

# News Release

Embargoed until 0900 AEDT 5 February 2024

## Judo Bank Australia Services PMI® Slower fall in service activity during January

### Key findings

**New business broadly stable...**

**...leading to a deceleration in services activity contraction**

**Charges rise at below-average rate**

Services activity fell at a slower rate at the start of 2024, according to the latest PMI® data. A stabilisation in demand, supported by a shallower fall in export business, led to services activity declining at only a marginal rate in January. Firms also lowered their level of outstanding business with higher employment supporting operations. Meanwhile price pressures receded in the latest survey period, with both input cost and output price inflation rates descending. Overall sentiment also improved to a five-month high.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index rose to 49.1 in January, up from 47.1 in December. Despite posting below the 50.0 no-change mark for a fourth straight month at the start of 2024, the latest reading signalled a marginal contraction in services activity. Only the information & communication and consumer services sectors reported reduced output in January.

Incoming new business for Australian services was broadly unchanged at the start of the new year as increased new enquiries mostly offset instances where lower demand was reported due to high interest rates and softening economic conditions. Foreign demand continued to deteriorate on the back of reduced budgets and supply issues, although the rate of decline eased in January.

Australian service providers also continued to work through their outstanding business, which fell for a nineteenth straight month at the start of the year. This coincided with increased workforce capacity as firms continued to hire to cope with ongoing workloads.

On prices, overall input costs rose again in the opening month of 2024 as higher transport, fuel and wage costs contributed to further cost inflation. The rate of cost inflation was little changed from December and remained above the series average. Firms in the transport & storage sector reported the fastest rise in prices. Meanwhile, selling prices continued to increase, but in a bid to support sales, Australian service providers opted to raise charges at a

### Comment

Matthew De Pasquale, Economist at Judo Bank said:

“The Australian economy has started 2024 on a positive note. With a recovery in key activity measures, a gradual decline in price indexes, and ongoing employment growth, the economy continues demonstrating resilience to the sharp rise in interest rates.

“There was a notable improvement in activity indexes in January, with the Output index rising to 49.0, up from 46.9 in December. As the index resides slightly under the neutral level (50.0), we are seeing confirmation that economic activity is cooling but at a very gradual pace. The new orders index also rose to 49.6 from 46.7 the month prior, further suggesting the economy remains on the RBA's narrow path. Both the Manufacturing and Services sectors have contributed to a rebound in key activity measures through January.

“Resilience in labour demand continues to play an essential role in moderating the slowdown in the Australian economy. The employment index for January remained above the neutral level, close to where it has resided over the past three months. Despite the economy cooling, businesses continue to see consumer demand exceed their supply capabilities, hence the continued efforts to grow their workforces. Over the past year, the resilience in employment and labour demand has effectively put a floor under how much Australia's economy can slow down.

“Price pressures facing consumers have continued to ease across the services sector. With demand softening in the economy, the seasonally adjusted Prices Charged index has fallen a level last seen in mid-2021 before inflation levels began to rise. Input price pressures have also continued to ease, albeit at a slower rate. The input price index fell to a level, which, while still inconsistent with a 2-3% inflation rate, was at the lowest recorded level seen since mid-2021. These results, alongside official data releases, will likely see the RBA board hold the cash rate at 4.35% in their February meeting, as the economy appears to be following its narrow path to a 2-3% inflation rate.

“Alongside the improvement in activity indicators, business expectations for future activity have risen, with the Future Output index rising to 66.1 in January from 64.6 the month prior. While remaining at historic lows, the improvement of 5.1 points over the past three months may suggest that businesses believe the worst of the slowdown has passed.

“The January 2024 PMIs provide a positive outlook for the year ahead and confirm that we are in the midst of a soft landing. Inflation remains in gradual decline, business activity is only easing gradually, and employment remains resilient.”

slower rate in January. Indeed, the rate of charge inflation was notably the lowest in two-and-a-half years.

Sentiment in the Australian service sector remained positive in January, as indicated by an above-50.0 print of the Future Output Index. Additionally, the level of business confidence climbed to the highest since August 2023. There were hopes that services activity will expand with better economic conditions and prospects of lower interest rates in 2024.

Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month



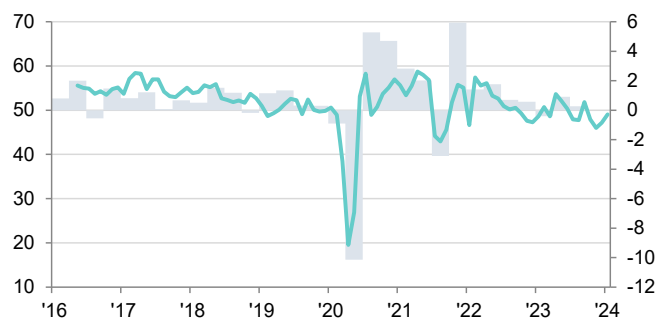
Sources: Judo Bank, S&P Global PMI.

Data were collected 10-26 January 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®

## Private sector output contraction eases

The Composite Output Index posted 49.0 in January, up from 46.9 in December. The latest reading signalled a fourth monthly contraction of Australia's private sector output, but at the slowest pace in the current sequence.

Both manufacturing output and services activity fell at slower rates at the start of the new year as overall new business fell at a softer and only marginal pace. Services new business notably stabilised.

Meanwhile employment growth was sustained but was limited to services job additions with manufacturing headcounts falling modestly for a third straight month.

Elevated service sector inflation kept overall cost inflation above average, but with softer manufacturing sector cost increases in January, Australian private sector firms raised selling prices at a more moderate rate.

Finally, sentiment improved in the latest survey period with higher confidence recorded across both the manufacturing and service sectors.

■ Judo Bank Australia Composite PMI Output Index

sa, >50 = growth since previous month

■ GDP

% 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](mailto: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).

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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](http://www.spglobal.com/marketintelligence/en/mi/products/pmi)