

News Release

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Judo Bank Australia Services PMI®

New business growth accelerates to two-year high

Key findings

Fastest new export business expansion since August 2022

Staffing levels rise at quickest pace in eight months

Inflation rates rise

Australia's service sector extended its recent expansion into May, according to the latest PMI® data. This was driven by the fastest rise in new business in two years, which itself was supported by an acceleration in new export business growth. Sentiment about future activity also improved, leading to service providers raising their staffing levels in May. That said, price pressures intensified with both rates of input cost and output price inflation rising according to the latest survey.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index fell to 52.5 in May, down from 53.6 in April. The latest reading signalled a fourth successive monthly expansion in services activity, albeit at the slowest pace in the current sequence. Sub-sector data revealed that transport & storage firms recorded the fastest growth in activity in May.

The sustained expansion in services activity was driven by rising new business inflows. Incoming new business rose at the most pronounced pace since May 2022 amid reports of rising client interest and a widening of customer bases. Transport & storage firms likewise saw the fastest rise in new sales among the monitored sectors.

Supporting the latest rise in new sales was an improvement in foreign demand with the survey's New Export Business Index indicating the fastest growth in export orders in 21 months. Anecdotal evidence suggested that greater inflows of new business came from clients in the US and Asia.

Employment levels rose in May as a result of higher new business and activity. The rate at which staffing levels rose was solid and the fastest since last September. In turn, the level of outstanding business fell for the first time in three months, albeit only marginally, with additional workforce capacity.

Turning to prices, average input costs increased in May. Moreover, the rate of inflation was steep, rising to the highest level since February. Higher input material, transport

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"The complete May PMI release confirms findings from the Flash report earlier this month. Business conditions have improved for four consecutive months, the services sector is driving the rise, and employment growth remained strong throughout the month.

"Services sector key activity indexes 'Business Activity' and 'New Business' continue to sit above the neutral level. Activity levels and new business have expanded at their quickest rates since mid-2022. While not reflected in the official retail trade figures (representing predominantly goods spending), ongoing elevated activity readings in the Judo Bank Services PMIs suggest business sales have been picking up throughout 2024 after a slowdown in the second half of 2023.

"With activity levels improving, services sector businesses are continuing to expand headcounts. Over the past four months, the services sector employment index has consistently resided above the neutral level and has averaged the highest four-month reading since May last year. The PMIs have been consistent with official labour force data, suggesting that we will continue to see an expansion of employment levels in May.

"Inflation pressures facing both businesses and consumers in the services sector have flatlined notably above pre-pandemic levels. The input price index ticked marginally in May but has floated around 61.8 over the past six months (compared to a pre-pandemic average of 56.8). Output price pressures have also stabilised above pre-pandemic levels.

"With the number of businesses reporting a month-on-month price increase no longer trending down toward pre-pandemic levels, the Judo Bank PMIs suggest services inflation is failing to moderate further. With goods disinflation appearing to have run its course, progress on non-tradables / domestic services inflation is now crucial in returning headline inflation to the target band. Given the little progress being made in the PMIs and the official CPI data released last week, evidence supporting a hike in the RBA cash rate is growing.

"With inflation elevated, particularly input cost pressures, businesses are dealing with an ongoing margin squeeze. Estimates of margin pressure among services businesses have eased from the high levels seen in late 2022—early 2023 but remain elevated relative to pre-pandemic levels.

"Despite the ongoing margin pressure, businesses continue to invest, with recent official capital expenditure data showing an improvement in core business capital expenditures through Q1 2024. Surprisingly, the pick-up in investment and new activity hasn't corresponded with an increase in service business confidence in May, with the future activity index, a proxy for business confidence, remaining in expansion territory but stabilising well below pre-pandemic levels."

and wage costs were often mentioned by panellists as factors. Consequent of rising cost pressures, Australian service providers raised selling prices at a quicker rate for the first time in five months. Charges rose the fastest in the transport & storage sector according to sub-sector data.

Finally, confidence levels in the Australian service sector improved according to the survey's sentiment-based indicator, the Future Activity Index. Businesses were broadly optimistic that better economic conditions and business development efforts can help to drive activity growth in the year ahead.

Judo Bank Australia Services PMI Business Activity Index

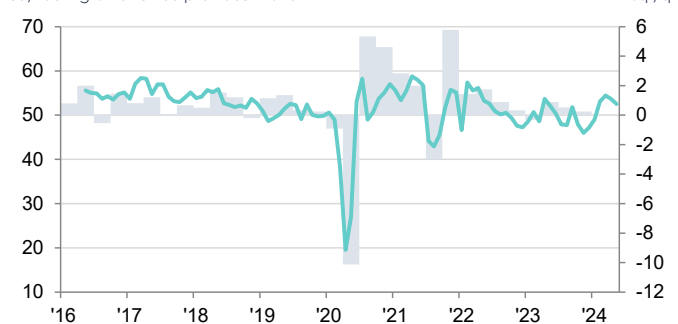
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-28 May 2024.

Australia Services PMI Business Activity Index ■ Services GDP

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

Judo Bank Australia Composite PMI®

Broad-based expansion in employment levels

The Composite Output Index posted 52.1 in May, down from 53.0 in April. The latest reading indicated that Australia's private sector output growth was maintained for a fourth straight month, but at a more moderate pace.

Business activity growth was again driven by services activity expansion as manufacturing output remained in contraction. Similar trends were observed for new orders. Exports meanwhile rose for the first time in 15 months.

The expansion in output and new business led to higher employment in May, with staffing levels rising across both the manufacturing and service sectors for the first time since last October.

Widespread input price increases were also recorded in May, leading to higher output price inflation.

Finally, sentiment in Australian's private sector remained positive but eased slightly since April. Confidence levels were slightly softer in the goods producing sector.

Judo Bank Australia Composite PMI Output Index

sa, >50 = growth since previous month



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