

News Release

Embargoed until 0900 AEST 3 May 2024

Judo Bank Australia Services PMI®

New business rises at fastest pace in nearly two years

Key findings

Solid growth in business activity

Employment growth decelerates to three-month low

Charge inflation eases despite faster rise in input costs

Australia's service sector expanded at a solid pace at the start of the second quarter, according to the latest PMI® data. Faster new business expansion, supported by renewed new export growth, led to higher business activity in April. Rising capacity pressures and optimism about the year ahead output also contributed to an expansion of workforce capacity. That said, margin pressures were present as service sector firms raised charges at a slower rate despite rising input cost inflation.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index fell to 53.6 in April, down from 54.4 in March. The latest reading signalled a third consecutive expansion in services activity and at a solid rate that was the second-fastest in 12 months. The real estate & business services sector recorded the sharpest rise in activity.

Central to the sustained improvement in services activity was higher new business inflows in April. Services new business increased for a third straight month and at the fastest pace since May 2022 as demand improved. Sub-sector data revealed that firms in the transport & storage sector recorded the most pronounced rise in new sales.

Additionally, new export business returned to growth after falling in March. Although marginal, the latest improvement in foreign demand marked only the second expansion in seven months and helped to support the uptick in overall new business.

The expansion in new business and activity led to a marginal rise in the level of backlogged work in April. In turn, Australian service providers lifted their employment levels to cope with ongoing workloads. Headcounts rose at the fastest pace in the consumer services sector.

Overall input prices meanwhile continued to increase in April, extending the sequence of inflation to just under four years. According to panellists, higher energy, labour, and input material costs led to average input prices rising at a rate above the series average. Firms were however hesitant to pass on additional cost burdens in entirety,

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"The Australian Composite PMI for April confirms earlier 'Flash' PMI findings of an ongoing rebound in activity levels, continued employment growth, and improved business confidence.

"The services sector is driving the improvement in economic activity levels. Both the business activity and new order indexes have consistently remained in expansion territory over the past three months. The New Business Index posted the highest reading since May 2022. While these figures suggest an improvement in consumption levels through 2024, official retail sales figures are yet to show clear signs of improvement, remaining tepid.

"Businesses in the services sector are continuing to expand headcounts, with the employment index indicating moderate employment growth in April. Despite the consumer-led economic slowdown after the pandemic, Australia's historically tight labour markets have kept the index above its neutral level since August 2021. Job vacancies are still around 50% higher than pre-pandemic levels, suggesting we are unlikely to see any significant decrease in employment growth or the employment index over the coming months.

"Margin pressure in the services sector has remained relatively unchanged since the start of 2024, at levels that are elevated on pre-pandemic norms. Input price pressures remain elevated on pre-pandemic levels and appear to have stagnated in their descent, averaging 61.8 over the past few months, 5.0 points higher than the pre-pandemic average. The output price index is closer to the pre-pandemic levels at 54.2 but also appears to have stagnated in its descent towards the neutral level. Despite facing ongoing margin pressure, the rise in business insolvencies is yet to exceed pre-pandemic levels during times of similar RBA policy rates.

"With the improvement in activity levels, business confidence in the services sector has returned from cyclical lows to an average of 66.2 over the past three months. While still well down on pre-pandemic levels, the three-month average is the highest since February 2023 and suggests services sector businesses, on average, believe the worst of the slowdown is behind them. Ongoing improvement in consumer and business demand in the services sector will likely see confidence levels continue to climb."

leading to output price inflation easing to a three-month low. Some service providers indicated a need to remain competitive and to support sales.

Finally, sentiment in the Australian service sector remained positive at the start of the second quarter with 41% of panellists expressing optimism about output in the year ahead, more than four times the proportion expecting lower services activity. That said, the level of confidence eased from March amid concerns of elevated interest rates and inflation.

Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month

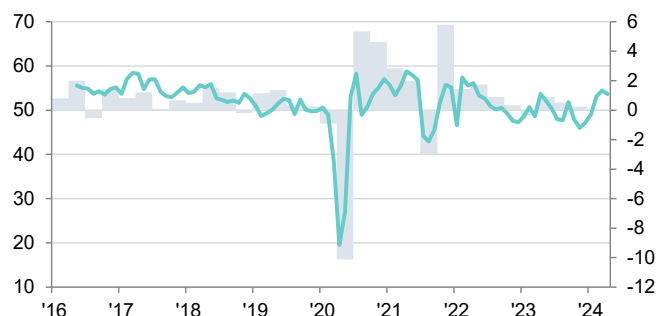


Sources: Judo Bank, S&P Global PMI.
Data were collected 10-25 April 2024.

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 growth sustained in April

The Composite Output Index posted 53.0 in April, down from 53.3 in March. The latest reading indicated that Australia's private sector output growth was sustained at a solid, albeit slower, pace at the start of the second quarter.

Business activity growth was again limited to the service sector as manufacturing output fell again. Similar trends were seen for new orders.

Overall growth in output and new orders led to higher employment in April. Input costs also rose at a fastest pace as inflation intensified across both manufacturing and service sectors. Overall output price inflation eased, however.

Lastly, sentiment in Australia's private sector remained positive but eased slightly since March. Reduced service sector optimism offset an improvement of confidence the goods producing sector.

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.

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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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