News Release

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Judo Bank Flash Australia Composite PMI®

Demand conditions improve in Australia's private sector at the start of 2023

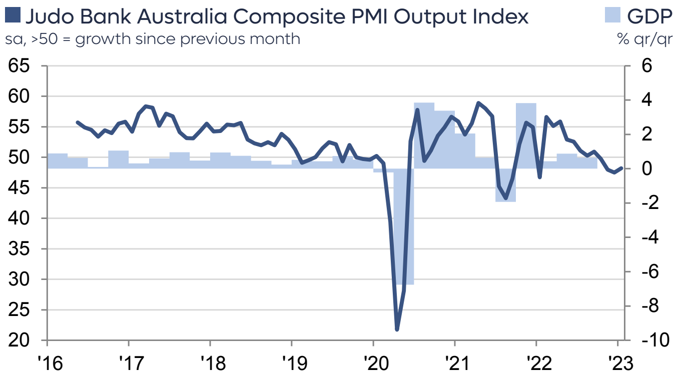
Key findings

Flash Australia Composite PMI Output Index: 48.2 (Dec: 47.5), 3-month high

Flash Australia Services PMI Business Activity Index: 48.3 (Dec: 47.3), 3-month high

Flash Australia Manufacturing PMI Output Index: 47.4 (Dec: 49.2), 17-month low

Flash Australia Manufacturing PMI: 49.8 (Dec: 50.2), 32-month low



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.
Data were collected 11-19 January 2023.

Australian private sector output contracted for a fourth straight month in January, according to Flash PMI® data. That said, the rate of contraction eased with a renewed growth in new orders which supported stronger workforce expansion. Overall sentiment stayed subdued, however, with prices remaining on the rise.

The Judo Bank Flash Australia Composite PMI Output Index* climbed from 47.5 in December 2022 (final reading) to 48.2 in January. The reading indicated a fourth consecutive month of private sector contraction but the slowest in three months.

Lower output was recorded at the start of 2023, attributed to both softer service activity and lower manufacturing production. The rates of contraction diverged between the two, however, with service sector contraction easing on better demand while manufacturing output shrank faster amid lower new business and supply issues. Overall new orders rose for the first time since September 2022, underpinned by better service sector performance.

Foreign demand for services likewise saw a renewed growth in January but was not able to lift overall new export orders out of contraction.

As a result of the better demand conditions, especially in the service sector, Australian private sector firms hired at a solid rate at the start of 2023. Manufacturers and service providers alike increased their workforce capacity to address manpower constraints.

Despite higher demand, the volume of backlogged work continued to fall at the start of 2023, generally reflective of the recent period of declining new orders.

Some survey respondents attributed lower outstanding business on the higher interest rate environment and inflation.

Input costs continued to climb in January with panellists linking higher prices to raw material, energy and staff costs increases. In turn, output price inflation edged higher at the start of the year as firms shared their increased cost burdens with clients.

Finally, sentiment in the Australian private sector remained positive in January but the level of business confidence slipped further below the series average.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 48.3 in January, up from a final reading of 47.3 in December 2022. This indicated a fourth straight month of service activity contraction but at a shallower rate.

Renewed growth in demand for Australian services in January supported a slower contraction of business activity in the service sector. This was linked to better international demand and interest in Australian services, according to panellists. In turn, employment levels rose at a faster rate at the start of the year with hopes for better growth ahead.

Overall sentiment meanwhile remained positive but subdued amid persistent concerns over higher interest rates, inflation and the growth outlook. Indeed, input costs continued to rise in the service sector which led to higher selling price inflation at the start of 2023.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI posted 49.8 in January, down from a final reading of 50.2 in December 2022. Slipping below the 50.0 no-change mark, this signalled the first contraction of the manufacturing sector in 32 months, albeit one that was only marginal.

Manufacturing output shrank at the start of 2023, attributed by panellists to both weaker demand and supply constraints. Higher interest rates and a deterioration in global economic conditions were reported by survey respondents to have led to lower new orders, including a drop in new export orders.

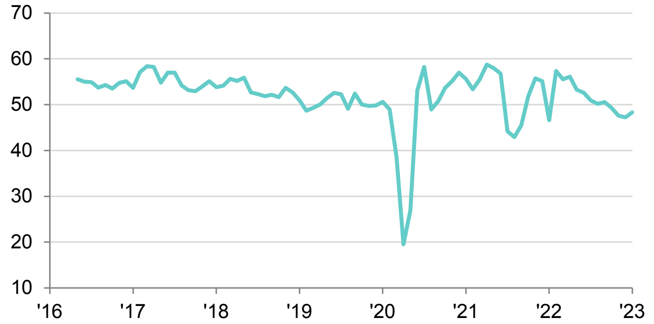
Meanwhile, supplier lead times continued to lengthen for Australian manufacturers, affected by overseas shipping delays and poor weather conditions. More positively, manufacturers expanded their workforce numbers at the fastest rate in five months.

Despite lower demand and output in January, business confidence improved to a three-month high, buoyed by hopes for better economic conditions ahead and with the easing of pandemic restrictions in China. Rates of inflation also softened across both input costs and output prices to signal easing inflationary pressures.

*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.

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month

Sources: Judo Bank, S&P Global.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Australia's economy has started 2023 on a softer footing than what we experienced through much of 2022. This welcome slowdown of economic activity is evident across both the manufacturing sector and service industries although the January Flash Services PMI has improved slightly from December.

"The manufacturing PMI fell below the neutral 50 level for the first time in nearly three years suggesting a further cyclical slowdown in manufacturing activity should be expected in early 2023.

"The Flash Services PMI increased by 1 point to an index of 48.3. This is the strongest reading in three months and is consistent with a mild slowdown in services activity from extraordinarily strong rates of growth in 2022. This moderation of services activity from unsustainably strong rates of growth in 2022 will be welcomed by policy makers keen to reduce excess demand across the economy. What is unclear is if this slowdown in activity is enough to bring inflation pressures back down in line with the RBA's 2-3% target.

"All the prices indicators across the services and manufacturing sector remain elevated in early 2023. Inflation is likely to have 'peaked' below 8% in the final quarter of 2022, but the PMI price measures suggest underlying inflation pressures will not dissipate quickly.

"The employment index in both the manufacturing and services surveys rose in January to be comfortably above the 50 level. This latest result suggests labour demand is not slowing quickly in response to a softening of economic activity. Strong labour demand and very tight labour markets across the Australian economy suggest that we will see further upward pressure on wage growth in 2023.

"Following eight consecutive rate hikes in 2022, the RBA Board will be meeting for the first time on 7 February. The latest PMI readings may raise the concern that the economy is not slowing sufficiently to bring inflation back to target in a timely manner. Recent official statistics show a record high level of full-time employment in Australia, rising wages growth and an historically high number of dwellings under construction. Australia's economy remains robust in early 2023.

"Inflation pressures may abate somewhat but the risk for the RBA is that inflation remains stubbornly high well into 2023. This could maintain upward pressure on inflation expectations and wages growth. On this basis it seems premature for the RBA to pause the current tightening cycle. Australian interest rates are low by any standard except that of the last few years. Real interest rates remain deeply negative leaving monetary policy well below most long-term concepts of 'neutral'. Australian interest rates are well below those in other advanced economies facing similar inflation risks.

"We expect the RBA to hike the cash rate by 25bp in each of February and March before an extended pause. Further rate hikes may be required later in 2023 if the economy and inflation prove more resilient than current consensus forecasts suggest."

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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.

About Judo Bank

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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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. ihsmarkit.com/products/pmi.html.