

News Release

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Judo Bank Flash Australia Composite PMI[®] Business activity contraction led by manufacturing

Key findings

Flash Australia Composite PMI Output Index: 49.8 (Aug: 51.7), 8-month low

Flash Australia Services PMI Business Activity Index: 50.6 (Aug: 52.5), 2-month low

Flash Australia Manufacturing PMI Output Index: 44.2 (Aug: 46.0), 52-month low

Flash Australia Manufacturing PMI: 46.7 (Aug: 48.5), 52-month low

Business activity in Australia's private sector declined in September amid a sustained manufacturing downturn. That said, overall new business continued to expand while sentiment remained positive, supporting a further rise in staffing levels. Price pressures meanwhile eased with falling input cost inflation enabling firms to raise selling prices at the softest pace since December 2020.

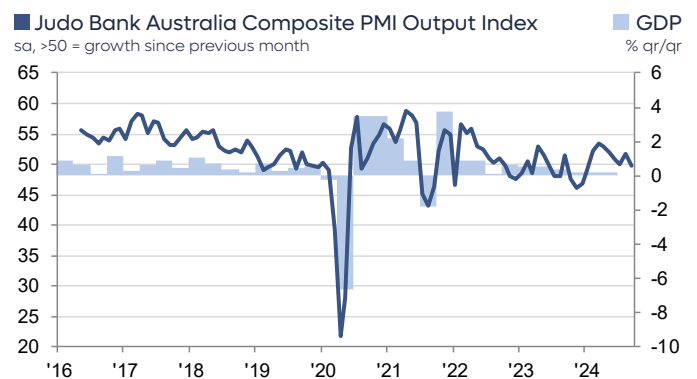
The Judo Bank Flash Australia Composite PMI[®] Output Index* posted 49.8 in September, down from 51.7 in August. Falling below the 50.0 neutral mark, the latest data signalled that business activity declined in September after rising in August as slower services activity growth failed to offset a sharper downturn in manufacturing production. The rate of decline was marginal, however.

The divergence in sector performance was likewise observed for new orders, with further services new business growth contrasting with a sharper downturn in manufacturing new orders.

Overall new business nevertheless remained on the rise in the Australian private sector, which supported an expansion of workforce capacity in September, though this was limited to the service sector.

Meanwhile the level of unfinished work fell at the quickest pace in nine months, benefitting from higher workforce capacity, but also driven by a slower rise in new work inflows and a renewed downturn in export orders.

Turning to prices, average input costs increased at slower rates across both the manufacturing and service sectors, enabling businesses to raise selling prices at



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 11-18 September 2024.

a slower pace. Firms also indicated that increased competition led to output price inflation easing to the weakest since the end of 2020.

Sentiment in the Australian private sector remained positive in September, but the level of optimism declined from August and was below the series average.

Judo Bank Flash Australia Services PMI

The Judo Bank Flash Australia Services PMI Business Activity Index fell to 50.6 in September, down from 52.5 in August. Posting above the 50.0 neutral mark for an eighth straight month, the latest data indicated that services activity continued to expand but at the softest pace since July.

The rate of services activity growth moderated alongside new business, the latter rising at a slower and modest pace. Export business meanwhile fell for the third time in four months, albeit only marginally.

To cope with ongoing workloads and to further clear backlogs, services firms added staff at a quicker pace in September. This was with confidence levels remaining above the rolling 12-month average, even as sentiment fell from August.

Lastly, price pressures eased with the rates of input cost and output price inflation sliding to the lowest in three and 45 months respectively.

Judo Bank Flash Australia Manufacturing PMI

The Judo Bank Flash Australia Manufacturing PMI posted 46.7 in September, down from 48.5 in August. The index signalled that the health of the sector deteriorated for

an eighth straight month and at the fastest pace since May 2020.

New orders and production likewise fell at the fastest pace in 52 months, underpinned by softening demand conditions. This included external demand with export orders returning to contraction in September.

Australian manufacturers cut back on their purchases and reduced their inventories against a backdrop of falling new orders. Meanwhile, headcounts declined for a fourth straight month amid a lack of pressure on capacity.

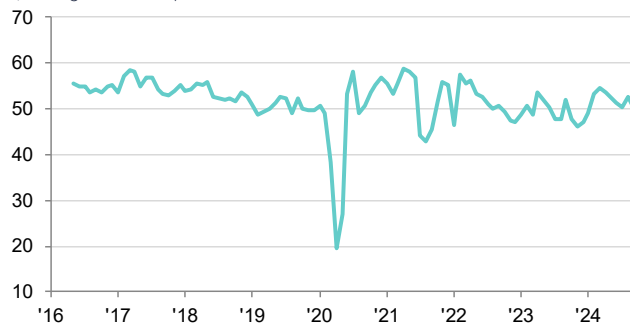
Average input costs and output prices continued to rise, but at softer rates compared to August. This was amid the lowering of input material costs, such as for steel and grains according to panellists. Lead times also lengthened at a slower pace in September, but the rate of deterioration remained marked.

Finally, overall confidence in the goods producing sector fell for the first time in three months as concerns heightened surrounding the outlook for sales amid current market conditions.

*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

Matthew De Pasquale, Economist at Judo Bank said:

“In September, business activity growth remained sluggish following a strong start to 2024. Market-sector employment continued to expand, but only slightly, while inflationary pressures eased further.

“Key activity indicators from September’s flash results hovered near the neutral 50 mark. The output index dipped to 49.8, while the new orders index remained in growth territory at 50.6. The services sector continued to expand, but the manufacturing sector contracted, posting its lowest index reading outside of the pandemic.

“The weakness in PMI activity indicators over the past three months suggests that households are saving more of the government stimulus than initially expected. On the bright side, the stable results over the past quarter indicate that the Australian economy is gradually bringing supply and demand back into balance at the current cash rate. This supports the argument for keeping the cash rate unchanged for an extended period rather than raising it later this year.

“The PMIs also reinforce the narrative of slowing job growth in the market sector, with employment barely staying in growth territory in September, at 50.8. This contrasts with official employment data, which has consistently shown monthly job growth nearly three times the pre-pandemic average, primarily driven by significant hiring in the care and education sectors.

“While price pressures eased in September, margin pressures across the economy remain. The output price index, which tracks the share of businesses raising consumer prices, fell to its lowest point since January 2021, now close to its pre-pandemic average.

“Despite a sharp decline in the input price index, it remains only slightly below its FY24 average and significantly higher than the pre-pandemic average of 56.8. Whether this input price pressure translates into higher consumer inflation depends on a potential rebound in household spending in FY25. However, with early indicators showing subdued demand, margin pressures are likely to persist through FY25.”

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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@spglobal.com.

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