

News Release

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Judo Bank Flash Australia Composite PMI® Growth in business activity eases towards neutral level

Key findings

Flash Australia Composite PMI Output Index: 50.2 (June: 50.7), 6-month low

Flash Australia Services PMI Business Activity Index: 50.8 (June: 51.2), 6-month low

Flash Australia Manufacturing PMI Output Index: 46.3 (June: 46.8), 4-month low

Flash Australia Manufacturing PMI: 47.4 (June: 47.2), 2-month high

Business activity in Australia's private sector neared stagnation in July as companies faced a second consecutive month of falling new orders. Employment ticked higher, while rates of inflation quickened. Business confidence dropped to the lowest since the outbreak of the COVID-19 pandemic.

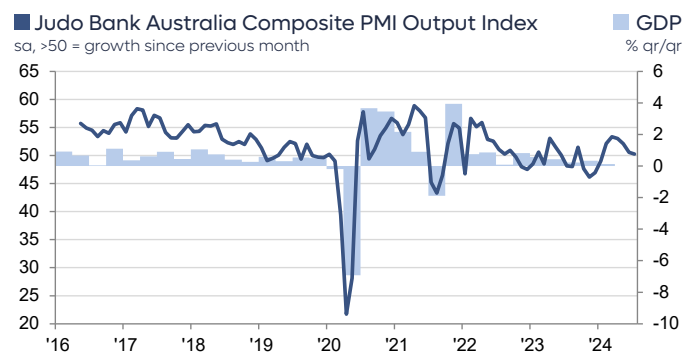
The Judo Bank Flash Australia Composite PMI® Output Index* fell to 50.2 in July, down from 50.7 in June. The reading signalled a marginal increase in output that was the slowest in the current six-month sequence of expansion. A weaker rise in services activity was accompanied by a sharper decline in manufacturing production.

Output growth waned in response to further demand weakness. Total new business decreased for the second month running in July, and at a slightly faster pace than in June. Meanwhile, new export orders decreased at the quickest pace in almost four years.

Companies continued to take on extra staff, but here too the pace of expansion eased, slowing to the weakest in almost three years. Nonetheless, hiring at a time of falling new orders meant that firms were able to reduce backlogs of work to the greatest extent since November 2023.

The rate of input cost inflation hit a 16-month high, largely due to a much faster rise in services input prices as an increase in the minimum wage exacerbated pay pressures. In turn, charges increased at a marginally steeper pace.

Demand weakness hit sentiment among firms in Australia in July. Although output is still expected to



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 10-19 July 2024.

rise over the coming year, confidence dropped to the lowest since the survey began, except for the opening wave of the COVID-19 pandemic in March 2020.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index remained above the 50.0 no-change mark in July, but dropped to 50.8 from 51.2 in June to signal only a marginal expansion in activity and one that was the softest in the current six-month period of growth.

Impacting negatively on the sector was a renewed decline in new orders, the first since January. Panellists reported lower client demand. Meanwhile, new business from abroad decreased to the largest degree in 2024 so far.

Despite the drop in new business, service providers continued to increase their staffing levels, although the pace of job creation was the weakest since December 2022. Increased workforce numbers meant that companies were able to deplete backlogs of work to the greatest extent in eight months.

A rise in the minimum wage added to pay pressures in July, pushing input prices up sharply over the course of the month. Moreover, the rate of inflation quickened to the fastest since November 2023. A slightly faster increase in selling prices was also registered.

Sentiment in the 12-month outlook for activity dropped to the lowest since the opening wave of the COVID-19 pandemic in 2020. In fact, optimism was the second-lowest since the series began in May 2016. There were

some hopes, however, that market demand will improve.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI ticked up to 47.4 in July, from 47.2 in June. The index signalled a slightly weaker deterioration in the health of the sector, albeit one that was still solid overall. Business conditions have now worsened in six consecutive months.

A slowdown in the wider economy led new orders to fall, thereby feeding through to lower production. New export orders decreased to the largest extent in four years.

Firms responded to lower demand by scaling back employment and purchasing activity, with the former falling at the fastest pace since June 2020.

Input costs increased, but at a pace that was softer than the series average. Meanwhile, selling prices rose only slightly amid competition for new orders.

Suppliers' delivery times lengthened sharply, linked to shipping delays. Specifically, firms mentioned Singapore port congestion and issues in the Red Sea.

*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.

Judo Bank Australia Services PMI Business Activity Index

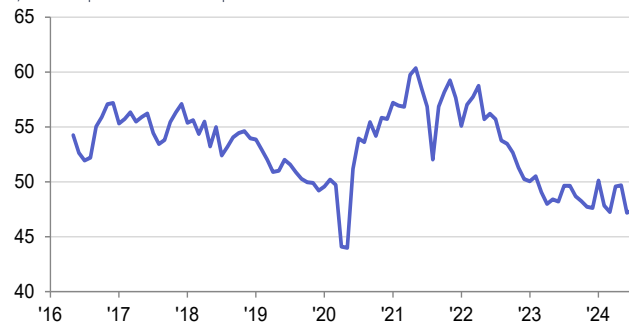
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Flash composite output index moderated further in July, although it remains above the neutral 50 index level.

"The Flash PMI report is an early read on Australia's economy in July and probably doesn't capture the impact of tax cuts and cost-of-living support measures on household budgets and consumer spending. This will take some time to flow through to business conditions but should be expected to provide a boost over the months ahead. Both service sector and manufacturing output indexes fell in the month, with manufacturing output well below neutral, indicative of a contractionary activity.

"The flash reading of the services sector business activity index remained above the neutral 50 level, but only just and suggests that after a surge of activity in the first quarter of 2024, we have seen a slowdown in the June quarter that has extended into the start of the new financial year.

"Employment continued to soften in July, with the composite employment index just above the 50 index level. Service sector employment is doing much better than manufacturing sector employment, which remained well below 50 in July.

"Official data show that most of the job creation in Australia over the past year has come from the public sector and related industries, with the so-called market sector employment trends slowing rapidly in 2024. This is broadly consistent with the PMI employment results and highlights that while the demand for labour in many businesses is holding up, it's weakest since the start of the pandemic in 2020.

"Weaker activity results are not translating into a notable fall in inflation pressures across the business community. Input prices jumped across the board in July, likely reflecting new labour, energy, and transport cost arrangements that went into effect on 1 July.

"The most startling jump was in service industry input costs, with the index rising 4 points in the month to 63.3, the highest since November 2023. Manufacturing input costs rose much less and remain near the lowest index readings in four years.

"The final price indexes, a good proxy for consumer price inflation, were both up in the month but not by much. The composite output price index is at 54.1, up just 0.1 points in July. At this level, the PMI price indicators tell us that inflation is most likely running at around a 4% annualised pace in the middle of 2024.

"The real test for Australian businesses will be whether the tax cuts and cost-of-living support translate into higher consumer spending and business activity. Subsequent reports, starting with the final PMIs for July and then the August reports, should provide better insight into this.

"There are no signs of a significant slowdown in Australian business activity in 2024. While Manufacturing remains weak, with activity indicators well below the 50 index level, most service sector businesses continue to see better activity and new business than at the end of 2023."

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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@spglobal.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. www.spglobal.com/marketintelligence/en/mi/products/pmi