

News Release

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Judo Bank Flash Australia Composite PMI® Business activity returns to growth

Key findings

Flash Australia Composite PMI Output Index: 51.8 (Jan: 49.0), 10-month high

Flash Australia Services PMI Business Activity Index: 52.8 (Jan: 49.1), 10-month high

Flash Australia Manufacturing PMI Output Index: 45.0 (Jan: 48.5), 45-month low

Flash Australia Manufacturing PMI: 47.7 (Jan: 50.1), 2-month low

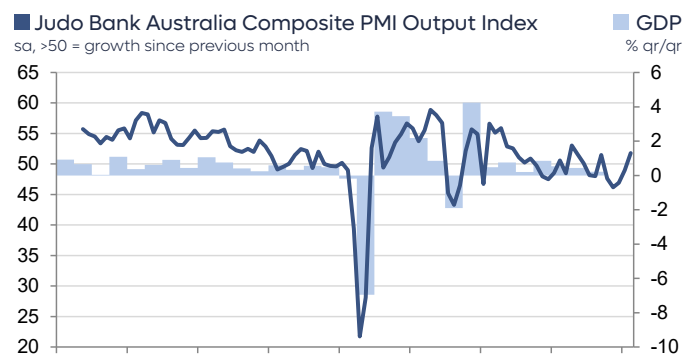
Australia's private sector activity improved midway into the first quarter, though growth was driven solely by the service sector. Higher new business supported the expansions in output and employment. Concurrently, inflation rose as both average input costs and output prices increased at faster rates. Overall sentiment remained positive, though the level of optimism eased to a three-month low.

The Judo Bank Flash Australia Composite PMI® Output Index* posted 51.8 in February, up from 49.0 in January. The latest reading signalled that private sector activity returned to growth for the first time in five months and at the fastest rate since April 2023.

The latest improvement was confined to the service sector, however, with a renewed rise in services new business supporting higher activity. In contrast, manufacturing new orders fell again, sending production down at the fastest rate since the worst of the COVID-19 pandemic in 2020. While service providers reported increased enquires from a widening of customer bases, manufacturers continued to see high interest rates and soft conditions dampening demand. The divergence was likewise observed for new export business.

As a result of the rise in new orders, Australian private sector firms raised their employment levels in February, though this was likewise restricted to the service sector as manufacturers shed staff at a faster rate.

Price trends were similar across the two sectors, with firms in both manufacturing and services experiencing higher input costs on the back of rising raw material



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 09-19 February 2024.

and transport costs. Firms thereby lifted selling prices at a quicker rate, with services reporting the higher output price inflation of the two.

Finally, overall sentiment in the Australian private sector remained positive in February, though the level of business confidence eased on the back of lingering concerns over the impact of high interest rates and inflation on sales.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 52.8 in February, up from 49.1 in January. This marked the first expansion in services activity in five months and the quickest since April 2023.

Driving the return to growth in services activity was a renewed rise in incoming new business. Export business also rose for the first time since September 2023, albeit only marginally. In turn, Australian service providers hired additional staff to cope with workloads.

Alongside the rise in new business and activity was higher cost inflation. Input price inflation rose in February after falling in the prior two months. Price increases were attributed to higher labour and input material costs. Consequently, selling prices rose at a faster and above-average rate.

Despite higher activity, the level of optimism declined slightly in the latest period as some firms stated concerns of still-elevated interest rates affecting activity in the 12 months ahead.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI fell to 47.7 in February, down from 50.1 in January. Falling past the 50.0 neutral mark, the latest reading signalled a renewed deterioration in manufacturing sector conditions.

A sharper decline in new orders underpinned the latest downturn in goods production. High interest rates and soft manufacturing sector conditions dampened demand, leading to the sharpest fall in output since May 2020.

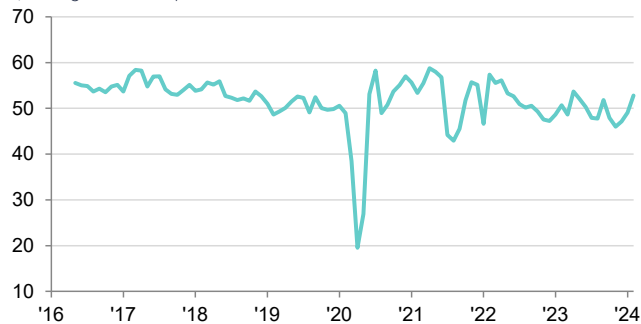
Consequently, employment levels and purchasing activity declined.

Whilst facing further delays on the back of the Red Sea conflict and port disruptions, Australian manufacturers also experienced higher input cost inflation. Rising raw material and transport costs contributed to a quicker jump in average input prices, which led to firms sharing their increased cost burdens at a more pronounced rate in February. Overall optimism deteriorated in the latest survey period as a result.

*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 PMI for Australia shows another jump up in business activity in February, confirming the improvement in business conditions in January. The improvement in activity indicators suggests that the economy is expanding in 2024 at a stronger pace than seen in the second half of 2023.

“While it is too early to say that we are witnessing a cyclical recovery in the Australian economy, further improvements over the months ahead would undoubtedly indicate stronger economic growth in 2024 than in 2023. The implication is that the soft landing is behind us.

“Both key activity indicators have experienced a sharp improvement over the first two months of 2024. The composite output index is now above the neutral 50.0 index level for the first time since September 2023 and is at its highest reading since April last year.

“The composite new orders index has increased sharply from the December 2023 low point. The increase in the new orders index indicates a rapid improvement in economic activity, like when the economy came out of lockdowns during the pandemic.

“The employment index has also increased over the past two months and is now well in expansion territory. The composite employment index is the highest since September 2023 and is indicative of rising labour demand and employment growth in the overall economy. These results suggest the recent weakness in the official employment numbers will be temporary, with a bounce in employment growth likely in February.

“Price pressures across the economy intensified in February, with both input and output prices increasing in the month. Input price pressures remain well above the average levels seen prior to the pandemic. Business cost pressures do not appear to be easing back in early 2024, which will maintain upward pressure on final prices.

“The composite output price index jumped to its highest level since September 2023, following lower readings in the December quarter. The index level is consistent with domestic inflation between 4% and 5%.

“With economic activity improving early in the new calendar year and cost pressures elevated, the process of disinflation we have seen across the economy over the past year may well have run its course.

“The February Flash PMI results weaken the case for monetary policy easing any time soon. If anything, the improvement in activity indicators in 2024 and a slight uptick in the price indexes suggest that the risks to monetary policy remain even balanced.”

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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