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# SME PMI® Business Activity Report.

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

## SME business activity rises for second month running in May.

### Key findings



#### Faster demand growth drives higher business activity

Business activity across Australian SMEs saw a second successive monthly improvement in May, according to the latest Judo Bank SME Business Activity Report data. Higher demand for goods and services from SMEs was the main factor behind sustained business activity growth. Firms also continued to increase their workforce capacity to cope with the increased workload, further reducing the volume of work on hand. Meanwhile, cost pressures whilst declining, remained elevated for SMEs.

The seasonally adjusted Judo Bank Australia SME Business Activity Index posted at 50.7 in May, down from 53.4 in April. Although the pace of growth slowed from the start of the second quarter, the reading marked a second straight month of expansion among SMEs following six months of contraction. The overall expansion in output was primarily driven by growth in services activity, however, as manufacturing output decreased for the sixth month running.



#### Workforce expansion continues for fifth straight month

The divergence between manufacturing and services was likewise visible through demand conditions, with higher new business for services contrasting with a sharp fall in manufacturing new orders. Higher new work intakes in the service sector were often linked to better underlying demand conditions. Overall, new orders increased for the second month running in May.

Amid the rises in new business and activity, SMEs continued to expand their staffing levels in May. That said, the rate at which employment rose was the slowest in the current five-month sequence. Softer manufacturing conditions coupled with difficulties to secure skilled labour in the service sector reportedly limited hiring.

The sustained expansion in employment meant that SMEs were able to keep on top of workloads, as signalled by an eighth consecutive monthly decline in backlogs of work in May. The rate of depletion was solid and led by manufacturers on the back of deteriorating demand conditions in the sector.



#### Selling price inflation rises sharply in May

A first monthly improvement in vendor performance for manufacturers in the seven-year series history also indicated an easing of supply chain constraints, thereby supporting the clearance of work on hand.

On the price front, input cost inflation remained elevated in May but continued the broadly downward trend from the peak levels seen in the first half of 2022. In fact, the level of input cost inflation slipped to the lowest since September 2021 as costs rose at a slower pace in both the manufacturing and service sectors. The still-elevated rate of inflation nevertheless meant that SMEs passed on their added cost burdens to clients. May has seen a sharp rise in Prices Charged, the fastest pace in four months, which is indicative of higher inflation outcomes in the June Quarter.

SMEs kept a positive outlook in May, with the level of optimism at a four-month high. Firms were generally hopeful that sales will rise in the coming 12 months, feeding through to higher activity, though general economic uncertainty has kept the level of business confidence below-average in May.

### Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global.  
Data were collected 11-25 May 2023.

### Comment



**“SME businesses have been at the forefront of the rebound in economic activity in recent months.”**

**Warren Hogan**

Chief Economic Advisor at Judo Bank



## Comment

# “SMEs are confident, hiring and experiencing solid trading conditions as we head into the winter months.”

Warren Hogan, Chief Economic Advisor at Judo Bank said:

“The big improvement in SME business conditions in recent months was sustained in May pointing to an acceleration in SME activity in 2023. SME trading conditions, particularly in the service industries, are now on par with large firms after a year where SMEs underperformed the big end of town.

“A key trend in the Australian Purchasing Managers Index (PMI) in 2023 has been a divergence in underlying conditions for manufacturers and the service sector. Manufacturing activity has slowed over the past year and remains on track for a soft landing in the middle of 2023.

“Service sector activity, however, has seen a pick-up in 2023, bringing into question the soft landing for the broader economy that most forecasters are expecting. This divergence is just as apparent in the SME survey as it is in the broader national results.

“The recovery in service sector activity in 2023 has largely been the result of better SME trading conditions after a soft

patch in 2022. The April and May results show that SME service businesses are experiencing the strongest activity levels since mid-2022. New business activity is also on the rise and at the highest level since mid-2022.

“The Future Activity Index, a good approximation for SME business confidence, remains soft by historical standards, but with a May index reading of 64.2, the index is firmly in optimistic territory. As the Judo Bank survey highlights, optimism is a hallmark of the SME economy, a crucial ingredient that drives business development and investment in challenging times.

“But there are signs that the SME economy is set to slow over the period ahead. Not only is confidence waning but the Outstanding Business index has been under the neutral 50 level for the past eight months. Despite this, Australian SMEs are still hiring in both the manufacturing and services industries with the employment index in expansion.

“Of some concern for the RBA will be the sharp rise in the Prices Charged Index, which rose from 51.9 in April to 55.0 in May. This is the highest reading for prices since January and appears to break the easing trend that has been in place for much of the last year. This data suggests that inflation pressure is still running through the Australian economy even though those pressures have eased substantially over the past year.

“The Judo Bank S&P Global Australian SME Business Activity Report confirms that SME businesses have been at the forefront of the rebound in economic activity in recent months. While manufacturing activity remains soft, the service industries appear to be picking up pace in 2023. SMEs are confident, hiring and experiencing solid trading conditions as we head into the winter months.”

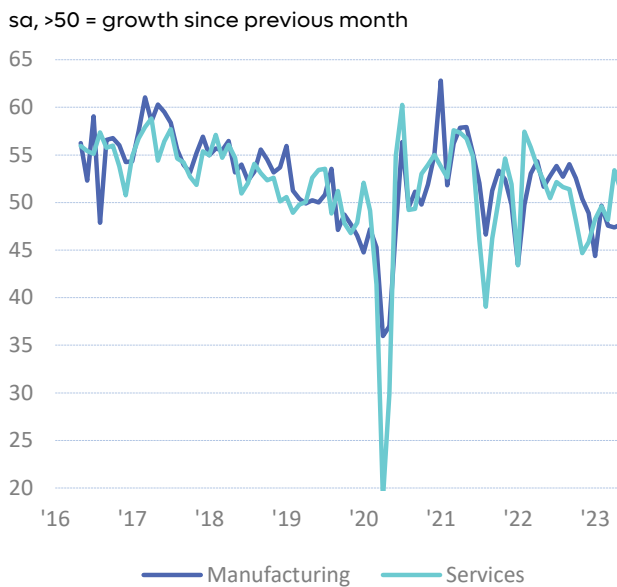


### Judo Bank SME Business Conditions Index



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

### Judo Bank SME Business Conditions Index



Sources: Judo Bank, S&P Global.

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#### Comment



**“SME trading conditions, particularly in the service industries, are now on par with large firms.”**

**Warren Hogan**  
Chief Economic Advisor at Judo Bank



**Higher demand for goods and services from SMEs was the main factor behind sustained business activity growth.**



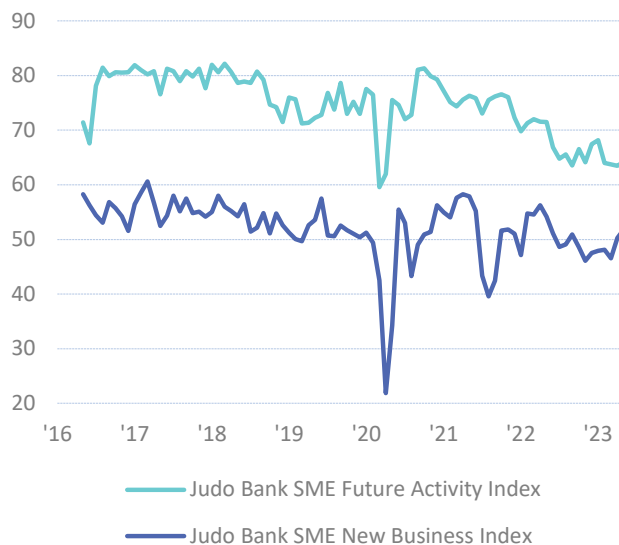
## Demand and outlook

Australian SMEs saw new orders expand for a second consecutive month in May, indicating that demand conditions continued to improve after deteriorating over the final quarter of 2022 and opening quarter of 2023. The rate of growth accelerated from April to the highest since May 2022. Higher new work intakes in the service sector, underpinned by better underlying demand, drove the latest improvement although SMEs in the manufacturing sector saw new orders contract for a sixth straight month.

Business sentiment among Australian SMEs stayed positive in May, buoyed by optimism across both the manufacturing and service sectors. Furthermore, the level of business confidence rose from April amid expectations that sales will grow in the coming 12 months.

That said, the latest reading signalled that confidence remained relatively subdued, with optimism below the average for the series which began in May 2016. Potential concerns about inflation and interest rates and general market uncertainty continued to weigh on confidence among SMEs.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global.

### Comment



**“SME business confidence remains soft by historical standards, but sits firmly in optimistic territory.”**

**Warren Hogan**

Chief Economic Advisor at Judo Bank

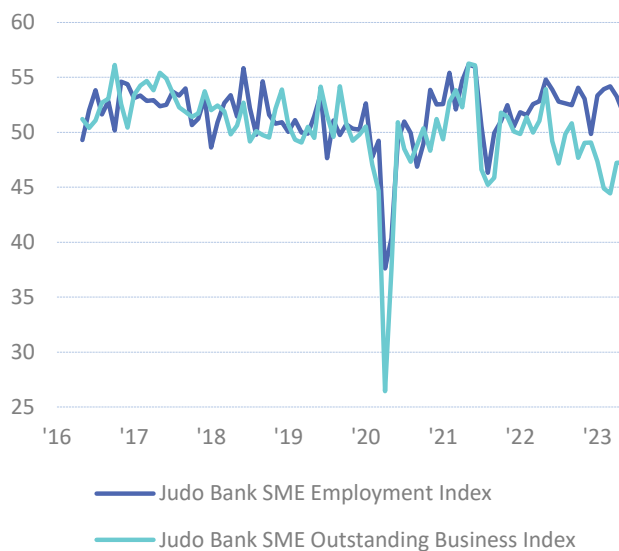


## Employment and capacity

An expansion in staffing levels was recorded for a fifth straight month in May, with SMEs across both the manufacturing and service sectors expanding their workforce capacity. Anecdotal evidence suggested that firms continued to hire to keep up with current business requirements. The rate of job creation eased to the slowest in the current sequence, however, and manufacturing growth slowed to a 16-month low. The increase in services also slowed amid reports of a lack of suitable candidates.

Concurrently, a sustained contraction in backlogs of work showed that SMEs were able to keep on top of workloads midway through the second quarter. The rate of decline was little changed from April and was solid overall. Depletion of backlogged work at goods producers far surpassed that among service providers amid demand weakness within the goods sector.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global.



### Comment



**“Australian SMEs are still hiring in both the manufacturing and services industries with the employment index in expansion.”**

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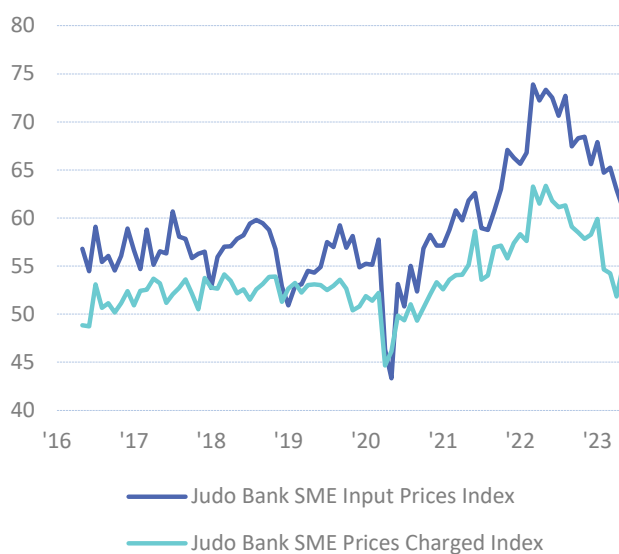
## Prices



Cost pressures eased for a second straight month in May as indicated by a decline in the seasonally adjusted Input Prices Index. Firms are now facing the shallowest rise in input costs in just over a year-and-a-half. Higher raw material, energy and labour costs nevertheless meant that input price inflation remain historically elevated, particularly in the service sector.

In turn, SMEs shared their higher cost burdens with their clients. Differing from the trend for large enterprises, the rate of selling price inflation rose in May with SMEs mentioning they are passing on cost increases rather than absorbing these hikes. Overall charges among SMEs rose at a rate above the series average in May.

sa, >50 = inflation since previous month



Sources: Judo Bank, S&P Global.





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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 S&P Manufacturing Business Conditions Index and the S&P 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@ihsmarkit.com](mailto:economics@ihsmarkit.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](http://www.judo.bank)

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#### 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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).