

News Release

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Judo Bank Australia Services PMI®

Service sector expansion slows as price pressures ease

Key findings

New business growth softens amid renewed export weakness

Staffing levels rise at fastest pace in four months

Selling price inflation lowest since December 2020

Australia's service sector expansion eased at the end of the third quarter of 2024, according to the latest PMI® data. This was as new business growth slowed amidst a renewed downturn in export business. Workforce expansion was sustained amid higher new work inflows, which further supported the clearance of existing business. Sentiment also remained positive.

Meanwhile, price pressures eased with the rate of selling price inflation falling to the lowest in 45 months, in part reflecting a lowering of cost inflation in September.

The seasonally adjusted Judo Bank Australia Services PMI Business Activity Index posted 50.5 in September, down from 52.5 in August. The latest reading signalled an eight successive monthly expansion in services activity, though at a slower and only marginal pace.

Higher new business inflows supported the latest expansion in services activity, with firms in the consumer services sector experiencing the fastest rise in both new business and activity. Anecdotal evidence suggested that a widening of customer bases and successful business development endeavours supported the latest uptick in new orders.

That said, the rate of new business expansion slowed in the latest survey period, attributed partly to a renewed decline in export business. Reduced budgets at overseas clients and deteriorating trade conditions negatively affected foreign demand for Australian services.

Amidst the increase in overall new business, Australian service providers hired additional staff to help keep on top of workloads. The rate of job creation accelerated for the first time in four months and was the highest since May. Higher workforce capacity also enabled firms to lower their level of unfinished business for a fifth successive month in September.

Turning to prices, average input costs increased again in September due to higher expenses for input materials, electricity and labour. While still above the series average,

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"Final September PMI results confirm the sluggish economic growth identified in the Flash release. The services sector continues to expand and increase staffing levels, however, at a slower pace than in the first half of 2024. Business cost pressures remain, and there is some evidence that businesses are finding it harder to pass on these cost pressures to final consumers.

"Service sector business activity continues to grow but has remained relatively unchanged, just above the neutral 50 level in September. The new business index has also softened recently, averaging 51.4 over the last three months. This is consistent with a slowdown in business activity since the high point in March and April but is still more robust than the results seen in 2023, when activity dipped well below the 50-index level on several occasions.

"The September Services PMI suggests that the economy has yet to receive a boost from the tax cuts and other household stimulus measures put in place at the start of this financial year. The lack of improvement in activity over the past three months supports the view that the Reserve Bank of Australia (RBA) can maintain the current cash rate for an extended period. However, there are no signs of a more severe economic downturn that would point to an early easing of monetary policy. It is also possible that improvements in consumer spending may be gradual, only leading to more robust business outcomes later this year.

"Employment growth in the services sector has slowed through the first quarter of FY25, with the average employment index reading for the past three months just holding in positive territory at 51.0, down from 52.2 in the first six months of 2024. Demand for labour in the public sector, particularly health and aged care, is bolstering overall employment growth nationally, countering the effects of easing private sector labour demand.

"Service sector output price pressures have returned to pre-pandemic levels, suggesting that consumer price inflation is gradually falling towards the RBA's 2-3% target band. However, businesses operating in the services sector continue to face margin pressure, with the input price index remaining approximately 5.0 points above pre-pandemic levels and having made little progress in descent over 2024 thus far. This suggests that Australian businesses are finding it more difficult to pass on cost pressures, which will inevitably lead to lower profitability and raise the potential for weaker investment and hiring as we move into 2025.

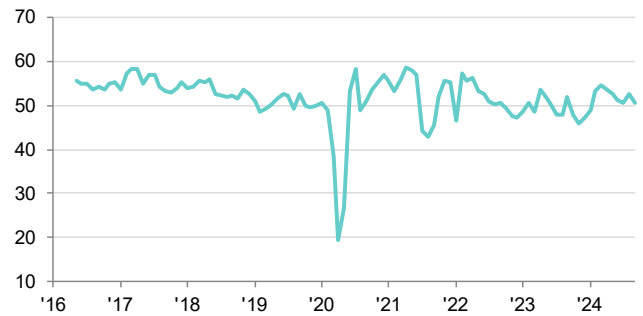
"As discussed in earlier releases, the stickiness of inflation and the impact on businesses' profitability will depend to some extent on how much of a bounce back we see in household spending over FY25. A weaker-than-predicted rebound will limit businesses' ability to pass on increased input costs, assisting inflation in continuing down the RBA's narrow path."

the rate of cost inflation was however the lowest in three months. In turn, Australian service providers raised selling prices at a slower pace, both to reflect the easing of cost pressures and to support sales. The rate of selling prices notably fell to the lowest since December 2020 and was below the series average.

Finally, overall sentiment in the Australian service sector remained positive in September with firms generally optimistic that sales can rise in the year ahead as economic conditions improve and with promotional efforts bearing fruit. The level of confidence remained elevated and above the year-to-date average despite easing from August.

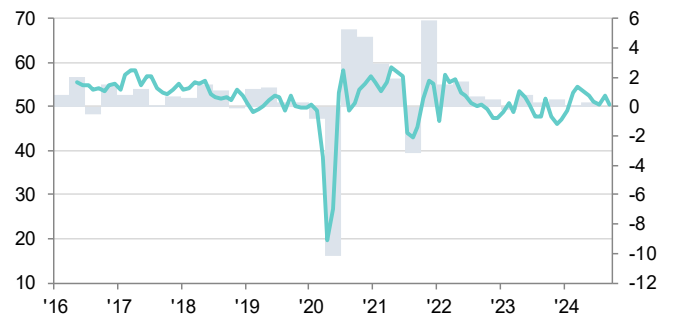
Judo Bank Australia Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 11-25 September 2024.

Australia Services PMI Business Activity Index ■ Services GDP
sa, >50 = growth since previous month %qr/qr



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

Judo Bank Australia Composite PMI®

Private sector output declines marginally

The Composite Output Index posted 49.6 in September, down from 51.7 in August. Falling past the 50.0 neutral mark in September, the latest reading indicated that Australia's private sector output declined for the second time in the past three months. The rate of contraction was marginal, with services activity growth failing to offset a sharper decline in goods production.

Overall new orders remained in expansion territory, underpinned by gains in service sector new business. This supported higher employment in September, though both the rates of new business and jobs growth eased from August.

Likewise for business sentiment, private sector firms in Australia were broadly positive but were less upbeat than in August.

Lastly, average selling prices rose at the slowest pace since December 2020, reflecting easing cost pressures for both manufacturers and service providers in September.

Judo Bank Australia Composite PMI Output Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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Survey methodology

The Judo Bank Australia Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 2016.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey 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.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services 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 figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying 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.

Flash vs. final data

Since May 2016 the average difference between final and flash Services PMI values is 0.0 (0.6 in absolute terms).

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