

News Release

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Judo Bank Australia Services PMI® Business activity falls with reduction in sales

Key findings

Fastest decline in new work in 25 months

Workforce expansion slows

Selling price inflation lowers despite faster rise in costs

The Australian service sector contracted at the start of the fourth quarter, according to the latest PMI® data. Incoming new business, including from abroad, declined on the back of high interest rates and softening market conditions. This led to a reduction in services activity and a slowdown in workforce expansion. The overall level of outstanding work also fell at a marked pace. While input cost inflation rose, reduced optimism among services firms led to a slower rise in charges over the latest survey period.

The seasonally adjusted Judo Bank Australia Services PMI® Business Activity Index eased to 47.9 in October, down from 51.8 in September. Falling past the 50.0 no-change mark in October, the latest reading indicated a renewed contraction in business activity within the service sector, albeit only moderate.

Central to the latest fall in services activity was a deterioration in demand conditions. Incoming new work fell in October after posting solid growth in the month prior. Tight financial conditions and a softening of the economic climate led to a reduction in clients' budgets according to panellists. This was likewise the case for clients from abroad, which resulted in new export business falling at the fastest pace since January 2022. Sub-sector data revealed that new business and output declined sharpest within the transport & storage sector.

Meanwhile, employment levels rose at the slowest pace in three months because of a slowdown in new work intakes. While firms continued to hire both permanent and part-time staff to cope with ongoing workloads, the rate of workforce expansion visibly slowed amid greater caution about the business outlook. The level of confidence notably fell further below the series average in October. Service providers in Australia were the least upbeat since July amid concerns over the economic outlook.

Due to the reduction in new business and with increased workforce capacity, the level of backlogged work for the sixteenth month in a row. Moreover, the pace of depletion was the quickest in three months with firms in the consumer

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Service sector activity dipped in October, back into contractionary territory following the jump higher in September. The New Business index returned below the neutral 50.0 level in October, suggesting the gradual slowdown in service sector activity continued into the final quarter of 2023.

"Manufacturing activity also fell in October, taking the Australian Composite Output index to a new cyclical low. The Composite Output index at 47.6 is still consistent with a soft landing for the economy and is well above index levels historically indicative of an economic recession.

"Our assessment is the current composite output index, cross-referenced to the manufacturing PMI, is broadly consistent with annual real economic growth of around 1.5% in 2023.

"New orders also weakened across the economy in October after jumping temporarily above 50.0 in September. The current index levels for new orders and business activity are indicative of an economy experiencing a soft landing.

"For policymakers, this period of below-trend growth, often referred to as a per capita recession, will need to extend into 2024 to achieve their broader inflation stability objectives.

"Labour demand remains at healthy levels, especially considering the slowdown in activity and new orders, and the potential for a margin squeeze from rising costs.

"The employment index for Australian service industries fell to 51.5, consistent with official labour force data showing that overall employment growth is still expanding.

"The resilience of labour demand highlights the distribution of risks to the current soft landing. Domestic demand can bounce back at any time when employment levels are growing. Until we see a genuine contraction in labour demand, it is hard to see the economy entering a recession.

"Unfortunately, cost pressures remain elevated at levels well above what is historically consistent with low and stable inflation. The input price indexes declined from cyclical highs in 2021 until earlier this year. Over the past six months, the input price indexes have remained high but stable.

"Over the past three months, pressure on output prices, the prices businesses charge their customers, has fallen slightly. This suggests that as the economy weakens, Australian businesses are finding it harder to pass on cost pressures to consumers.

"This is the next phase of the economic slowdown, which we expect will result in a pullback in business activity as tighter margins compromise profits. In this phase, we should also see consumer price inflation moderate further back to the RBA's 2% to 3% target.

"While these results are consistent with the broad thrust of the RBA's policy goals, they should not stop the RBA board from raising rates at next week's policy meeting. Inflation remains well above target and higher than what had been expected by RBA forecasters.

"A further minor upward adjustment to interest rates is likely to be required to maintain the current soft-landing trajectory, given the upside surprise to inflation in the September quarter. These results suggest that the RBA board will remain cautious in their policy tightening."

services sector leading the fall.

On prices, higher salaries, and fuel costs sent average input prices upwards again in October. Moreover, the rate of inflation rose for a second successive month and was well above the series average, thus indicating elevated inflation. Firms were however limited in their ability to pass on higher costs to clients against a backdrop of falling demand. Average selling prices increased at the softest pace in seven months. According to sub-sector data, costs and charges rose the fastest within the transport & storage and consumer services sectors respectively.

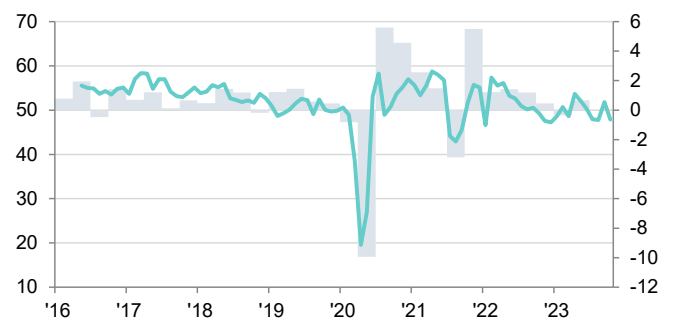
Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI. Data were collected 11-26 October 2023.

Australia Services PMI Business Activity Index Services GDP
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 Australia Composite PMI®

Broad-based deterioration in private sector activity

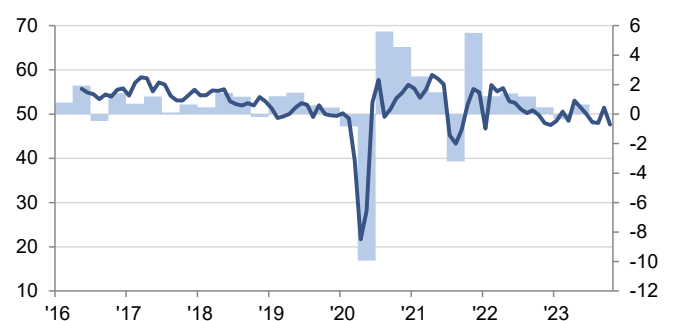
The Composite Output Index posted at 47.6 in October, down from 51.5 in September. The latest reading signalled a renewed contraction of Australia's private sector and at the fastest since December 2022.

A sharper fall in manufacturing output coupled with lower services activity led to overall private sector output contracting at the start of the fourth quarter. This was underpinned by softening demand conditions as incoming new business declined across both the manufacturing and service sectors. This meant the fall in overall new orders was the fastest since September 2021.

While employment levels continued to rise, the pace of growth decelerated from September amid a reduction in capacity pressures.

Finally, input cost inflation accelerated in October, which contrasted with slower selling price increases. This was as firms limited the sharing of cost burdens on the back of reduced optimism with regards to sales. Price inflation remained more elevated within the service sector.

Judo Bank Australia Composite PMI Output Index GDP
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.

*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