to the latest PMI® data. A sustained rise in new orders led to business activity expanding at the steepest rate since April 2022. The level of outstanding work also rose for the first time in close to two years despite higher workforce capacity. Meanwhile optimism among services firms improved in March while price pressures eased.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index rose to 54.4 in March, up from 53.1 in February. The latest reading signalled a second consecutive expansion in services activity that was also the fastest since April 2022.

Underpinning the latest acceleration in services activity growth was a second straight month of new business gains in March. Improvements in client demand and greater enquiries led to higher new work inflows. The transport & storage sector recorded the sharpest growth in new sales, followed by consumer services, according to detailed sector data.

In contrast, new export business fell in March on the back of a reduction in overseas demand. New export business has now fallen five times in the last six months, though only fractionally during March.

The rise in overall new orders nevertheless led to a renewed accumulation of backlogged work in March. This marked the first increase in the level of backlogged work since May 2022, albeit only marginally. Sub-sector data revealed that the consumer service sector experienced the sharpest expansions in both business activity and the volume of incomplete work. To cope with ongoing workloads, Australian service providers hired additional staff, mainly in the transport & storage and consumer services sectors in March.

Meanwhile, overall input prices continued to increase at the end of the first quarter of the year on the back of rising input material, fuel and wage costs. That said, the rate of

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Judo Bank Services Purchasing Managers Index (PMI) recorded another strong result in March, with the Output index rising to a new cyclical high of 54.4. This is the fourth consecutive month of improvement, with the services output index increasing by 8.4 points, the largest gain in the series outside of recovery from lockdowns.

"It is also worth noting that the final services output index was higher than the 'Flash' reading, suggesting that business momentum continued to increase until the end of the month. This is a strong result for the Australian economy.

"The services output index is now above its long-run average level of 51.7, broadly consistent with a trend rate of growth in the overall economy. The March 2024 reading is the highest since April 2022, when the monetary policy tightening cycle commenced.

"The output index averaged 52.2 over the first three months of 2024, much higher than we saw over the final six months of 2023. The index averaged 47.0 in the December quarter of 2023, following an average reading of 49.2 in 2023Q3.

"The Judo Bank Services PMI survey is painting a picture of an economy recovering from a cyclical slowdown in 2023. The Outstanding Business Index rose to its highest level since the Reserve Bank of Australia started raising interest rates in May 2022, confirming a solid pipeline of work.

"The other activity indicators in the survey were down slightly in March, but remained well above the neutral 50 index level.

"The Employment index remains at a level indicative of growing demand for labour. At no stage in this post-pandemic economic cycle has the services employment index fallen below the 50.0 index level, despite soft activity outcomes throughout 2023.

"Cost pressures remain elevated, although there are some signs of a gradual easing over the past six months. The input price index fell slightly to 61.5, the lowest since 2021, but not much lower than the average reading of 62.8 seen through the second half of 2023. The input price index remains above pre-pandemic levels.

"The Prices Charged Index remained unchanged at 55.0 in March, a little higher than the average over the past quarter and broadly in line with index readings of the past year. These results are still well above pre-pandemic average levels.

"The price indicators in the Services PMI are consistent with elevated domestic inflation. Of some concern is the lack of progress in reducing these cost and inflation pressures further over the past six months in the wake of the broader economic slowdown.

"The inflation indicators highlight that the process of reducing inflation from around 4% to 2.5% will be gradual and will require the economy to be on a soft growth trajectory, which does not appear to be the case from these survey results.

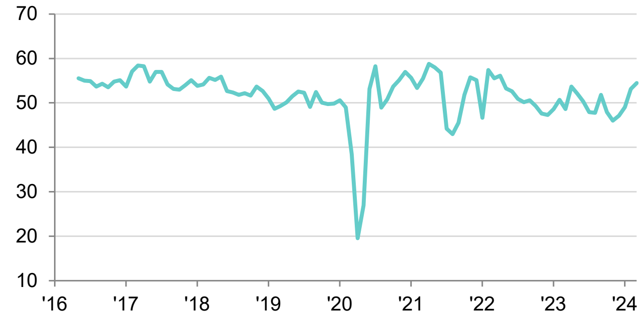
"Confidence across Australia's service industries was up in March and is now at the highest level in a year. This suggests that the cyclical recovery in Australia's service sector has further to run."

inflation slipped to the lowest since October 2021, leading to services firms to raise their charges at a marginally softer pace in March. The rates of both input cost and output price inflation remained above their respective series averages, however, signalling still-elevated price pressures.

Finally, overall sentiment in the Australian service sector remained positive. Additionally, the level of confidence climbed to the highest in seven months as firms indicated that the recent growth in new business and activity had boosted hopes that sales will continue to rise in the 12-months ahead.

Judo Bank Australia Services PMI Business Activity Index

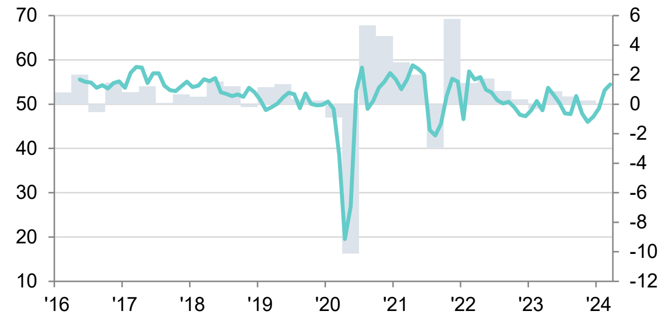
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 11-25 March 2024.

Australia Services PMI Business Activity Index | Services GDP

sa, >50 = growth since previous month | %qr/qr



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

Judo Bank Australia Composite PMI®

Growth in output accelerates in March

The Composite Output Index posted 53.3 in March, up from 52.1 in February. The latest reading indicated that Australia's private sector output growth accelerated at the end of first quarter to the quickest in 23 months.

Faster services activity growth was the main driver behind the latest rise in output as manufacturing production continued to contract. This reflected diverging demand trends, with rising services new business contrasting with a deepening downturn in goods new orders. Overall, new orders rose modestly for a second successive month.

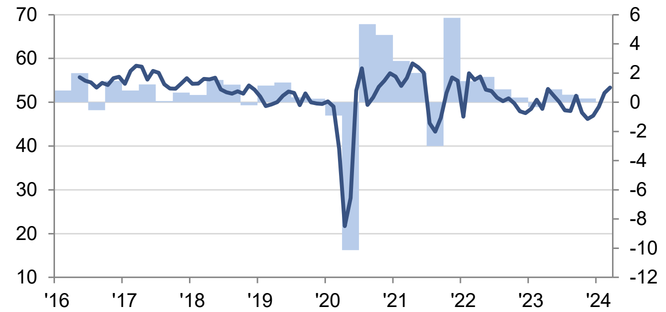
Employment growth meanwhile slowed in March amidst slower services job additions and faster job shedding in the manufacturing sector.

Slower rises in prices were meanwhile consistent across both the goods and service sectors, leading to lower overall input cost and output price inflation rates in March.

Overall optimism was at a seven-month high in March, driven mainly by higher service sector confidence.

Judo Bank Australia Composite PMI Output Index | GDP

sa, >50 = growth since previous month | % qr/qr



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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Survey methodology

The Judo Bank Australia Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 2016.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey 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.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services 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 figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying 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.

Flash vs. final data

Since May 2016 the average difference between final and flash Services PMI values is 0.0 (0.6 in absolute terms).

About Judo Bank

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.judo.bank

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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