News Release

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Judo Bank Australia Services PMI®

Weaker expansion of service sector signalled in June

Key findings

Business activity up for third month, but at slower rate

Difficulties in hiring limit workforce expansion

Charge inflation remains marked in June

The Australian service sector continued to expand at the end of the second quarter according to the latest PMI data. New orders and business activity both rose, albeit at slower rates in June. Workforce capacity expansion was sustained, whilst charges rose at a faster pace as cost inflation remained high. Overall sentiment remained positive but concerns over higher interest rates meant confidence softened to a four-month low.

The seasonally adjusted Judo Bank Australia Services PMI® Business Activity Index posted 50.3 in June, down from 52.1 in May. This marked a third consecutive month of service sector expansion, but was the slowest in the current sequence and only marginal. Three of the five sub-services categories saw higher activity in June, led by information & communication firms.

New business growth was sustained for a third straight month in June. However, the rate of expansion was modest and lower than in May. Anecdotal evidence suggested that higher charges and constrained client budgets due to higher interest rates led to the softer expansion in new work. New export business meanwhile saw a renewed expansion in June, though growth remained only fractional.

Despite reports of difficulties in recruiting skilled workers, for the twenty-second successive month, Australian service providers took on additional staff, largely to help with existing workloads. This strategy worked, and with better efficiencies also signalled, Australian service providers were able to lower their volume of work outstanding for the twelfth month running.

On the price front, both input costs and output charges rose at above-average rates in June. Higher overall input prices extended the sequence of cost inflation to just over three years. Panellists attributed rising cost burdens to higher wages, transport, and fuel prices. That said, inflation remained on a downward trajectory, dropping for a seventh successive month to the lowest in 20 months. Service providers nevertheless passed on higher costs to clients at a faster rate in June, bringing charge inflation up

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The final PMI results for June point to continued modest growth for the Australian economy in the middle of 2023. The composite output index has weakened over the past two months, largely driven by a softening in service sector activity, but remains above the neutral 50 level.

"New orders also remain in positive territory although the index was lower in June than in May. There is no conclusive evidence from these survey results that the economy is on track for a sustained slowdown, although a further loss of momentum across the services sector over the second half of 2023 could eventuate as rising interest rates bite into economic activity.

"Labour demand has fallen in recent months but remains firmly in positive territory across both the services and manufacturing sectors. This is consistent with recent strong labour market indicators including the historically high job vacancies data from the Australian Bureau of Statistics and strong employment growth in May.

"There is also evidence of labour hoarding with the composite employment index holding up at a higher level than both output and new orders. This is particularly evident in the manufacturing survey where activity has been in contraction yet employment in expansion.

"Labour hoarding is common at this stage of the economic cycle. Business tends to hold on to staff until they are confident that the slowdown in activity will be sustained. Given widespread labour shortages across the Australian economy over the past two years, it is not unreasonable to think that Australian business will be even more resistant to labour shedding than is typical.

"A more persistent labour hoarding could be another factor, along with high immigration and strong private sector balance sheets, that will continue to frustrate the RBA's efforts to slow demand in the economy and bring inflation back down to their 2% to 3% target range.

"The price indicators in the PMI survey suggest that domestic services inflation will remain elevated over the second half of 2023. Service sector prices charged, the index most closely related to consumer prices, has increased in each of the last three months and is now at a reading of 55.3, well above the pre-pandemic average of around 52.

"Higher services prices likely reflect rising labour and energy costs, which do not look like they are reversing anytime soon. This all points to inflation sticky at around 4-5% in 2023, still well above the RBA's target.

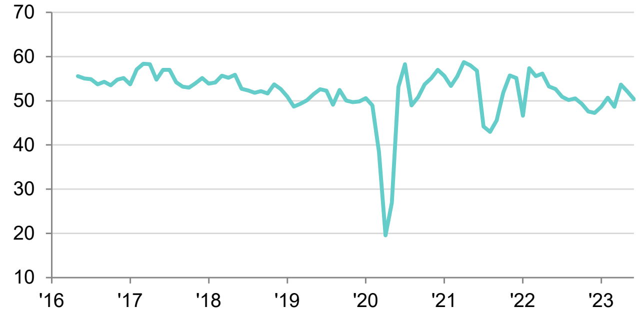
"Most forecasters had been expecting to see a stronger reaction in the economy to 400bp of rate hikes over the past fourteen months. The resilience of the economy, strong labour demand and high inflation as we enter the winter months of 2023 highlight the risk that interest rates may need to rise above 5% if we are to re-establish low and stable inflation within the Australian economy by 2025.

"The next six months will be critical to Australia's medium-term economic outlook. The Judo Bank Purchasing Managers' Index will continue to be an important indicator to watch in assessing economic developments."

to the highest in four months.

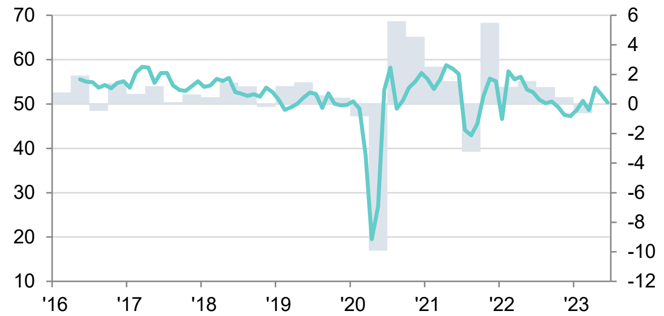
Overall sentiment within the Australian service sector remained positive at the end of the second quarter as firms remained optimistic that sales will improve in the coming 12-months. The level of business confidence fell to the lowest since February, however, with concerns gathering around inflation, interest rates and the economic environment.

Judo Bank Australia Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-26 June 2023.

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 expansion close to stagnation in June

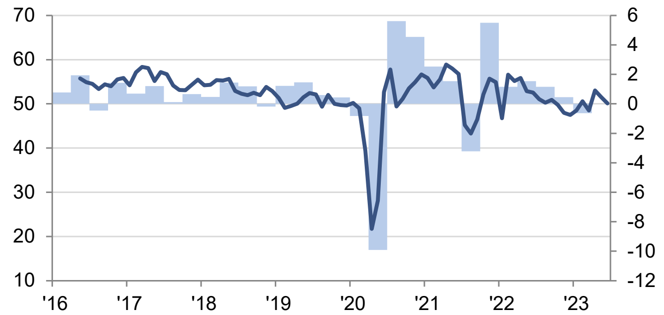
The Composite Output Index posted above the 50.0 neutral mark for a third straight month in June, signalling sustained expansion of the Australian private sector. However, at 50.1 in June, down from 51.6 in May, the latest reading indicated only a marginal improvement in activity.

A sustained contraction of manufacturing output and slowdown in service activity expansion underpinned the easing of overall business activity growth in June. Similarly, manufacturing new orders registered a sharper fall while services new business growth also decelerated.

In turn, price pressures receded across the Australian private sector. Input cost inflation fell to its lowest rate since August 2021. Output charges also increased at a weaker rate.

Meanwhile, firms across both manufacturing and services continued to expand their workforce numbers, whilst optimism about the 12-month outlook was maintained. However, the level of confidence was among the lowest in the year-to-date in June.

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@ihsmarkit.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

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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.