

News Release

Embargoed until 0900 AEST 23 April 2024

Judo Bank Flash Australia Composite PMI[®] Business activity expands at fastest rate in two years

Key findings

Flash Australia Composite PMI Output Index: 53.6 (Mar: 53.3), 24-month high

Flash Australia Services PMI Business Activity Index: 54.2 (Mar: 54.4), 2-month low

Flash Australia Manufacturing PMI Output Index: 49.1 (Mar: 45.7), 8-month high

Flash Australia Manufacturing PMI: 49.9 (Mar: 47.3), 3-month high

Australia's private sector activity expansion accelerated at the start of the second quarter, supported primarily by service sector growth. Higher new business inflows underpinned rises in business activity and employment, while firms remained optimistic regarding future output. On prices, the rate at which output prices rose eased in April despite higher input cost inflation.

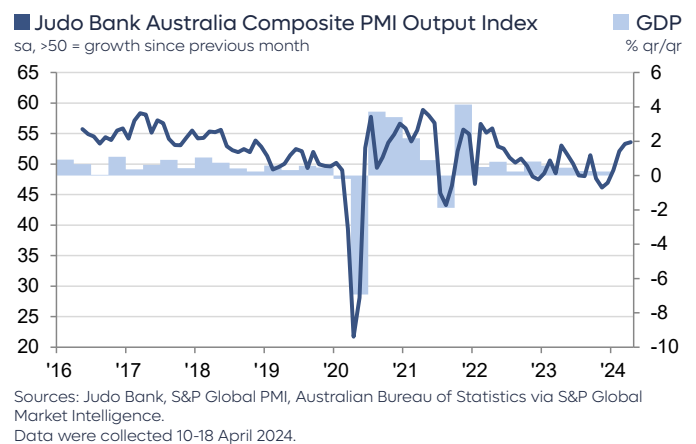
The Judo Bank Flash Australia Composite PMI[®] Output Index* posted 53.6 in April, up from 53.3 in March. The latest reading signalled that private sector activity expanded for a third straight month and at the quickest pace since April 2022.

While business activity growth was again limited to the service sector, the rate at which manufacturing output fell slowed to the least pronounced in eight months and was only marginal. This was supported by a slower reduction in goods new orders, while quicker inflows of services new business led to overall new orders rising at the fastest pace in nearly two years.

In turn, Australian private sector firms hired more staff to cope with ongoing workloads. Growth in headcounts was again observed mainly in the service sector, though manufacturing employment levels near-stabilised in the latest survey period.

Meanwhile, input prices rose at a quicker rate at the start of the second quarter, attributed to rising cost inflation in both the manufacturing and service sectors. The pace at which selling prices rose nevertheless eased for a second successive month as some firms were keen to support sales.

Overall sentiment among private sector firms remained



positive into the second quarter of the year, with the level of confidence easing only slightly from March.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 54.2 in April, down from 54.4 in March. This marked a third successive monthly expansion, at a slower but still solid pace.

Services new business growth accelerated to the fastest since May 2022 on the back of improvements in underlying demand and rising foreign new business. Employment growth picked up as well.

Cost pressures intensified with the rate of input cost inflation climbing from March, but service providers opted to partially absorb cost increases, leading to softer, but still elevated output price inflation in April. The latest easing of output price inflation was also reflective of firms' attempts to maintain competitiveness. Meanwhile, the level of confidence eased from March, though remained among the highest seen over the past year.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI rose to 49.9 in April, up from 47.3 in March. This indicated that manufacturing sector conditions near-stabilised at the start of the second quarter.

Supporting the latest alleviation of the deterioration of conditions was a shallower fall in new orders. Incoming new orders declined at the softest pace since last August, leading to a slower and only marginal reduction

in output. As a result, employment levels and stocks of purchases also fell at slower rates.

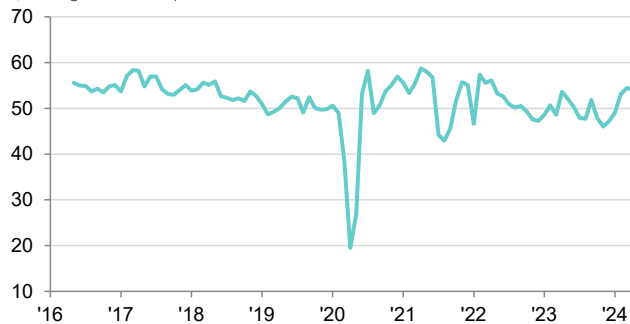
Prices pressures rose with both input cost and output price inflation rates quickening amid reports of higher raw material and currency conversion costs.

Overall optimism improved in April with the level of business confidence rising to the joint-highest in 14 months amid hopes for better domestic and external sales.

*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 April Flash Composite Index rose for the fifth consecutive month to 53.6, a sustained and substantial recovery from the low point of 46.2 in November 2023. It is becoming increasingly difficult to ignore the signals from the Judo Bank Australian PMI reports, pointing to a pick-up in economic activity in early 2024.

“The composite PMI index has averaged 51.5 over the first quarter of 2024, a material improvement from the December 2023 quarter average of 46.9. The index performance in the March 2024 quarter is consistent with GDP growth of around 0.6% in the quarter. If the April Flash result is sustained through the June quarter, this will point to another solid increase in GDP of around 0.8%.

“Over the last three months, the PMI results have pointed to a cyclical recovery in the Australian economy in 2024 following a consumer-led slowdown in 2023. While this is great news for the Australian economy, these results are stronger than what the RBA is expecting, suggesting that the economy is beginning to wander off their ‘narrow path’.

“The so-called ‘narrow path’ scenario sees economic activity remain below its long-term trend in 2024, allowing inflation to gradually return to target by late 2025. Most forecasters have adopted this scenario as their central case, and it is the backdrop for expectations that the RBA can ease monetary policy in late 2024 or early 2025.

“Manufacturing activity improved in April after a sustained period of cyclical weakness. The Flash manufacturing PMI returned close to the neutral 50.0 level while output and new orders were higher in the month.

“The price indicators were up slightly in April, suggesting inflation within the Australian economy is above the RBA’s target and ‘sticky’. Cost pressures are rising, which survey respondents put down to a combination of higher raw materials prices and the effects of a weaker Australian dollar.

“While margin pressures are still evident in both the service sector and the manufacturing industry, businesses are still succeeding at passing on higher costs to final prices.

“The Judo Bank PMI highlights the resilience of the business sector in Australia. The business sector continues hiring and investing even as consumers remain cautious. With employment levels continuing to expand and pressure on household finances easing in 2024, this ‘soft landing’ view is increasingly being threatened by the ‘cyclical recovery’ view.

“The RBA will likely be concerned that a pick-up in activity, before inflation returns to target, could threaten medium to long-term price stability.

“These results are inconsistent with interest rate reductions at any stage in the foreseeable future and raise the risk that the RBA may have to start hiking again at some stage over the back half of 2024.”

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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