

Embargoed until 0900 AEST 07 June 2024

SME PMI® Business Activity Report.

Exclusive insights into the SME economy
presented by **Judo Bank**.

Fastest new business expansion in two years

Key findings



Output growth sustains for fourth straight month

Business activity at Australian SMEs remained in expansion midway through the second quarter of 2024, according to the latest Judo Bank SME Business Activity Report data. This was underpinned by a faster increase in new business, albeit primarily in the service sector. Broad-based employment growth was observed as a result of the expansion in new sales, which supported SMEs in clearing their outstanding business. Overall sentiment remained positive, but with confidence levels dipping slightly as price pressures intensified.

The seasonally adjusted Judo Bank Australia SME Business Activity Index posted 51.9 in May, down from 55.1 in April. This indicated that an improvement in SME activity was sustained for a fourth straight month, albeit at the slowest pace in the current sequence.

The expansion in business activity was again limited to the service sector, with a similar trend being observed for new business which rose at the fastest pace in two years. A widening of client bases in the



Employment growth accelerates to fastest pace since May 2022

service sector supported the solid uptick in new sales according to panellists. Overall, the rate of new business growth among Australian SMEs was also markedly faster than that for large enterprises.

To cope with ongoing workloads, Australian SMEs raised their staffing levels in May. Here, the rate of growth was likewise the fastest in two years and more pronounced for SMEs than for large enterprises. Broad-based employment growth across both manufacturing and service sectors was observed for the first time since last May.

Greater staffing levels enabled firms to clear their backlogged work midway through the second quarter of the year. Although marginal, the latest decline in the volume of backlogged work marked a departure from the renewed accumulation observed in April.

Sentiment among Australian SMEs remained positive in May with expectations that improvements in economic conditions and business development



Inflation rates increase in May

efforts can lead to activity growth in the next 12 months. The level of confidence among Australian SMEs was again higher than that for large enterprises, but eased from April amid concerns over rising inflation.

The rate of cost inflation for Australian SMEs was the highest since February as rising raw material, transport and labour costs contributed to a faster increase in average input prices. Rates of cost inflation rose across both the manufacturing and service sectors according to detailed sector data. To sustain margins, Australian SMEs raised their selling prices at a faster rate in May. The rate of charge inflation was notably at its highest in three months and rose past the long-run average.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-28 May 2024.

Comment



“The recovery in SME activity has brought implied business growth back to its highest rate since the start of the interest rate tightening cycle in May 2022.”

Warren Hogan

Chief Economic Advisor at Judo Bank



Comment

“The SME sector is demonstrating resilience despite the numerous challenges confronting Australian businesses.”

Warren Hogan, Chief Economic Advisor at Judo Bank said:

“The SME output index retreated in May but remains well into net positive territory above the neutral-50 level, indicative of strengthening business activity in the month. This builds on the strong results since February.

“SMEs have led the business recovery across the Australian economy in 2024. Over the first five months of 2024, SME activity has been broadly stronger than that of large businesses.

“The recovery in SME activity has brought implied business growth back to its highest rate since the start of the interest rate tightening cycle in May 2022. It is great news to see the resilience of the SME sector despite the numerous challenges confronting Australian businesses in recent years.

“New orders picked up in May, reaching the highest level since April 2022. Along with a relatively high level for future activity (mid-60s index readings), the results suggest that SME confidence has lifted strongly in 2024 despite weak consumer spending, cost pressures and labour force management

issues.

“Employment rose to 54.4, again the highest reading in two years. Hiring intentions are a good measure of confidence and investment. This suggests that the recovery in SME activity in 2024 has solid foundations.

“These results for May came after a household sector-focused Federal Budget and warnings from the RBA that inflation is still too high to be confident that we will get rate cuts anytime soon. The improvement in SME confidence could be partly driven by an expectation that tax cuts and cost-of-living relief will boost spending and support businesses impacted by the ongoing softness in household finances.

“Input costs rose in May and remain elevated compared to the pre-pandemic experience. Both SMEs and large businesses are experiencing similar business cost pressures which have not really changed that much over the past year. Cost pressures have eased from the severity of the pandemic but are still uncomfortably high.

“Cost pressures are being managed through productivity efforts as well as passing some of the cost of doing business through to final prices. The final price index was also up in May and is not really showing any downward trajectory. The May reading for output prices is only slightly below the 12-month average result of 54.6, consistent with broader indicators of inflation in the economy. Domestic inflation is tracking sideways at around 4% to 4.5%, above the headline inflation result of 3.6% in the April monthly CPI.

“Persistent domestic inflation will test the RBA’s patience. They expect some stubbornness on inflation in 2024 but will likely have no tolerance for upside surprises beyond these expectations. The good news is that the PMI inflation indicators are not showing any signs of inflation rising.”



Judo Bank SME Business Conditions Index



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

Judo Bank SME Business Conditions Index



Sources: Judo Bank, S&P Global PMI.

Judo Bank Business Conditions Index



Sources: Judo Bank, S&P Global PMI.

Comment



“Over the first five months of 2024, SME activity has been broadly stronger than that of large businesses.”

Warren Hogan
Chief Economic Advisor at Judo Bank



Faster new business expansion drove sustained output growth and furthered job creation among Australian SMEs in May.



Demand and outlook

Growth of new work at Australian SMEs was sustained for a fourth straight month in May. Moreover, the pace of growth accelerated for a second successive month to the fastest in two years. Incoming new business continued to rise solely in the service sector, though manufacturing new orders fell at the slowest rate in ten months. Where services new business rose, firms indicated that the expansion of client bases supported growth in new work.

On the back of rising new business, sentiment among Australian SMEs remained positive midway through the second quarter of the year. Firms were generally hopeful that better economic conditions and business development efforts can support sales in the year ahead. That said, the level of confidence slightly eased from April, as there were some concerns that rising costs could soften demand.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



“The results suggest that SME confidence has lifted strongly in 2024 despite weak consumer spending, cost pressures and labour force management issues.”

Warren Hogan

Chief Economic Advisor at Judo Bank



Employment and capacity

Staffing levels increased for a seventh straight month in May, in line with the expansions in output and new orders. With renewed manufacturing sector employment growth, the rise in headcounts across SMEs was broad-based for the first time since May 2023. Moreover, the rate of overall job creation was solid and the fastest in two years.

The level of outstanding business declined fractionally in May after rising in April. This was attributed to a reduction in backlogged orders in the manufacturing sector, though services backlogs accumulated at a slower and only marginal pace. Anecdotal evidence suggested that greater workforce capacity enabled some firms to clear their outstanding business.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



“Solid employment growth and hiring intentions are a good measure of business confidence and investment.”

Warren Hogan
Chief Economic Advisor at Judo Bank



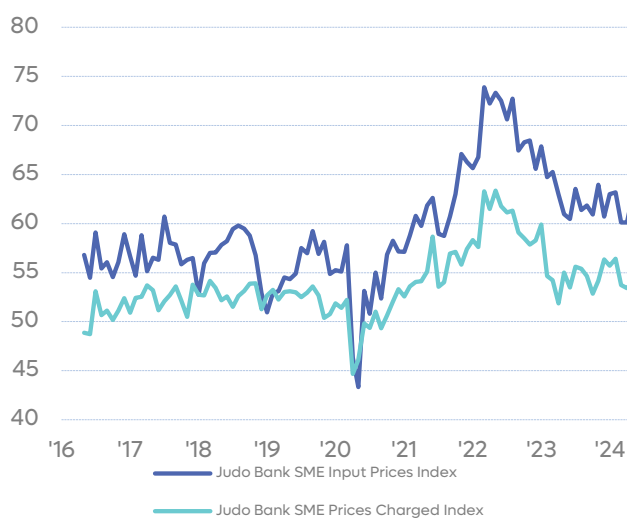
Prices



Rising raw material, transport and wage costs led average input prices to increase in May. The rate of input cost inflation climbed to a three-month high. Detailed sector data revealed that both manufacturing and services firms reported faster increases in costs. While services cost inflation remained relatively elevated, the rate at which manufacturing input prices rose was the highest in seven months and only slightly below its long-run average.

Australian SMEs opted to share a greater proportion of their cost burdens with clients, leading to the fastest increase in average selling prices in three months. Moreover, the rate of inflation climbed to a level that was just above the series average. Charges rose at a more pronounced rate among manufacturers compared to service providers.

sa, >50 = inflation since previous month



Sources: Judo Bank, S&P Global PMI.



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 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.

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.judo.bank/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.judo.bank

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