

News Release

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Judo Bank Flash Australia Composite PMI[®]

Private sector activity softens but business confidence rises

Key findings

Flash Australia Composite PMI Output Index: 48.1 (Feb: 50.6), 3-month low

Flash Australia Services PMI Business Activity Index: 48.2 (Feb: 50.7), 3-month low

Flash Australia Manufacturing PMI Output Index: 47.2 (Feb: 49.9), 19-month low

Flash Australia Manufacturing PMI: 48.7 (Feb: 50.5), 34-month low

Australian private sector output shrank in March, according to Flash PMI[®] data. A deterioration in demand conditions led to lower business activity, though cost pressures likewise eased. Workforce capacity continued to expand, however, while firms' optimism improved at the end of the first quarter.

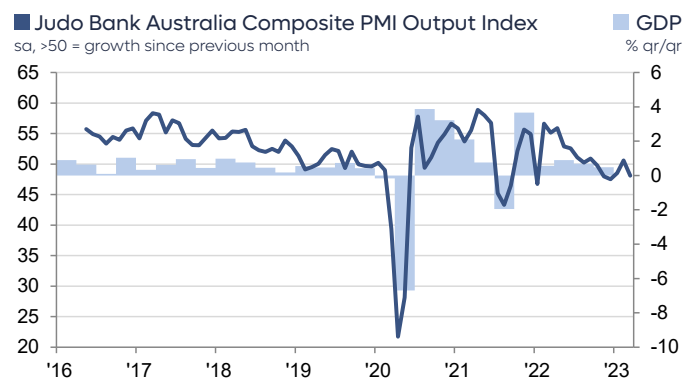
The Judo Bank Flash Australia Composite PMI Output Index* fell from 50.6 in February (final reading) to 48.1 in March. The reading indicated a renewed contraction in private sector activity following February's improvement. Furthermore, the rate of decline was the fastest since last December.

Both the manufacturing and service sectors saw activity decline in the month of March, leading to a broad deterioration in private sector output. Business activity contraction occurred at a faster pace in the manufacturing sector compared to services.

The fall in overall private sector output was underpinned by weaker demand in March as higher interest rates, still-elevated inflation and softer economic conditions affected new business for both Australian goods and services. Foreign demand likewise shrank at the end of the first quarter, though this was primarily attributed to weakness in manufacturing export orders.

Amid the slowdown in new orders, Australian goods producers and service providers continued to work through their outstanding orders in March. Furthermore, the pace at which backlogged orders were depleted was the fastest since May 2020.

Price pressures meanwhile eased for Australian private sector firms. Despite input cost inflation remaining



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.
Data were collected 09-21 March 2023.

at an above-average level, attributed to higher raw material, energy and labour costs, the rate of inflation receded to the lowest rate since October 2021. In turn, private sector firms shared higher input costs with their clients, but the pace of selling price inflation eased to a two-year low.

Firms were also broadly optimistic and continued to expand their workforce capacity in March. In fact, the level of business confidence inched up to a two-month high, albeit remaining at a level below the series average. Survey respondents were generally hopeful that growth will take place in the coming 12 months.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted 48.2 in March, down from a final reading of 50.7 in February. This indicated that services activity fell for the fifth time in the past six months, after expanding in February.

New business at Australian service providers deteriorated at the fastest pace since September 2021 as high costs and slowing market conditions weighed on demand. International demand expanded for a third straight month, however.

As a result of the fall in overall demand, workforce expansion was carried out at a slower rate in March while input cost pressures also eased. Business sentiment nevertheless remained positive with the level of confidence at a two-month high on hopes for better operating conditions in the 12 months ahead.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI posted 48.7 in March, down from a final reading of 50.5 in February. This signalled a renewed contraction of the manufacturing sector at the end of the first quarter, and one that was the fastest since May 2020.

Manufacturing output shrank for a fourth straight month on the back of falling new orders. The rate at which new orders contracted was the fastest since August 2021. Anecdotal evidence suggested that higher interest rates and inflationary pressures affected client interest at the end of the first quarter.

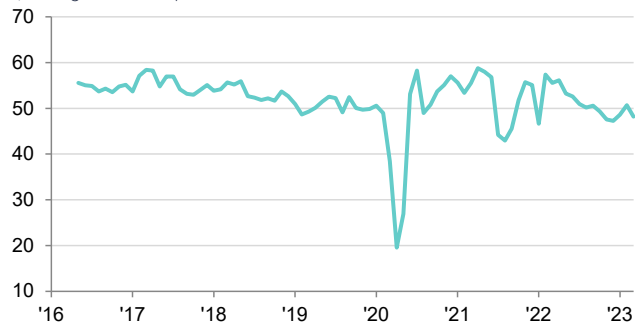
The decline in new orders for Australian manufactured goods helped to alleviate supply constraints, however, as suppliers' delivery times shortened for the first time since data collection began for the survey (May 2016). Price pressures also eased slightly.

Meanwhile, sentiment in the manufacturing sector remained positive as firms stayed hopeful for better growth conditions in the next 12 months. That said, the overall level of business confidence declined further and was the lowest in almost three years.

*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:

“The Flash PMI results for March confirm that the economic slowdown that commenced in 2022 is continuing into 2023. The composite output and new orders indexes fell in March to be at the lowest levels since the Delta lockdowns in 2021. The March results are consistent with a soft landing for the Australian economy in 2023 and 2024 as the economy responds to higher interest rates.

“Labour demand continues to ease across both the manufacturing sector and service industries although the employment indexes remain above the 50 level. The Judo Bank Australian PMI employment indexes suggest that Australian businesses are still looking to expand their workforce levels in early 2023 which should ensure that any potential rise in the unemployment rate in response to weaker economic growth will be moderate.

“Price indicators continue to ease although they remain elevated. Both the input and output price indexes fell again in March reinforcing the downward trend that has been in place for the past year. The price indexes are now at the lowest level since early 2021 providing further confirmation that Australian inflation has peaked in late 2022. The price indexes remain well above levels seen prior to the pandemic and suggest that there remains a high level of uncertainty about how far inflation will fall in 2023.

“At this stage it is impossible to say whether inflation will be back at the RBA’s target in a reasonable time frame or not. Of most concern is service industry input prices which remain very high by historical standards with index levels in the mid 60s, and only down modestly from the high point of a year ago. This suggests that both labour costs and energy prices are inflationary and could maintain upward pressure on many prices across the Australian economy in 2023.

“This will be a key concern for the RBA as they prepare to meet in early April. Against a highly uncertain global financial environment many are expecting the RBA to pause the tightening cycle. Recent strong employment numbers and uncertainty over the extent to which inflation will come down in 2023 point to a very close decision at the next RBA Board meeting in early April.

“There are good arguments to pause in April, particularly if recent global financial instability does not settle down. There is also a view that the Board would be more comfortable with a cash rate closer to 4% before sitting back and observing how the economy plays out for a number of months.

“There is no point pausing for a month before hiking again. The RBA Board need to get the cash rate to a level that they think will buy them the time to observe how the economy unfolds for at least three months, if not longer.”

Contact

Warren Hogan
Chief Economic Advisor
Judo Bank
T: +61 414 498 675
warren.hogan@judo.bank

Casey Van Liessum
Director, Communications
Judo Bank
T: +61 403 119 671
casey.vanliessum@judo.bank

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
T: +65-6439-6022
jingyi.pan@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82-2-6001-3128
sungha.park@spglobal.com

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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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