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SME PMI® Business Activity Report.

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

Business activity stabilises in September.

Key findings



SME output unchanged from August

Business activity across Australian SMEs stabilised at the end of the third quarter, according to the latest Judo Bank SME Business Activity Report data. Improvements in service sector conditions contributed to new orders staying almost unchanged in September. Meanwhile higher staffing levels supported a further reduction in backlogged work. Finally, selling price inflation eased due to a slower pass-through of costs by SMEs, as optimism towards future activity weakened.

The seasonally adjusted Judo Bank Australia SME Business Activity Index rose to 50.0 in September, up from 47.3 in August. Posting at the 50.0 neutral mark, the latest data signalled that business conditions remained unchanged in the month. This ended a streak of contractions that began in June.

While manufacturing SMEs recorded a sharper fall in new orders in September, service providers saw incoming new business return to growth, leading to just a marginal decline in overall new business. The trend for output similarly diverged, driven



Staffing levels rise at faster pace

by developments on the new orders front. While demand for goods was affected by high interest rates and softening economic conditions, service providers reported that improving underlying demand supported growth in activity.

As a consequence of the reduction in new work, the level of backlogged orders continued to fall across Australian SMEs. This was more pronounced for goods producers, however, as firms worked through their existing orders amid the sharpest deterioration in new orders since August 2021. Manufacturers also shed staff for a third straight month.

In contrast, service providers lifted their staffing levels at the fastest rate since May 2022, outpacing large enterprises at raising headcounts. This was reportedly due to rising workloads. The volume of outstanding work in the service sector fell as a result of higher workforce capacity. Overall employment rose at the fastest rate in five months among SMEs as a result.



Selling price inflation ease

Meanwhile input price inflation climbed at a faster rate among SMEs compared to August, attributed to higher fuel prices, wages and raw material costs, according to panellists. Sector divergences were observed again, as the rate of service cost inflation accelerated further above the long-run average, whereas manufacturing cost inflation eased and was muted overall.

Conversely, the rate of selling price inflation eased across both SME sectors. With business confidence down to its lowest since April 2020, some SMEs were hesitant to raise selling prices and reported concerns about the impact on sales. Worries over both domestic and global economic outlooks were reported to have negatively affected optimism at the end of the third quarter.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 11-26 September 2023.

Comment



“The key activity indicators suggest that the SME economy is experiencing a soft landing with no indications of an upcoming severe downturn.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“The SME sector in Australia displayed signs of a rebound through September, with the output index returning to the neutral level.”

Matthew De Pasquale, Economist at Judo Bank said:

“Business activity levels improved for SMEs through September, reflecting the resurgence in services sector activity throughout the economy. Despite facing elevated margin pressures, SMEs are still confident about an increase in future activity and are hiring accordingly.

“In September, the SME sector in Australia displayed signs of stabilisation as the SME output index rose to the neutral 50.0 level. Moreover, the new orders index also saw improvement, reaching 49.8. The key activity indicators suggest that the SME economy is experiencing a soft landing with no indications of an upcoming severe downturn.

“Driving the resurgence through September, the SME services sector remains resilient to elevated interest rates. SMEs continue to benefit from high consumer demand levels for discretionary services spending.

“In contrast, SME manufacturers continued to see a slowdown in activity over the month. The SME PMI has remained below 50, averaging a reading of 47.6 since March. This is consistent with a gradual slowdown in the sector, in line with the RBA’s

projection for a soft landing. Labour demand is easing among SME manufacturers but is not in sharp decline, with comparable levels seen in 2018 and 2019.

“With SME manufacturers showing the most evident signs of a slowdown across business types and sectors, they should be watched closely as interest rate rises continue to flow through the economy.

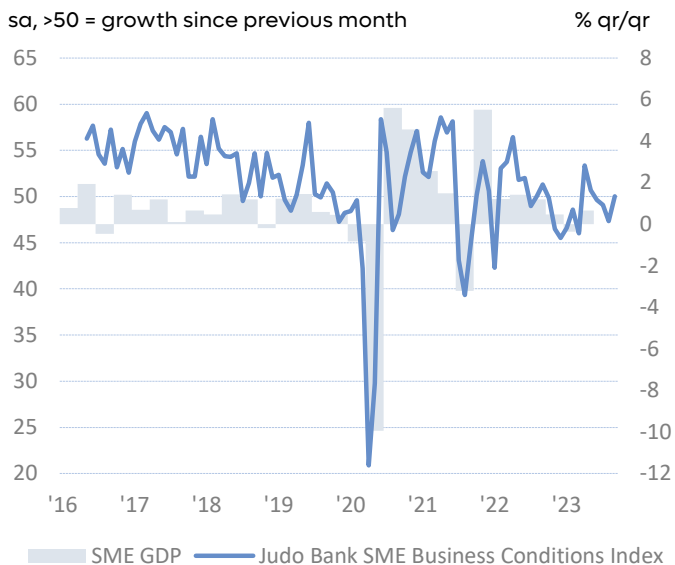
“Overall employment for the SME sector improved through September, with the index rising to 53.2, well into expansion territory. Despite a slowing economy, SMEs are still expanding their workforce due to high consumer demand. Furthermore, firms are holding onto their employees, likely due to a difficult hiring market in the past fiscal year.

“The future activity index, a proxy for business confidence, fell to 62.9 after climbing since May. While confidence remains subdued by historical standards, businesses still expect activity to increase over the 12 months ahead, with the survey recording only 8.5% of SMEs expecting a fall in activity over FY24.

“Inflation indicators remain elevated and have made little ground returning to pre-pandemic levels over the past six months. Combined with other economic data releases, the SME PMIs continue to present the issue of sticky services inflation and an economy proving too resilient at a 4.1% cash rate.

“Margin pressure, while elevated, appears to be trending down towards pre-pandemic levels for SMEs. SMEs have found it more challenging than larger organisations in 2023 to pass on input cost pressures to consumers. With SMEs continuing to expand their workforces and remaining confident about future activity, margin pressure does not appear to be having a significant negative effect.”

Judo Bank SME Business Conditions Index



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

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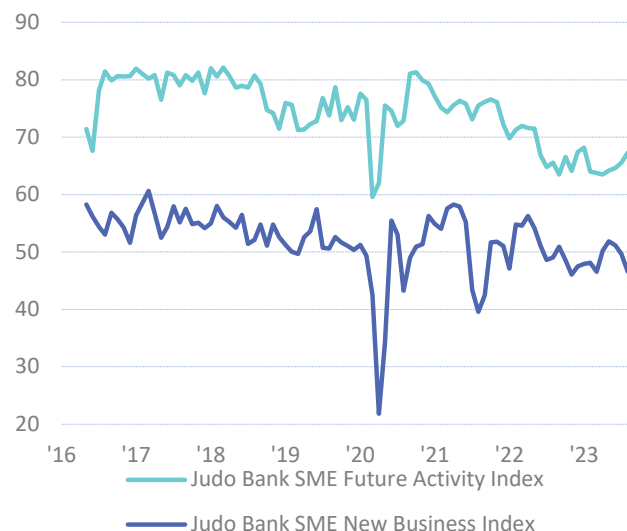


Demand and outlook

New orders for goods and services from Australian SMEs fell for a second consecutive month in August. The rate of decline was solid and the fastest since March. Shaper declines across both services new business and manufacturing new orders contributed to the latest downturn. According to panellists, higher interest rates and softening economic conditions negatively affected demand over the latest survey period.

Despite lower new orders and output in August, sentiment among Australian SMEs improved for the fourth month in a row. Moreover, the level of business confidence rose to the highest since January, driven by heightened optimism among service providers. In contrast, manufacturers were less upbeat compared to July. Overall, SMEs were generally hopeful that sales can improve in the 12-months ahead as economic conditions improve and with greater capacity to take on more work.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



“SMEs continue to expect an increase in activity over the 12 months ahead, with only 8.5% of SMEs surveyed expecting a decline.”

Matthew De Pasquale
Economist at Judo Bank



Employment and capacity

Despite lower new orders, staffing levels rose for a second straight month among SMEs in Australia. This was again restricted to the service sector as manufacturers shed staff amidst reduced operations. Service providers reported raising their workforce capacity to cope with rising workloads, resulting in the fastest increase in employment levels since May 2022.

The volume of backlogged work fell in September, attributed to lower levels of work outstanding in both manufacturing and service sectors. The pace of decline was more pronounced among goods producers due to a fall in new orders. Anecdotal evidence suggested that higher staffing levels within the service sector further supported the reduction in outstanding work.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



“Despite a slowing economy, SMEs are continuing to expand their workforces.”

Matthew De Pasquale
Economist at Judo Bank



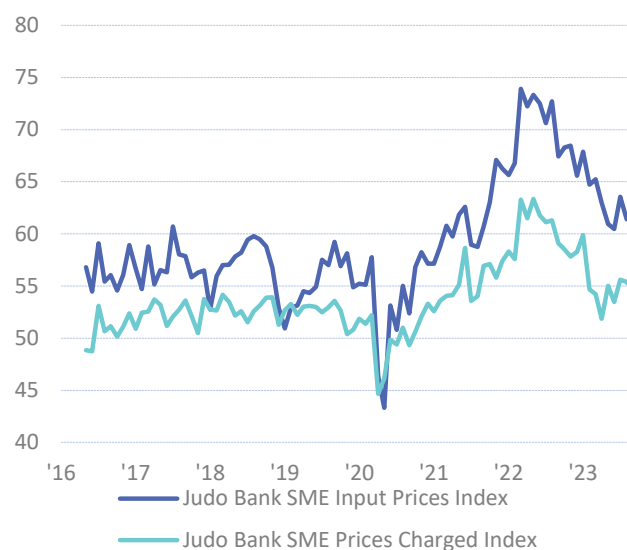
Prices



Higher fuel prices, wages and raw material costs contributed to higher input costs for Australian SMEs in September. Furthermore, the rate of inflation rose from August, remaining elevated above the series average. Higher service sector cost inflation was the main driver for the latest change as prices rose at a slower, and below-average, rate among manufacturing SMEs.

In response to higher costs, SMEs raised selling prices again in September. That said, output price inflation eased at the end of the third quarter, falling to the lowest in three months. This was amidst indications that some firms kept prices unchanged or even lowered them to retain customers and drive sales.

sa, >50 = inflation since previous month



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.

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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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