

News Release

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Judo Bank Flash Australia Composite PMI[®] Private sector growth continues at end of second quarter

Key findings

Flash Australia Composite PMI Output Index: 50.5 (May: 51.6), 3-month low

Flash Australia Services PMI Business Activity Index: 50.7 (May: 52.1), 3-month low

Flash Australia Manufacturing PMI Output Index: 49.1 (May: 48.0), 4-month high

Flash Australia Manufacturing PMI: 48.6 (Apr: 48.4), 3-month high

June Flash PMI[®] data indicated that Australia's private sector remained in expansion at the end of the second quarter. Higher new orders, mainly in the service sector, led to a rise in business activity and resilient employment growth. Price pressures remained intense while business confidence declined.

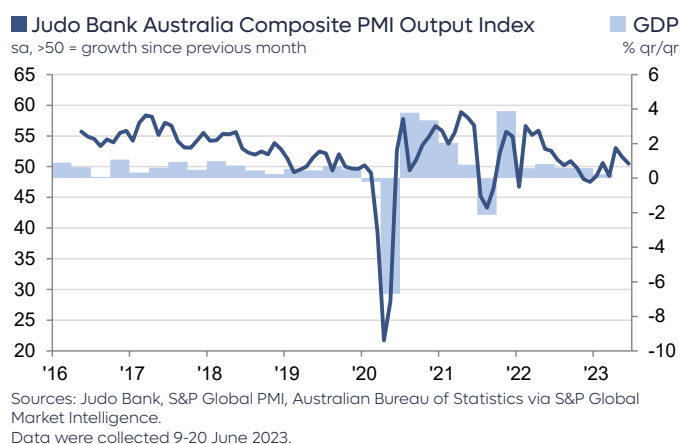
The Judo Bank Flash Australia Composite PMI Output Index* fell from 51.6 in May to 50.5 in June. Posting above the 50.0 no-change mark for a third consecutive month, the figure indicated a sustained expansion of the private sector, albeit at a slower rate compared to May.

Underpinning the latest rise in activity was a third successive monthly expansion of new orders. Growth was concentrated within the service sector, however, as manufacturers continued to see the volume of incoming new orders shrink.

Furthermore, data also suggested that new business growth was mainly domestically driven as overall new export business declined, caused by a fall in foreign demand for Australian manufactured goods. Anecdotal evidence suggested that weaker export markets coupled with increased competition led to the fall in international orders for goods.

Employment growth remained resilient, however, and this was evident across both the manufacturing and service sectors in June. Firms raised their workforce capacity to support ongoing operations and were also able to work through their outstanding work.

Overall input cost inflation remained unchanged from May with higher service cost inflation offsetting



a slowdown in manufacturing input price increases. The overall rate of cost inflation was above the seven-year series average, which led to private sector firms continuing to share their cost burdens with clients. As a result, selling price inflation rose to the strongest degree since February.

Overall sentiment within the Australia private sector remained positive at the end of the first half of 2023. That said, the level of business confidence fell to the weakest since April 2020 amid concerns over interest rates and the economic outlook.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index fell from 52.1 in May to 50.7 in June. Staying above the 50.0 no-change mark for a third straight month, the index signalled a sustained expansion of the service sector.

A softer rate of new business expansion was recorded in June, which led to a slower rise in business activity. Firms nevertheless continued to hire additional staff to cope with the increased workload.

Amid higher demand, inflationary pressures intensified within the service sector. Input cost inflation climbed with panel members linking rising prices to higher interest rates, wages and energy costs. In turn, charges were lifted at an accelerated pace.

Businesses remained broadly optimistic with regards to future activity but pared back their optimism.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI posted below the 50.0 neutral mark in June to signal a contraction of the manufacturing sector. Rising from 48.4 in May to 48.6, however, the pace at which Australia’s manufacturing sector contracted further eased in June.

Production shrank at the slowest pace since February amid improvements in supply conditions. Better vendor performance enabled Australian goods producers to clear their backlogs at the fastest rate in just over three years.

At the same time, new orders remained in contraction, which led to lower input acquisitions among Australian manufacturers and also affected business confidence. Employment levels nevertheless continued to grow, albeit at a mild rate.

Concurrently, price pressures abated within the manufacturing sector. Input costs rose at the slowest pace since July 2020, while selling price inflation eased to a 33-month low.

*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 retreated further in June following signs of strength earlier in the year. The output index fell from a final reading in May of 51.2 to a flash reading in June of 50.5, signalling a slowdown in momentum in domestic economic activity at the start of winter.

“Most of the activity indicators in the survey are softer in June although the key new business and employment indexes remain above the neutral 50 index level. This has been primarily driven by a slowdown in the services sector, which has seen activity soften over the past two months.

“Inflation continues to remain uncomfortably high, with price indexes in the services industry remaining elevated on pre-pandemic levels. Price pressures in the manufacturing industry in contrast have softened and stabilised to pre-pandemic levels as activity in that sector slows.

“The loss of momentum in recent months will probably give the RBA some comfort that economic activity is slowing down across the economy in 2023, following their consecutive rate hikes in May and June. The survey needs to continue to show a slowdown to be consistent with the RBA’s desired soft landing for the economy, which will eventually translate into lower inflation.

“The survey suggests that the RBA has time on their side and does not necessarily need to hike rates again in July. The slowdown taking place across the economy provides further evidence that the point at which the RBA can undertake a genuine pause in their tightening cycle is getting closer.

“We cannot rule out a further hike in the next few months, but we are close to a level of interest rates whereby the RBA can sit back for 4-6 months and observe the effects of past interest rate increases.”

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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@ihsmarkit.com.

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