

# News Release

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## Judo Bank Australia Services PMI®

### Demand for Australian services rise at the start of 2023

#### Key findings

**Growth in new orders supports a slower fall in activity**

**Hiring activity expands at solid rate**

**Business confidence rises to eight-month high**

Australia service sector performance continued to soften at the start of a new year according to the latest PMI data, with activity falling for a fourth month in succession. That said, demand for services rose for the first time since Q3 2022, which alongside improved business confidence led to a stronger expansion of workforce capacity in January. As a result of the growth in demand, however, service providers passed on their increased costs at a quicker rate in the beginning of 2023.

The seasonally adjusted S&P Global Australia Services PMI® Business Activity Index posted 48.6 in January, up from 47.3 in December 2022. This marked a fourth consecutive month in which the headline index posted below the 50.0 neutral level to signal a sustained contraction in activity, albeit at the slowest rate in three months.

Demand for Australia services returned to growth according to the latest data, rising for the first time since September 2022. Better international demand, as signalled by a rise in new export orders, and an upswing in client interests underpinned the increase in overall new orders. Anecdotal evidence also suggested that higher demand for Australian services from China supported the rise while sub-sector data revealed that consumer services experienced the strongest growth in demand.

Despite new business growth, overall services activity remained subdued with capacity and manpower constraints served to limit any growth

Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global.

Data were collected 11-26 January 2023.

in output. The level of backlogged work also fell as firms prioritised the clearing of outstanding work from the year prior.

Meanwhile, workforce expansion proceeded at a solid pace following the turn of 2023. Confidence about year ahead activity was at an eight-month high, which alongside the ongoing improvement in demand led firms to hire at a solid pace in January. According to sub-sector data, firms in the finance & insurance sector hired at the fastest rate amongst the sectors tracked.

Price pressures persisted for Australian service sector firms as input costs continued to rise at an above-average rate, albeit the slowest in one year. Higher input material, transport and manpower costs contributed to the increased operating expenses faced by service providers. As a result of the heightened cost pressures and increase in demand, firms were able to raise their own charges at a faster rate. Selling price inflation notably rose to the highest since last October.

Overall sentiment in the Australian service sector remained positive at the start of 2023 with firms staying hopeful that business conditions will improve in the coming 12 months. However, the level of business confidence has yet to climb above the series average amid lingering concerns over inflation, the economic outlook and higher interest rates.

## Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Australia's service sector economy improved in January following a moderation of activity for much of 2022. This welcome slowdown of economic activity has translated into a modest easing of inflation pressures although, capacity constraints, particularly in the labour market, are still evident across the economy as we start 2023.

"The Services PMI increased by 1.3 points to an index of 48.6, a little stronger than the Flash reading from last week. This is the strongest result in three months and is consistent with a mild slowdown in services activity from extraordinarily strong rates of growth in 2022.

"There is currently considerable uncertainty about the outlook for activity in 2023. The general slowdown in activity has been happening for most of the past year as tighter monetary policy appears to be having the desired effect.

"However, both the New Business Activity Index and the New Export Activity Index increased in January with exports rising to the highest level in six months. We might be seeing some renewed optimism about the re-opening of the Chinese market and improved access for Australian business.

"This moderation of services activity from unsustainably strong rates of growth in 2022 will be welcomed by policy makers keen to reduce excess demand across the economy. What remains unclear is if this slowdown in activity is enough to bring inflation pressures back down in line with the RBA's 2-3% target range.

"All the price indicators in the services sector remain elevated in early 2023. While inflation is likely to have 'peaked' at 7.8% in the final quarter of 2022, the PMI price measures suggest underlying inflation pressures will not dissipate quickly.

"The employment index in the services survey rose in January to be comfortably above the 50 level. This latest result seems to indicate that labour demand is not slowing quickly in response to a softening of economic activity.

"Strong labour demand and very tight labour markets across the Australian economy suggest that we will see further upward pressure on wage growth in 2023. This also highlights that potential inflation risks remain evident, and the economy will need to slow further in 2023 if core inflation is to return to the target range.

"Following eight consecutive rate hikes in 2022, the RBA Board will be meeting for the first time in 2023 on 7 February. The latest PMI readings may raise the concern that the economy is not slowing sufficiently enough to bring inflation back to target in a timely manner.

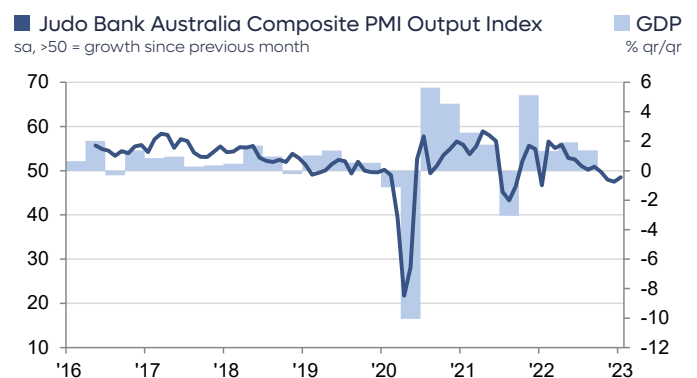
"Inflation pressures may be abating somewhat, but the risk for the RBA is that inflation remains stubbornly high well into 2023, and that this in turn could maintain upward pressure on inflation expectations and wages growth.

"On this basis it seems premature for the RBA to pause the current tightening cycle. Indeed, the higher than expected inflation figures for Q4 and a resilient domestic economy suggests that there is a case for a larger 50bp rate hike at the February meeting.

"Australian interest rates are low by any standard except that of the last few years and are also well below those in other advanced economies facing similar inflation risks. Real interest rates remain deeply negative leaving monetary policy well below most long-term concepts of 'neutral!'"

# Judo Bank Australia Composite PMI®

## Private sector slowdown eases as demand growth returns



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

The Composite Output Index posted 48.5 in January, up from 47.5 in December 2022, to signal a fourth consecutive contraction in private sector output. The rate at which activity declined was weaker compared to the month prior with overall sales having improved at the start of 2023.

Higher new orders, underpinned by service sector new business growth, also led to robust hiring activity in January. Furthermore, better business confidence at the start of 2023 also contributed to the expansion of workforce capacity in the private sector. Employment levels across both manufacturing and service sectors rose at solid rates.

Meanwhile firms in the private sector continued to experience higher costs, albeit at the slowest rate since October 2021. Against a backdrop of rising sales, however, firms were able to pass on these cost increases at a quicker rate to result in higher selling price inflation.

\*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](mailto: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).

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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. [ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html).