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SME PMI® Business Activity Report.

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

Solid improvement in business activity sustains in March

Key findings



Business activity expands at joint-fastest pace in nearly a year

Business activity across Australian SMEs continued to expand at a solid pace in the closing month of the first quarter of 2024, according to the latest Judo Bank SME Business Activity Report data. This was amidst sustained new business expansion, albeit at a slower pace compared to February. The level of outstanding business meanwhile fell due to higher staffing levels. Overall optimism also softened despite lower price pressures.

The seasonally adjusted Judo Bank Australia SME Business Activity Index posted 53.2 in March, unchanged from February. This indicated that the solid improvement in SME activity was sustained for a second successive month in March and at a pace unmoved from the ten-month high in February.

Supporting the latest business activity expansion was a second straight month of new business growth. Incoming new orders rose in March, though at a marginal and softer rate compared to February. Moreover, the upturn in new business was concentrated in the service sector. Whereas,



Employment growth accelerates



Price pressures soften

manufacturing new orders fell at the most pronounced pace since September 2023, affected by high interest rates and subdued goods demand.

On the back of higher overall new orders and activity, Australian SMEs expanded their workforce capacity for the fifth time in a row. That said, the increase in staffing levels was likewise limited to the service sector, while manufacturing headcounts fell a slower pace.

The volume of backlogged work meanwhile fell again in March, attributed to a faster depletion of services backlogs amid greater staffing levels and another sharp decline in manufacturing backlogs due to a lack of new work inflows.

Turning to prices, average input costs increased again among Australian SMEs. Panellists often listed higher input material, transport and labour costs as reasons. Despite falling to the lowest level in just over two-and-a-half years, the rate of inflation remained elevated by historical standards due to above-

average service sector cost inflation. Manufacturing cost inflation rose to its highest in five months but remained well below the series average.

The reduction in overall input cost inflation nevertheless enabled Australian SMEs to raise selling prices at the softest pace in five months. The rate of output price inflation also eased past the long-run average in the latest survey period and was less pronounced in the manufacturing sector compared with services.

Finally, sentiment remained positive in March as firms hoped that market conditions can improve in the year ahead to support sales. That said, the level of confidence fell to a four-month low, easing across both manufacturing and services amid concerns about rising competition and still-elevated cost pressures.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



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

Comment



“The output index for March held steady in expansion territory, remaining at 53.2, the same as the previous month’s reading. This is a positive sign and is well above the average reading of 47.1 seen during the latter half of 2023.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“March continued to see an improvement in SME business conditions, with key activity readings well into expansion territory.”

Matthew De Pasquale, Economist at Judo Bank said:

“SMEs continued to see activity levels expand through March, expanding labour forces accordingly. Inflation pressures eased throughout the month, but despite the good news, confidence remains subdued.

“The output index for March held steady in expansion territory, remaining at 53.2, the same as the previous month’s reading. This is a positive sign and is well above the average reading of 47.1 seen during the latter half of 2023. SMEs also saw an increase in new orders in March, although the growth rate was slower, with an index reading of 50.4.

“SMEs seem to be benefiting from the improved household budgets in Q4 2023. In March, only 15% of SMEs recorded a decline in business activity, the lowest level since April 2022. This is well below the pre-pandemic average of 20.1%.

“In line with official data releases, SME headcounts continued to rise in March, reaching a six-month high index reading of 52.3. Although labour markets

are easing, they remain historically tight despite the significant level of net overseas migration through 2023. With economic activity levels increasing and household balance sheets showing signs of improvement, we expect employment levels to continue expanding, especially in the services sector, up until mid-year.

“After two consecutive months of rising cost pressure readings, there was a welcomed easing of the SME input prices index. The index fell to 60.1, marking the lowest level since mid-2021. Output price pressure also eased, with the index falling to the lowest level in five months. SMEs are still facing elevated margin pressure. However, levels have eased from the peaks seen in early 2023.

“Despite the slowdown in inflation, the output price index has shown an underlying increasing trend since April 2023. This indicates that the number of SMEs increasing consumer prices each month is gradually rising. With signs of consumer activity expanding in the first half of 2024, we will be watching this reading closely to understand its connection to overall inflation figures.

“Despite the improvement in activity indicators through February and March, little ground has been made on SME business confidence. SMEs, on average, expect activity levels to increase over the next 12 months. However, the number of SMEs expecting an increase remains suppressed relative to pre-pandemic levels. Confidence will likely trend upward through 2024 as the RBA’s narrow path continues to play out.”

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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Incoming new business, business activity and employment levels remained in growth across Australian SMEs.

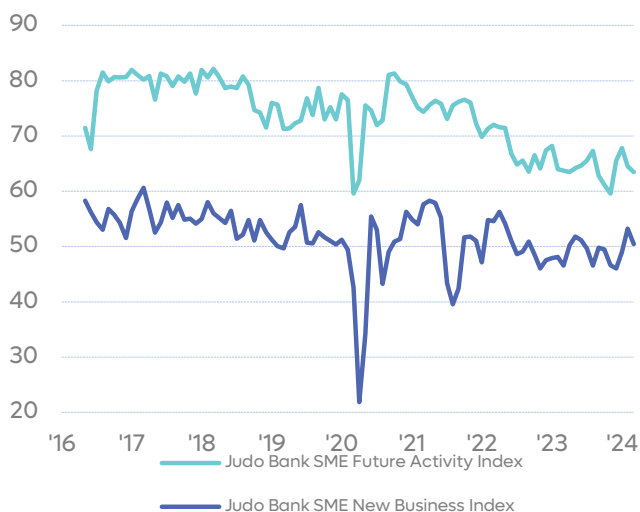


Demand and outlook

Growth of new work at Australian SMEs was sustained for a second successive month in March. That said, the pace of expansion eased from February and was marginal overall. Services new business growth slowed, while manufacturing new orders fell at the steepest rate in six months. Anecdotal evidence signalled that high interest rates negatively affected demand for goods and led to the deceleration in services new business growth.

Australian SMEs maintained an optimistic outlook for business activity in the year ahead, amid hopes that sales can continue to rise as economic conditions improve. The level of confidence eased to a four-month low, however, and was well below the series average. Confidence among manufacturers fell to a lower level compared to the service sector.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



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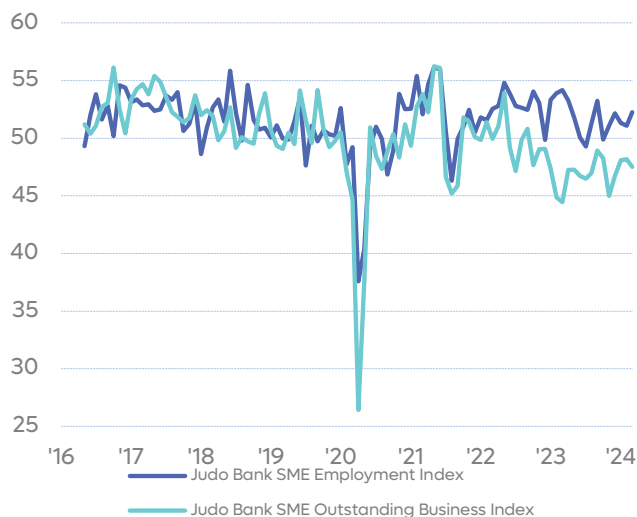


Employment and capacity

Staffing levels rose for a fifth successive month in March. Whilst moderate, the rate of growth was the fastest since last September. This was underpinned by higher service sector staffing levels, though manufacturers shed staff at a less pronounced pace in March. Where services job creation was reported, firms indicated that greater workforce numbers were required to cope with rising new business and activity.

The level of unfinished orders at Australia SMEs fell for an eighteenth consecutive month in March. The rate of depletion accelerated to the fastest in the year-to-date as services firms cleared their outstanding business at a faster rate with higher workforce capacity. Meanwhile, manufacturers were able to work through their existing orders amid a lack of new sales growth.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



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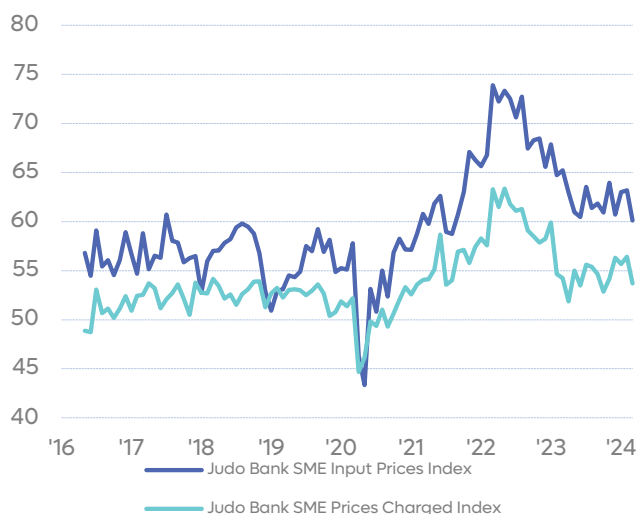
Prices



Higher raw material, shipping and staff costs led to average input prices rising in March, thereby extending the sequence of input cost inflation that commenced in June 2020. The rate of inflation fell to the lowest since August 2021, despite remaining higher than the series average. This was mainly due to lower services input cost inflation as manufacturing input prices rose at the fastest pace in five months.

Amid lower input cost inflation, Australian SMEs lifted their selling prices at the slowest pace in five months. The rates of output price inflation fell across both the manufacturing and service sectors, with some firms indicating that they have partially absorbed higher costs in a bid to support 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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