

News Release

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Judo Bank Flash Australia Composite PMI[®] Private sector output growth sustained by expansion in services activity

Key findings

Flash Australia Composite PMI Output Index: 51.2 (Apr: 53.0), 2-month low

Flash Australia Services PMI Business Activity Index: 51.8 (Apr: 53.7), 2-month low

Flash Australia Manufacturing PMI Output Index: 47.4 (Apr: 48.8), 21-month low

Flash Australia Manufacturing PMI: 48.0 (Apr: 48.0), joint-weakest since May 2020

Flash PMI[®] data for May signalled a continued expansion of the Australian private sector midway through the second quarter. Faster new order growth, primarily in the service sector, drove the increase in activity and corresponding expansion in employment levels. While input cost inflation slowed across the private sector, better pricing power, especially among service providers, led to higher output price inflation.

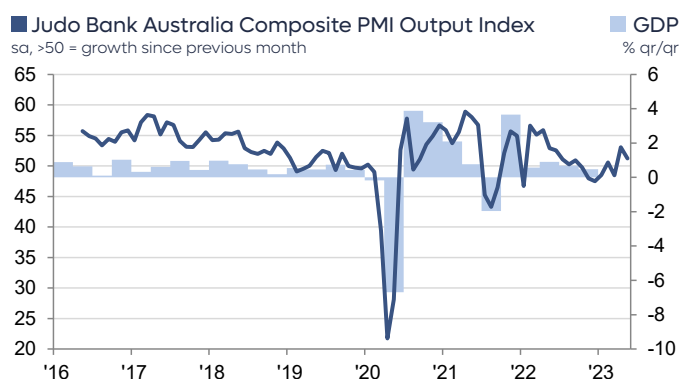
The Judo Bank Flash Australia Composite PMI Output Index* fell from 53.0 in April to 51.2 in May. Posting above the 50.0 no-change mark for a second consecutive month, the figure indicated a continued expansion of the private sector, albeit at a slower rate compared to April.

Supporting the sustained expansion of the Australian private sector in May was growth in services activity as manufacturing output shrank for a sixth straight month.

This divergence between manufacturing and services performance was likewise found in new orders, with faster new business growth in the service sector contrasting with a continued decline in goods demand.

Meanwhile, employment levels expanded for the twenty-first straight month in May. The rate of workforce expansion eased across both the manufacturing and service sectors, however, often due to a lack of suitable candidates, according to anecdotal evidence.

On prices, cost inflation eased in May across the Australian private sector, though this was primarily felt by service providers. That said, service providers were able to pass on higher costs at a more rapid pace midway through the second quarter, leading to higher



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.
Data were collected 11-18 May 2023.

overall selling price inflation.

Finally, business confidence amongst private sector firms improved in May, brought about by increased optimism in both the manufacturing and service sectors. The level of business confidence remained well below the series average, however, as firms remained concerned about the business outlook, higher interest rates and inflation.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index fell from 53.7 in April to 51.8 in May. Staying above the 50.0 no-change mark for a second consecutive month, the index signalled a sustained expansion of the service sector.

Faster new business growth drove the latest rise in services activity, which led firms to further expand their workforce capacity. The rate of employment growth decelerated, however, amid reports of difficulties in acquiring labour.

While input cost inflation eased in May, faster demand growth provided firms with better pricing power, leading to higher selling price inflation. Overall optimism in the Australian service sector improved from the previous month.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI stayed unchanged from April, at 48.0 in May, signalling a third successive monthly deterioration in business conditions in the manufacturing sector.

Underpinning the latest decline in the health of the manufacturing sector was a persistent reduction in new orders. Foreign demand likewise remained subdued, moderating for a sixth straight month and at a solid pace.

In turn, manufacturing production shrank for the sixth month in a row and at the quickest rate in 21 months.

That said, supply pressures eased for goods producers, with average lead times shortening further while input cost inflation remained well below that seen in 2022.

Despite the reduction in output levels, firms continued to expand staffing levels in May. The rate of increase was the slowest in the current sequence of job creation, however, amid subdued market conditions.

Finally, business confidence in the manufacturing sector improved in May, though the level of confidence remained below the long-run average amid market uncertainty.

*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 May Flash result shows a small retracement from the strong April outcome reinforcing the view that overall economic activity in Australia is holding up well as we enter the winter months.

“Both the output and new orders results are in expansionary territory. Over the past two months, we have seen the best readings since the middle of 2022. This brings into question whether the economic slowdown of the past year has run its course.

“Underlying the overall index is an ongoing divergence in performance between the manufacturing sector and services industries.

“Australia’s manufacturing sector continues to slow in May and is on track for a soft landing. This is consistent with a global manufacturing slowdown, weaker consumer goods demand and a lack of growth in construction activity across the Australian economy.

“The manufacturing indicators do not signal recession. We would need to see a further marked deterioration in the manufacturing survey to be concerned about a sharper downturn.

“The recent strength in services results stands in contrast to manufacturing. Far from the risk of recession, the services PMI suggests that the risk is that the Australian economy is experiencing a pick-up in activity since February.

“While better economic conditions are always welcomed, the complicating factor in 2023 is inflation. The RBA is trying to engineer a soft landing to rid the economy of inflation. But if they don’t lean hard enough on monetary policy, we could see a more stubborn inflation emerge which will ultimately require a bigger lift in interest rates.

“The pick-up in the services PMI is consistent with a stronger housing market in recent months, rising population growth and a pick-up in job advertising. Last week’s labour market data on employment and wages have bought the RBA some time, but the Flash PMIs highlight that it is still too early to call an end to the monetary policy tightening cycle.

“The Judo Bank Purchasing Managers’ Survey highlights the ongoing resilience of the Australian business sector to the economic headwinds before us. While a slower economy and rising interest rates will create a challenging environment for some organisations, most Australian businesses are in good shape and experiencing robust trading conditions.”

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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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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.