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SME PMI® Business Activity Report.

Exclusive insights into the SME economy presented by Judo Bank.

Business activity declines at fastest pace since January 2022

Key findings

Sharper fall in new business in November

Optimism eases to lowest on record

Price pressures worsen for SMEs

Business activity across Australian SMEs deteriorated again midway into the final quarter of 2023, according to the latest Judo Bank SME Business Activity Report data. A softening of demand conditions negatively affected business activity and confidence over the latest survey period. That said, firms raised their workforce capacity, though mainly in the service sector. Price pressures also intensified, driven by higher service sector inflation.

The seasonally adjusted Judo Bank Australia SME Business Activity Index fell to 44.7 in November, down from 47.6 in October. This signalled a second successive monthly contraction of SME activity in Australia and at the most pronounced since January 2022. Sharper falls in output across both manufacturing and service sectors were observed in the latest survey period.

Underpinning the latest downturn in SME activity was a sustained reduction in new orders. Incoming new work recorded a fifth monthly decline and at the joint-quickest since March. This was brought about by a renewed fall in services new business, though the rate at which goods new orders dropped was more pronounced despite decelerating from October. Pressure on clients' budgets from high borrowing costs, elevated inflation and softer economic conditions were often mentioned by panellists as reasons for the deterioration in demand.

Consequent of the fall in new work intakes, Australian SMEs worked through their existing orders, extending the sequence of backlog depletion to 14 months. The rate of decline was the sharpest since March, but again softer than the rate at which spare capacity developed among large enterprises in November.

Supporting the faster clearance of outstanding business among Australian SMEs was higher workforce capacity. Employment levels grew a third time in four months, though primarily within the service sector as manufacturing headcounts fell for a fifth successive month. Anecdotal evidence suggested that service providers continued to hire to cope with ongoing workloads.

Price pressures intensified for Australian SMEs despite weaker demand and output conditions. Input costs and output prices both rose at faster rates in November, which contrasted with the easing inflation trends for large enterprises. Notably, the hike in both input cost and output price inflation rates stemmed from the service sector, where higher raw material, fuel and labour costs led services SMEs to share their cost burdens with clients.

Overall sentiment among Australian SMEs remained positive as indicated by an above 50.0 print of the Future Output Index. That said, the level of optimism was the lowest since data collection commenced for the survey in May 2016 amid greater concerns over the economic outlook.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month

Sources: Judo Bank, S&P Global PMI.
Data were collected 08-27 November 2023.

Comment

"The SME sector has experienced a material slowdown in activity since September."

Warren Hogan
Chief Economic Advisor at Judo Bank

Comment

"At this stage the difference in the performance of SMEs versus larger business is not that significant with bigger companies also experiencing a slowdown in activity since September."

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Judo Bank Australian SME Business Activity Report provided further evidence of a weakening economy in November with soft results for output, new orders, and the backlog of work. The SME sector has experienced a material slowdown in activity since September with these key activity indicators holding well below the neutral 50 index level.

"The SME output index was particularly concerning in November, falling under the 45.0-index level having been around 50.0 in September. This index level is still consistent with a soft landing for the SME sector (and the broader economy), but it would not take much further weakness for the survey to be pointing to recession levels if we do not see a stabilisation in the index in early 2024.

"SME new orders were also soft, falling in consecutive months to be at 46.6 which, although higher than the output index, is indicative of a genuine soft patch in business activity at the end of 2023. The backlog of work has also eased further in November.

"The SME sector has slowed at a faster rate than large companies in Australia over the past 3 months. This is not unusual, particularly in the post pandemic recovery, where the SME sector responds more rapidly to a slowdown in the overall economy.

"We will be watching the output index closely over the summer months to gauge the risks of a deeper downturn for the SME sector in 2024. At this stage a hard landing does not appear to be the most likely outcome.

"The SME employment index remains safely above the 50,0 level indicative of a continued desire to hire staff. This is also evidence that the SME slowdown is mild. It is highly unlikely that SMEs would be expanding their workforce if they truly believed the economy was headed for recession.

"Australian SMEs continue to face rising cost pressures. The input price index rose from 60.9 to 64.0 in November, the highest level since March of this year. Output prices, a good proxy for inflation, also rose in November suggesting that some of the higher costs are being passed onto final customers.

"The broader trends for costs and final prices have been similar for SMEs and larger corporations over the past 3-4 months. This suggests that all companies are experiencing costs pressures and are having some success at passing on higher costs to protect margins. The pass through of costs is far from complete which means margin pressures remain as we finish calendar 2023 and will most likely continue to impact profitability into 2024.

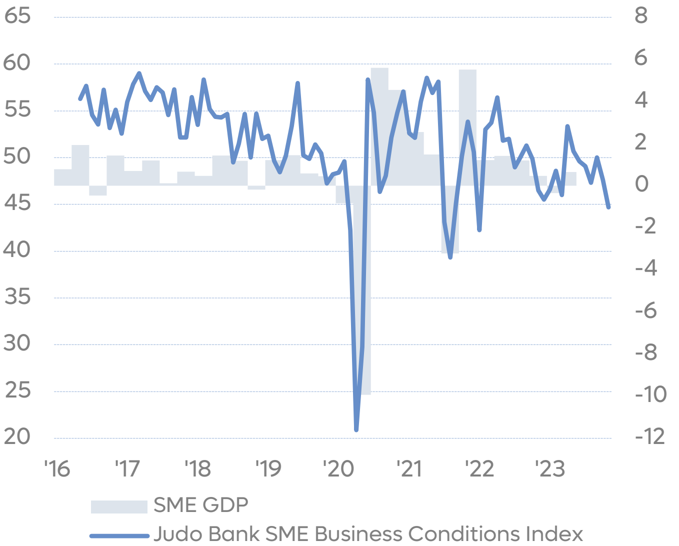
"For the SME sector the good news is that these companies are just as likely to offset some of the higher cost base with higher final prices as larger businesses operating across the Australia economy.

"The economy is clearly slowing into the end of 2023. Early reports suggest consumer demand is holding up through the initial wave of sales events in late November. The Christmas trading period and January summer holidays will be critically important for many businesses in shaping their plans for the year ahead.

"The Australian economy will continue to be underpinned by strong levels of construction activity in 2024. The swing factor will be consumer demand and the extent to which weakness in consumer markets forces businesses to revise down their investment and hiring plans in 2024."

Judo Bank SME Business Conditions Index

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 SME Business Conditions Index

sa, >50 = growth since previous month

Sources: Judo Bank, S&P Global PMI.

Judo Bank Business Conditions Index

sa, >50 = growth since previous month

Sources: Judo Bank, S&P Global PMI.

Comment

"The Judo Bank Australian SME Business Activity Report provided further evidence of a weakening economy in November."

Warren Hogan
Chief Economic Advisor at Judo Bank

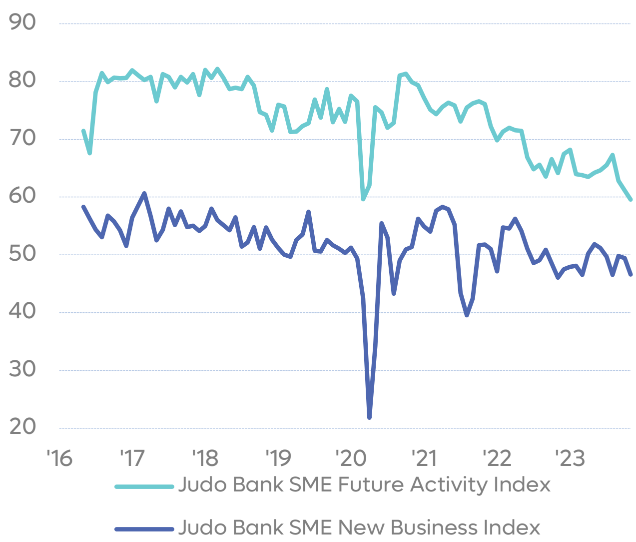
Australian SMEs continued to hire despite business activity declining in November.

Demand and outlook

Incoming new orders for goods and services from Australian SMEs declined for a fifth successive month in November. The rate of contraction was the most pronounced since August, solid and faster than the overall pace of new business decline in the private sector. Manufacturing new orders contracted at a quicker pace compared to services, though the rate of decline for the former slowed for a second month in a row. The fall in services new business was the first since August.

Meanwhile, Australian SMEs continued to hold an optimistic view with regards to output in the 12 months ahead. The level of confidence eased to a record low, however, amid concerns at some companies that spending will fall on the back of high borrowing costs and deteriorating economic conditions. This was primarily driven by a drop in confidence within the service sector, whereas manufacturers' optimism rose to a two-month high despite remaining historically subdued.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment

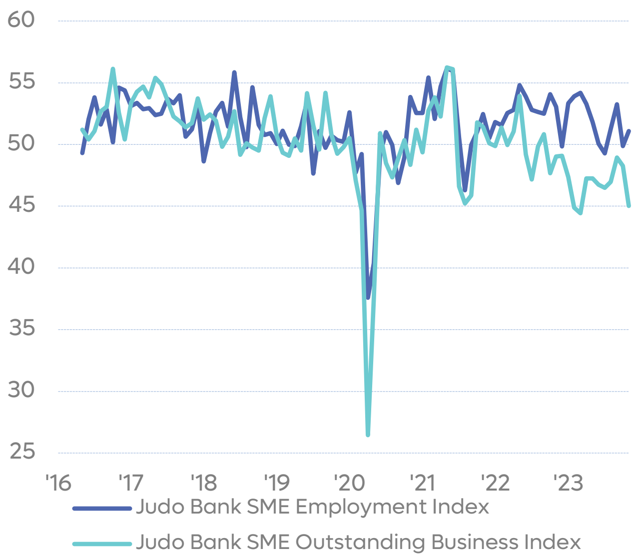
"It is highly unlikely that SMEs would be expanding their workforce if they truly believed the economy was headed for recession."

Warren Hogan
Chief Economic Advisor at Judo Bank

Employment and capacity

Staffing levels rose in November after fractionally falling over October. Higher workforce capacity within the service sector accounted for the change as manufacturing employment levels continued to decline alongside falling new orders for goods. Despite rising in November, the rate at which headcounts increased among Australian SMEs was mild and below the long-run average.

Amid falling new work intakes and higher workforce numbers, primarily in the service sector, the volume of backlogged work decreased for a fourteenth successive month in November. Moreover, the rate of depletion was strong and the most pronounced in eight months.



Sources: Judo Bank, S&P Global PMI.

Comment

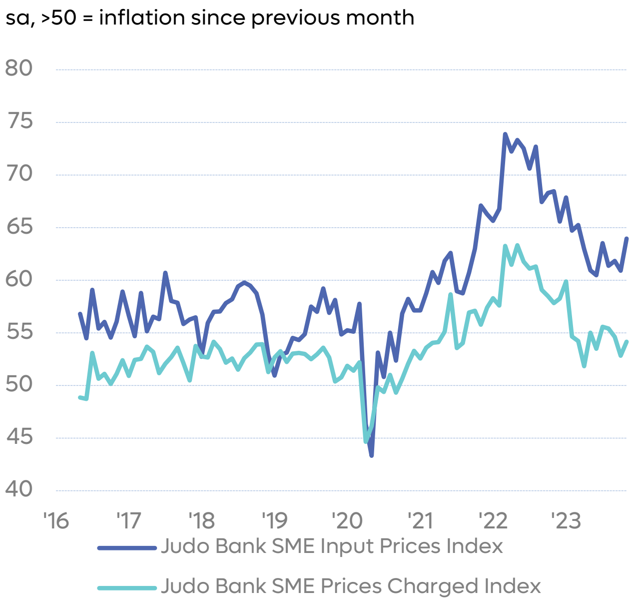
"At this stage the Judo Bank PMI reports are pointing to the economy remaining on the RBA's 'narrow path' as we enter the new year."

Warren Hogan
Chief Economic Advisor at Judo Bank

Prices

Higher raw material, fuel and wage costs contributed to average input costs rising again in November, extending the sequence of input cost inflation that commenced in June 2020. Moreover, the rate of input cost inflation rose to the highest since March and was above the series average, reflecting elevated price increases. Higher services cost inflation, the most pronounced in eight months, contrasted with softer manufacturing input price inflation in November.

Consequent of the rise in cost burdens, Australian SMEs raised selling prices again in the penultimate month of the year. This was likewise driven by changes in the service sector with selling price inflation rising back above the series average, while manufacturing output prices notably declined for a second successive month, albeit only marginally.



Sources: Judo Bank, S&P Global PMI.

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Survey methodology

The Judo Bank SME Business Activity Report is compiled by S&P Global from responses to questionnaires sent to around 650 manufacturing and service sector SMEs. SMEs are defined as companies with less than 200 employees. The sectors covered include manufacturing, consumer services (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The manufacturing and services panels are 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 SME Business Conditions Index, a GDP-weighted average of the SME Manufacturing Business Conditions Index and the SME Services Business Conditions Index. These are diffusion indices calculated from questions that ask for changes in the volume of output (for manufacturers) or business activity (for service providers) compared with one month previously. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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 survey methodology, please contact economics@spglobal.com.

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.judo.bank

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