

News Release

Embargoed until 0900 AEDT 23 November 2023

Judo Bank Flash Australia Composite PMI[®] Accelerated fall in new business

Key findings

Flash Australia Composite PMI Output Index: 46.4 (Oct: 47.6), 27-month low

Flash Australia Services PMI Business Activity Index: 46.3 (Oct: 47.9), 26-month low

Flash Australia Manufacturing PMI Output Index: 47.2 (Oct: 45.8), 2-month high

Flash Australia Manufacturing PMI: 47.7 (Oct: 48.2), 42-month low

Australia's private sector activity continued to decline midway through the final quarter of the year. Lower new business, including export business, negatively affected output. That said, employment continued to rise, supporting the clearance of backlogged work. Price pressures meanwhile intensified, further dampening business confidence.

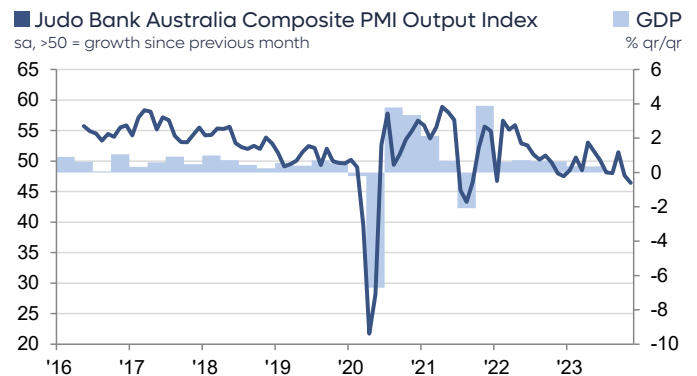
The Judo Bank Flash Australia Composite PMI[®] Output Index* posted 46.4 in November, down from 47.6 in October. This signalled a second successive month of business activity decline and the quickest reduction since August 2021.

Sharper new business downturns in both the manufacturing and service sectors led to the latest fall in output according to panellists. This was amidst widespread reports of softening economic conditions and high interest rates negatively affecting budgets. As a result, composite new orders slipped at the sharpest pace since September 2021.

New business from abroad likewise declined but at a slightly less pronounced pace. The deterioration in exports was concentrated in the manufacturing sector. Services export business fell only marginally.

Consequent of the reduction in new work, Australian private sector firms worked through their backlogs, leading to the quickest depletion of outstanding work since the initial pandemic period. This was supported by higher headcounts in November, though job creation was limited to the service sector as manufacturers shed staff for the first time in just over three years.

Meanwhile, inflationary pressures intensified with rates



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 08-20 November 2023.

of both input cost and output price inflation rising from October on the back of higher fuel costs and wages. Prices rose faster among service providers than within the goods producing sector. The elevated inflation, alongside softening demand conditions and high interest rates, thereby weighed on business confidence. The level of optimism eased in November to the lowest since data collection began for the survey in May 2016.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index posted below the 50.0 no-change mark for a second straight month in November. At 46.3, down from 47.9 in October, the latest reading signalled the fastest fall in services activity since September 2021.

This was underpinned by a quicker decline in incoming new business, with new orders from overseas customers also ticking down.

Firms continued to raise their workforce capacity, however, supporting the completion of outstanding work.

Meanwhile price pressures worsened across both input cost and output price gauges amid reports of higher energy, labour and currency conversion costs fuelling inflation.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI fell to 47.7 in November, down from 48.2 in October. This marked the ninth consecutive month in which manufacturing sector conditions worsened, with the

latest decline the most pronounced since May 2020.

Central to the latest deterioration in conditions was a sustained fall in new orders, including those from abroad. This was attributed to softening underlying demand conditions and high interest rates, according to manufacturers. Output declined at a less pronounced pace, however, as firms worked through existing orders.

Amid the fall in new work, employment levels declined for the first time since October 2020. Staff resignations also contributed to the reduction in headcounts, according to panellists.

Concerns over demand conditions and the economic outlook resulted in lowered optimism among manufacturers, further driving the paring of purchasing activity and inventory holdings.

Price trends varied with higher selling price inflation contrasting with lower input cost inflation in November. Both rates of inflation remained below their respective series averages, however, to indicate relatively subdued price increases.

*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 PMI.

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Judo Bank Flash PMI provides further evidence that the slowdown in Australian economic activity extended into November. The flash composite output index fell to 46.4 in November from a final reading of 47.6 in October. This is the lowest reading for the composite output index in the 8-year survey history, outside of pandemic lockdowns.

"The November result follows a decline in October and all but confirms that the economy is experiencing a soft landing, consistent with the RBA's narrow path. It is important to note that we are still seeing no real signs of a hard landing in the survey.

"Activity weakened Australia's services and manufacturing sectors in November. Manufacturing remains soft, as it has been for most of 2023, although the sector does not appear to be slipping into recession at this stage.

"Complicating the economic picture was an improvement in the employment index in the services sector, indicative of continued strong demand for labour. A unique feature of the current cycle has been the resilience of labour demand despite the slowdown in overall activity. This looks to be more than the normal process of labour hoarding that occurs at the start of a cyclical downturn in economic activity.

"The employment index has tracked much higher than the activity indexes for the past 18 months, indicating a more persistent imbalance between labour demand and supply across the Australian economy.

"While the RBA will welcome the further slowdown in business activity in November, the strong employment index and an increase in the price indexes will keep them alert to inflation risks in 2024. Specifically, the RBA will need to remain attentive to the risk that inflation does not fall as quickly or by as much as they would like to see.

"Despite these inflation risks, the slowdown in business activity will strengthen the case for policy patience, which will most likely mean another pause in the tightening cycle at the next RBA Board meeting in December.

"This timely insight into Australia's economy shows that it is still too early to think about rate cuts in Australia, even if the case for easing monetary policy continues to build in key global markets.

"Both the price indexes increased in the Flash November reading and remained above levels consistent with the RBA's inflation target.

"Input prices spiked in July, most likely in response to the Fair Work Commission wage increases, then eased back in August. This index has steadily risen since, and is now 12% above the average levels seen in the pre-pandemic period. I don't think any Australian business would be surprised to learn that cost pressures continue to rise across the economy.

"Final prices are also elevated compared to the pre-pandemic period but have decreased more than input prices. This implies a further squeeze on margins, as firms find it increasingly difficult to pass on cost pressures in a slowing economy.

"Final prices are still recording index readings indicative of a 1% quarterly inflation rate. The good news is that this broadly aligns with the RBA's short-term inflation expectations and adds to the case for holding the cash rate at 4.35% in December."

Contact

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

Casey Van Liessum
Director, Corporate Affairs
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

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

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@spglobal.com.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("Data") contained herein, any errors, inaccuracies, omissions or delays in the Data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the Data. Purchasing Managers' Index™ and PMI® are either trade marks or registered trade marks of S&P Global Inc or licensed to S&P Global Inc and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.

By providing this Content, Judo Bank Pty Ltd ABN 11 615 995 581 AFSL and Australian Credit Licence 501091 ("Judo Bank") does not intend to provide any financial or other advice or recommendation. This Content is of a general nature only and you should seek independent financial, legal, tax and other relevant professional advice having regard to your particular objectives, needs and circumstances. Judo Bank, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof ("Judo Group") does not warrant the information contained in the Content is accurate, reliable, complete or current, and shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Content. If any law prohibits the exclusion of such liability, the Judo Group's liability is limited to the re-supply of the Content. You should independently verify the information contained in the Content. It may not be reproduced or distributed without Judo Bank's consent. For further details of this disclaimer please go to www.judobank.com/disclaimer.

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.judobank.com

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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. www.spglobal.com/marketintelligence/en/mi/products/pmi