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SME PMI® Business Activity Report.

Exclusive insights into the SME economy
presented by **Judo Bank**.

New order growth supported by improvement in services.

Key findings



Business activity contracts amid manufacturing weakness



Cost pressures recede further



Business confidence improves among SMEs

Business activity across Australian SMEs saw a slight downturn in June according to the latest Judo Bank SME Business Activity Report data. The reduction was concentrated in the manufacturing sector, however, as services activity stayed broadly unchanged. Overall new orders meanwhile continued to expand, which led firms to continue hiring and supported further improvements in business confidence. Price pressures meanwhile receded for SMEs with input cost inflation at the lowest in 22 months.

The seasonally adjusted Judo Bank Australia SME Business Activity Index posted at 49.6 in June, down from 50.7 in May. Falling below the 50.0 neutral mark, the latest reading signalled a renewed contraction of business activity at SMEs, albeit one that was only slight. Central to the decline was a deterioration of manufacturing output in June, though services activity growth also slowed to near-stagnant levels.

New orders placed at manufacturing SMEs fell for the seventh straight month, and at the fastest

pace since August 2021, leading to lower goods production. In contrast, service providers continued to secure solid expansion in new business, helping to drive a modest improvement in overall new orders at SMEs. The rate of expansion in new orders at SMEs was faster than that among large enterprises.

Backlogged work nevertheless depleted at the end of the second quarter among SMEs. Anecdotal evidence suggested that better efficiencies enabled SMEs to clear their work outstanding midway through the year. This was especially so within the goods producing sector, where the volume of backlogs eased at one of the quickest rates on record.

Supporting the latest improvements in efficiency among SMEs was another expansion in workforce capacity, albeit one that was marginal and the least pronounced in the year-to-date. Difficulties in acquiring skilled labour, especially among services SMEs, limited the expansion in staffing levels according to panellists.

On the price front, cost burdens for Australian SMEs rose again in June. Firms indicated that higher raw material, energy and labour costs contributed to further input cost increases. That said, the rate of inflation eased to the slowest since August 2021. As a result, SMEs shared these cost increases with their clients at a slower rate in June. In fact, selling prices at manufacturers fell for the first time since May 2020.

Finally, optimism among SMEs was maintained at the end of the second quarter. Firms were generally hopeful that sales can improve in the coming 12 months, leading to increases in activity. Against the broader trend of waning business confidence in Australia, SMEs were found to be at their most confident since January.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-27 June 2023.

Comment



"Australian SMEs continue to see good trading conditions in June although there are some signs of a slowing in activity after a very strong April and May"

Warren Hogan

Chief Economic Advisor at Judo Bank



Comment

"Services industry businesses are performing well with activity and new business both in expansion in June. This follows a strong recovery from the late 2022 business slowdown."

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Australian SMEs continue to see good trading conditions in June although there are some signs of a slowing in activity after a very strong April and May.

"Services industry businesses are performing well with activity and new business both in expansion in June. This follows a strong recovery from the late 2022 business slowdown with business activity holding up well above the levels seen in late 2022.

"The one soft patch is with Australia's SME manufacturers. Australia's manufacturing sector has been experiencing a cyclical slowdown over the past year with activity indicators now entrenched below the neutral 50 level.

"In recent months SME manufacturers have been particularly soft with activity levels dipping to the lowest readings since the start of the pandemic in 2020, and lower than what was seen in the lead-up to the pandemic.

"This suggests that SME manufacturers are at risk of experiencing a somewhat harder landing in 2023 than bigger manufacturers. The backlog of work has collapsed in recent months having fallen

from around 50 in February to be at 38.5 in June. The level of new orders is well down at 42.9 in June, while the output index is now well below 50.

"Manufacturing is facing many headwinds, including a global downturn, a lack of growth in domestic construction activity and weaker consumer goods demand.

"Governments need to keep a close eye on SME manufacturers as challenging economic conditions, rising funding costs and global competition could start to compromise the viability of some operators within Australia's domestic manufacturing base.

"The service sector SMEs across Australia are performing well, in contrast to the current plight of SME manufacturers. New business activity remains solid and well in expansion territory. Indeed, new business has jumped to the highest levels since early 2022 in recent months and held that level in June.

"Pricing conditions in the SME sector broadly match those across other parts of the economy. Both input and output prices have fallen in 2023 although the readings for June are still elevated. This suggests that inflation will fall further over the second half of the year, most likely down towards 4%.

"The employment indexes have softened a touch in June with services employment now at 50 while manufacturing employment is only just above 50. This suggests that SMEs across Australia are holding onto staff despite a slowing in activity and the threat of potentially tougher economic times ahead.

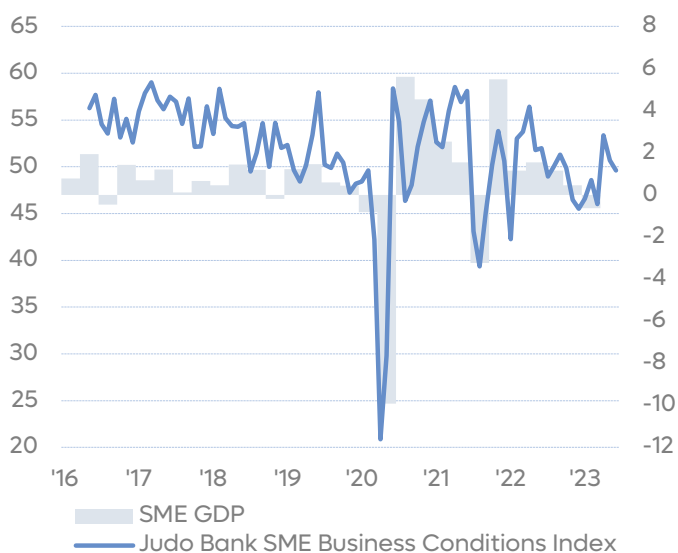
"Indeed, it is a characteristic of SMEs that they hoard labour through economic slowdowns, preferring to keep staff on than go through the process of firing and re-hiring. Another key SME characteristic is also on display in the June report. Australia's SMEs remain optimistic about Australia's future and expect stronger activity ahead with the future output index at just under 65, well and truly in expansion territory."



Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month

% qr/qr



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

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

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Sources: Judo Bank, S&P Global PMI.

Comment

“New business has jumped to the highest levels since early 2022 in recent months and held that level in June”

Warren Hogan

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Overall new orders continued to expand, which led firms to continue hiring and supported further improvements in business confidence.

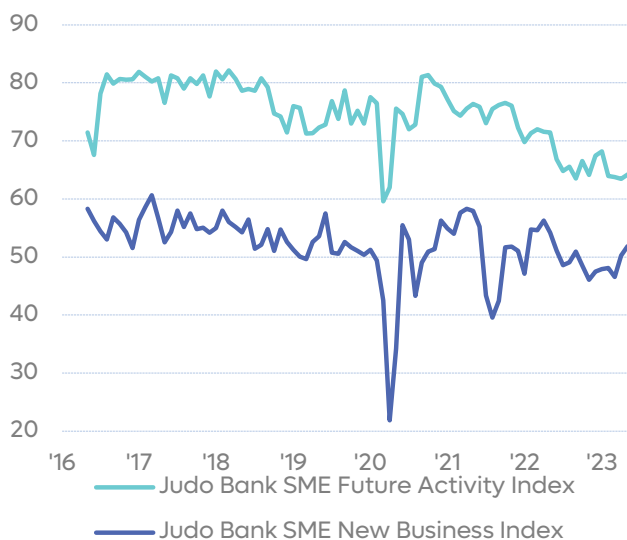


Demand and outlook

Australian SMEs saw new orders expand for a third consecutive month in June. The rate of growth was mild and slower than in May, but outpaced that seen in the Australian private sector overall for a second straight month. Better underlying demand within the service sector underpinned the latest improvement in overall new business, as manufacturing new orders remained in contraction for the seventh month running.

Meanwhile, sentiment among Australian SMEs remained positive in June, with optimism observed across both the manufacturing and service sectors at the end of the second quarter. The level of business confidence rose further among SMEs in June, running in reverse of the broader trend within Australia. Hopes for better sales, generally concentrated among services firms, pushed up the average level of optimism.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



“Australia’s SMEs remain optimistic about Australia’s future and expect stronger activity ahead”

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Chief Economic Advisor at Judo Bank

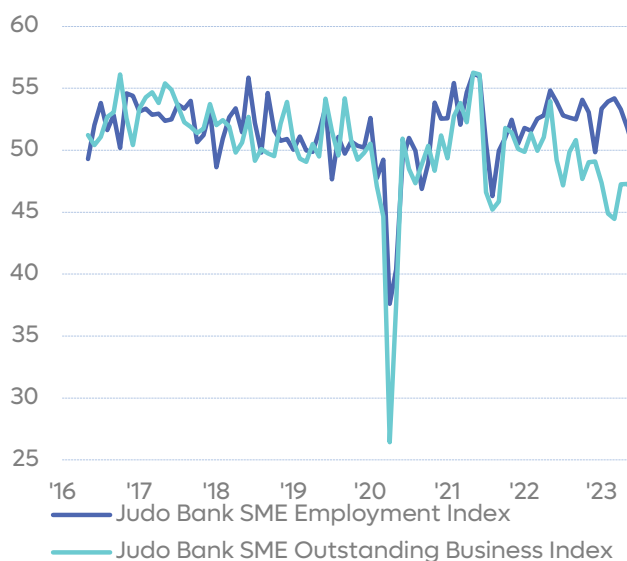


Employment and capacity

As has been the case in the past six months, staffing levels rose among SMEs in Australia. That said, the rate of growth was the slowest in the current sequence of expansion and only fractional. While a mild rate of growth was sustained within the goods producing sector, staffing levels were unchanged among service providers. Anecdotal evidence suggested that difficulties in securing skilled labour limited hiring efforts.

Improved efficiencies nevertheless enabled SMEs to work through their backlogs in June. The volume of work outstanding shrank for a ninth consecutive month and at the fastest rate since March. Depletion of backlogged work at manufacturing SMEs took place at one of the fastest rates since data collection began for the survey (May 2016), far outpacing that among service providers.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



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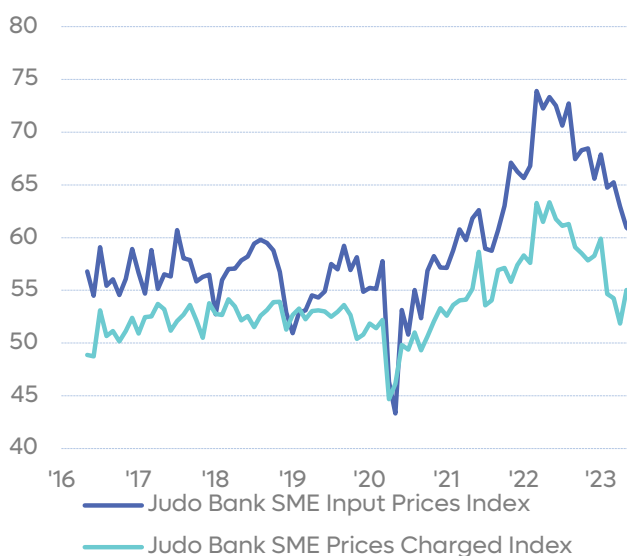
Prices



Cost pressures continued to soften in June, as indicated by a fifth successive monthly fall in the seasonally adjusted Input Prices Index. SMEs are now facing the shallowest rise in input costs since August 2021. That said, higher raw material, energy and labour costs continued to keep input prices rising, and at a pace that was still above the long-run average.

SMEs continued to share their higher cost burdens with their clients. The pace at which charges rose eased from May. This was mainly underpinned by a first monthly fall in manufacturing selling prices in just over three years, while charge inflation in the service sector softened during June.

sa, >50 = inflation since previous month



Sources: Judo Bank, S&P Global PMI.



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Survey methodology

The Judo Bank SME Business Activity Report is compiled by S&P Global from responses to questionnaires sent to around 650 manufacturing and service sector SMEs. SMEs are defined as companies with less than 200 employees. The sectors covered include manufacturing, consumer services (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The manufacturing and services panels are 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 SME Business Conditions Index, a GDP-weighted average of the SME Manufacturing Business Conditions Index and the SME Services Business Conditions Index. These are diffusion indices calculated from questions that ask for changes in the volume of output (for manufacturers) or business activity (for service providers) compared with one month previously. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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 survey methodology, please contact economics@ihsmarkit.com.

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Judo Bank is Australia's first purpose-built challenger bank for small and medium-sized businesses (SMEs) and the first fully licensed Australian bank to IPO in 25 years. Judo was founded by a small group of experienced lending professionals and its purpose is to be the most trusted SME business bank in Australia. The company's relationship-led lending model, which brings back the craft of relationship banking, is enabled by its legacy free, digital, cloud-based technology architecture. Lending products are originated and distributed through direct and third-party channels and are funded by deposits, wholesale debt and regulatory capital. www.judo.bank

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