

News Release

Embargoed until 0900 AEST 4 September 2024

Judo Bank Australia Services PMI®

Services activity expansion accelerates

Key findings

New and export business growth renews in August

Selling price inflation falls to lowest since July 2021

Business confidence highest in a year

Australia's service sector expanded at an accelerated rate midway through the third quarter of 2024, according to the latest PMI® data. Incoming new business, including exports, returned to growth in August, driving a faster uptick in services activity. Employment also rose, which helped with the clearing of outstanding work. Meanwhile confidence levels rose to the highest in a year, but firms were cautious with raising selling prices despite accelerated input cost inflation.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index posted 52.5 in August, up from 50.4 in July. The latest reading signalled a seventh successive monthly expansion in services activity. Moreover, the rate of growth was the joint-fastest in four months and above the series average.

Central to the latest improvement in service sector conditions was the expansion in new business. Services new business increased at a solid pace in August after falling briefly in July. Export business also returned to growth after declining during June and July. Anecdotal evidence suggested that a widening of customer bases and business development efforts underpinned the latest expansion in new business inflows. Sub-sector data revealed that firms in the information & communication sector experienced the sharpest intake in new sales.

Job creation was sustained in August as firms hired additional staff to cope with the growth in new work. The rate of expansion was unchanged from July and marginal, however, as some firms indicated challenges in finding suitable hires. The expansion in workforce capacity nevertheless enabled firms to clear their backlogged orders for a fourth straight month.

Turning to prices, average input costs increased again in August as input material, transport and wage costs rose. With almost one-in-three firms indicating higher input costs compared with just 2% of panellists that saw lower

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"In line with the early Flash PMI release for August, the total Services PMI saw an improvement in activity throughout August after softer activity levels in July. Despite a pick-up in margin pressure, services sector firms became notably more confident about activity levels over the next 12 months.

"August marks the seventh consecutive month of an expansion in business activity across Australia's services sector, with the index rebounding to 52.5 after a 2024 low point in July of 50.4. The new business index also rose to a three-month high. This improvement in key activity indicators may reflect government stimulus (tax cuts and cost-of-living support) working its way into consumer spending. We will look to official data sources over the next few months to confirm this pick-up in household consumption through the September quarter.

"Despite the increase in activity, the employment index remained slightly above the neutral level, equal to the prior month. With high official employment growth numbers in July, the PMI results may suggest that the employment growth witnessed is more concentrated across specific business sectors and types.

"Output price pressures eased, with the index at 53.2 in August, its lowest level since mid-2021. The data points to some easing of inflation pressures, but with input price pressures remaining elevated, the improvement comes at the cost of business margins and profitability.

"Input price pressures have maintained the significant increase they saw in July, a level that has not been seen since early 2023. As noted in the Flash release, the combination of ongoing resilience in the services sector activity, a high level of government stimulus for households, and an uptick in input price pressures provide little comfort that Australia's inflation pressures across domestic services will continue easing through the first half of FY25.

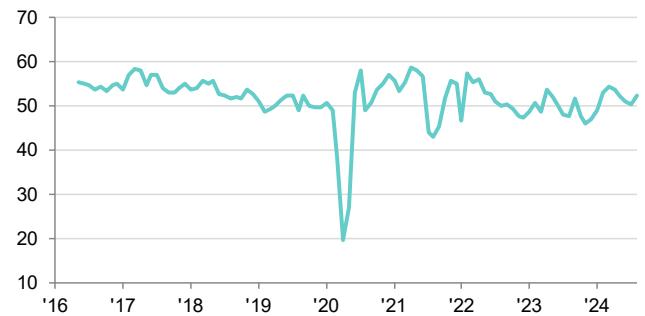
"With activity rebounding, the future activity index, a proxy for business confidence, rose to its highest level in 12 months. While subdued on historical levels, the trend is promising. With stimulus continuing to work its way through to households, trading conditions and business confidence are expected to improve through the first half of FY25."

input prices, the rate of input cost inflation climbed to the highest in just over a year. However, selling price inflation eased to its lowest since July 2021, as some firms sought to suppress cost increases in a bid to support sales.

Overall, sentiment in the Australian service sector remained positive. The level of confidence climbed to the highest since August last year as firms grew more positive that better economic conditions and marketing efforts can drive higher services activity in the year ahead.

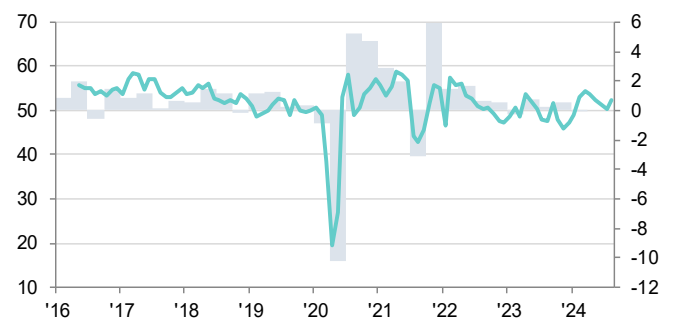
Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-27 August 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 private sector activity driven by services

The Composite Output Index posted 51.7 in August, up from 49.9 in July. Rising above the 50.0 neutral mark in August, the latest reading indicated that Australia's private sector output returned to growth. The rate of expansion was the fastest in three months, underpinned by rising services activity while manufacturing output fell at a sharper pace.

The trend was mirrored for both new orders and employment, with improvements in the service sector underpinning overall expansions as manufacturing downturns were sustained.

Meanwhile input cost inflation intensified in August as prices rose more quickly in the service sector. However, selling price inflation fell to a seven-month low with services firms opting to absorb some of their price increases to support sales.

Finally, business confidence was at the highest in a year with sentiment improving in both the manufacturing and service sectors in August.

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).

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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