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SME PMI® Business Activity Report.

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

Business activity declines at softest pace in three months

Key findings



Marginal fall in incoming new business in January

Business activity across Australian SMEs fell at a softer pace at the start of 2024, according to the latest Judo Bank SME Business Activity Report data. A deceleration in the pace of new business contraction supported slower declines in output and outstanding business. SMEs also continued to hire, through primarily in the service sector. Overall business optimism improved, but firms were slightly cautious about raising selling prices despite rising cost inflation.

The seasonally adjusted Judo Bank Australia SME Business Activity Index rose to 46.3 in January, up from 43.8 in December. This signalled a fourth successive monthly contraction of SME activity in Australia, but at the softest rate since last October.

Australian SMEs across the manufacturing and service sectors saw incoming new business decline at the start of the new year amidst a challenging economic backdrop and tight financial conditions. That said the pace of decline softened from December to a marginal rate overall.



Employment growth sustains with hiring in the service sector

Business activity and the level of outstanding work dropped at softer rates in tandem with the slowdown in new business contraction. In fact, the level of backlogged work fell only modestly and at a rate that was slower compared to large enterprises.

To cope with ongoing operations, Australian SMEs continued to hire, though this was limited to the service sector. Manufacturing sector headcounts were reduced for a seventh successive month with both new orders and production still falling at marked paces.

On prices, higher raw material, fuel and shipping costs led to average input prices rising at the start of 2024. Moreover, the rate of cost inflation rose further above the series average, with both manufacturing and service sector firms experiencing higher cost pressures. Australian SMEs were nevertheless conservative with raising their selling prices in a bid to preserve sales. Output price inflation fell from December but remained above the long-run average.



Charge inflation eases despite rising cost pressures

Finally, business confidence improved among Australian SMEs at the start of 2024. Despite still being below-trend, the level of optimism rose to the highest in a year. Firms expressed hopes that promotional efforts and better economic conditions can support sales in the 12 months ahead.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 10-26 January 2024.

Comment



“In January, business conditions facing SMEs remained positive in the context of a cooling economy.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“2024 has started on a positive note for SMEs, with activity indicators improving, employment remaining resilient, and businesses becoming more confident about future activity levels.”

Matthew De Pasquale, Economist at Judo Bank said:

“2024 has started on a positive note for SMEs, with activity indicators improving, employment remaining resilient, and businesses becoming more confident about future activity levels.

“Key activity indexes improved on the month prior, with output and new order readings increasing to 46.3 and 49.0, respectively. With both indexes sitting below the neutral level (50), SMEs continue to experience soft activity levels, not surprisingly given the rapid slowdown of consumption growth over the past year. SME businesses across both the services and manufacturing sectors saw activity levels ease in January at a similar rate.

“Despite slowing activity levels, labour demand remains resilient amongst SMEs, particularly among those in the services sector. The SME services sector employment index has remained in expansion territory throughout almost the entire slowdown. SMEs in this sector continue to face demand levels beyond their current supply capability, hence the continued choice to increase staffing levels as activity slows.

“On the other hand, SME manufacturers have seen headcount weaken over January. The employment index among manufacturers has averaged close to 49.0 for the past seven months, indicating that any shrinkage of labour forces among SMEs in this sector has been minimal.

“Input price pressures among SMEs rose in January to 63.0. The index, however, has been volatile for the past four months. The overall trend for the series remains downward at a gradual pace. Output price pressures eased slightly, falling to a reading of 55.7, in line with central bank inflation projections.

“Consequently, margin pressure among SMEs did jump up in January, but overall, it is trending downwards towards pre-pandemic levels. This compares to larger organisations, which saw margin pressure return to pre-pandemic levels in mid-2023 before facing a steady increase, surpassing SMEs in December.

“The future activity index, a proxy for business confidence, has continued to improve, reaching an index reading of 67.8 following a cyclical low for the index in November. While the index remains low by historical standards, the current reading is the highest since January 2023. The improvement is likely associated with the economy following the RBA's forecast narrow path, having seen significant improvements in inflation amid resilient activity levels and labour demand.

“In January, business conditions facing SMEs remained positive in the context of a cooling economy. While activity levels have eased more significantly than larger organisations, SMEs remain confident that future activity levels will expand and are employing accordingly.”

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



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Comment



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Business activity across Australian SMEs fell at a softer pace at the start of 2024.

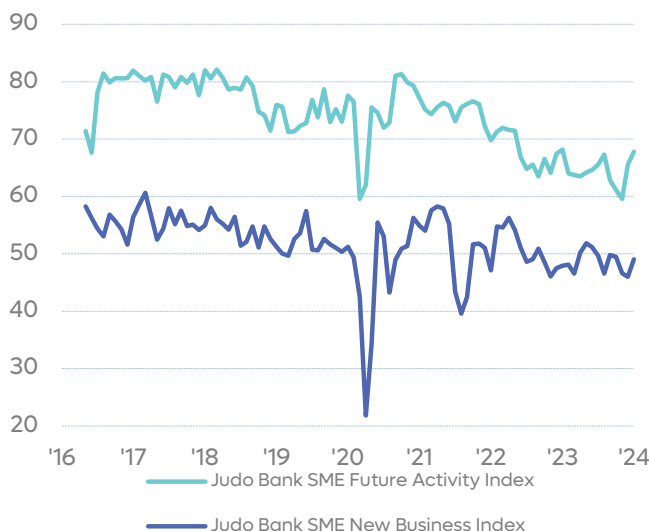


Demand and outlook

Incoming new orders for goods and services from Australian SMEs fell for a seventh successive month in January as soft economic conditions continued to dampen demand. That said, the rate of contraction eased to the slowest in three months and was only marginal. Both the manufacturing and service sectors saw new order inflows fall at slower rates at the start of 2024.

Optimism among Australian SMEs improved alongside the slowdown in new business contraction. The level of business confidence rose to the highest in a year, though remaining below the long-run average. Australian SMEs were generally hopeful that better economic and financial conditions can support growth.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



“While the future output index remains low by historical standards, the current reading is the highest level since January 2023.”

Matthew De Pasquale
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Employment and capacity

Staffing levels rose for a third successive month in January, albeit at a slower and more modest pace compared to December. The latest rise in SME headcounts remained limited to the service sector as manufacturing workforce capacity shrank for the seventh month in a row. Where higher headcounts were reported in the service sector, firms indicated that additional staff was required to cope with ongoing operations.

The level of unfinished orders at Australian SMEs declined for a sixteenth successive month at the start of 2024, though the pace of contraction eased to a three-month low and was modest overall. The clearance of outstanding work continued to unfold at a faster pace among manufacturers compared to service providers.

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Sources: Judo Bank, S&P Global PMI.



Comment



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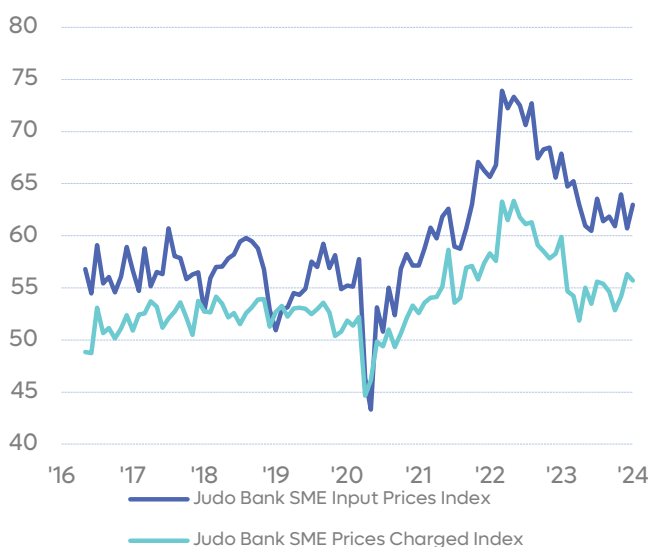
Prices



Higher raw material, fuel and shipping costs contributed to another increase in average input prices at the beginning of the year. This extended the sequence of input cost inflation that commenced in June 2020. Furthermore, the level of cost inflation rose further above the series average in January, attributed to faster cost increases in both the manufacturing and service sectors.

Despite higher cost inflation, Australian SMEs lifted their selling prices at a slower rate in January. This was prevalent among both manufacturers and service providers. Anecdotal evidence suggested that some firms partially absorbed cost increases 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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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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