

Embargoed until 0900 AEDT 07 March 2024

SME PMI® Business Activity Report.

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

Business activity improves at solid pace

Key findings



New business expands at fastest pace in 21 months...

Business activity across Australian SMEs rose for the first time in nine months, according to the latest Judo Bank SME Business Activity Report data. A solid expansion in new business led to a renewal of business activity growth, though this was limited to the service sector. Australian SMEs also continued to hire, supporting the clearing of outstanding business. That said, price pressures intensified, which led to reduced optimism among Australian SMEs.

The seasonally adjusted Judo Bank Australia SME Business Activity Index rose to 53.2 in February, up from 46.3 in January. This signalled that SME activity improved for the first time in nine months and at the most pronounced pace since last April.

Supporting the latest expansion of business activity was an improvement in demand conditions. Incoming new business rose at a solid pace in February, the quickest in 21 months. This followed a period of seven months in which new business was in contraction. Services new business growth was the primary driver of overall demand expansion



...leading to a first rise in business activity since May 2023

as client orders grew according to panellists. The expansion in services new business was solid and far more pronounced among SMEs compared to large enterprises.

To cope with current workloads, Australian SMEs further expanded their workforce capacity, though this was likewise limited to the service sector as manufacturing headcounts fell more quickly.

Higher workforce capacity, particularly in the service sector, thereby enabled firms to continue clearing their backlogs in February. That said, the level of backlogged work fell more rapidly within the manufacturing sector compared to services amid a reduction in goods new orders.

On prices, rising raw material, fuel and transport costs contributed to an extension of the sequence of input cost inflation for Australian SMEs. Moreover, the rate of cost inflation rose to the highest level in three months. In turn, average selling prices climbed at a quicker rate as firms shared their additional cost



Cost pressures intensify

burdens with clients. Australian SMEs notably saw higher rates of input cost and output price inflation compared to their larger counterparts. The rates of inflation were also above their respective series averages.

Finally, sentiment remained positive in February as firms stayed hopeful that conditions can improve in the year ahead to support sales. That said, the level of confidence slipped to a three-month low. A quicker decline in service sector optimism, affected by rising inflation, offset improvements observed among manufacturers.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 02-26 February 2024.

Comment



“In February, the SME composite activity indicators for output and new orders significantly increased, reaching levels not seen since mid-2020.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“SMEs lead the rebound in economic activity through February.”

Matthew De Pasquale, Economist at Judo Bank said:

“SME business conditions improved in February with expanding activity levels, strong hiring, and easing margin pressures.

“In February, the SME composite activity indicators for output and new orders significantly increased, reaching levels not seen since mid-2020. This rebound in activity experienced by SMEs was the key driver behind the improvement in the Australian composite Output/Activity PMI, as the February activity reading for larger organisations was only slightly above neutral.

“The positive difference in activity readings between SMEs and larger organisations is the most significant seen since mid-2021, suggesting that any rebound in consumer demand in 2024 thus far has disproportionately benefitted SMEs.

“SMEs continued to increase their workforces in February. The employment index has remained above the neutral 50.0 level for the past four months

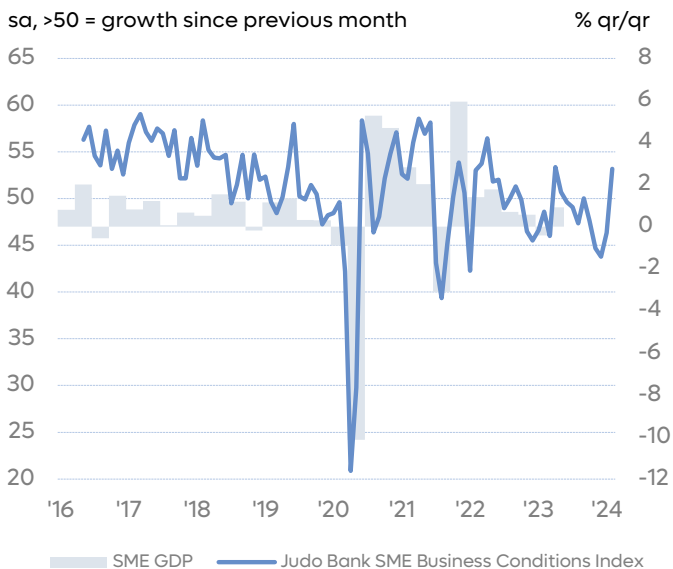
despite a slowdown in activity towards the end of 2023. This is expected to continue as the labour market remains tight and business activity shows signs of resurgence, particularly in the services sector. Growing employment levels have been primarily driven by domestic services SMEs, facing high levels of consumer demand relative to their supply capabilities.

“SMEs experienced an improvement in their profit margins through February. The input cost prices index remained relatively stable over the month, while output price pressures rose to their highest level since January 2023. Margin pressure facing SMEs is now only slightly higher than the pre-pandemic levels and in line with larger organisations, following a significant improvement from the historically high levels of 2022.

“There has been a slight decrease in business confidence in February, but the level of expected future activity remains higher than the low point reached last November. The improving trend of confidence among businesses results from enhanced activity levels, a fading of the shock from rapidly increasing interest rates, and greater comfort with inflation returning to the RBA’s target band.

“The activity readings from February suggest that the worst of the economic slowdown may be over for businesses and that SMEs may be leading the way in the recovery of economic activity. As these readings can be volatile month-to-month, we will keep monitoring them over the next few months to see if this trend continues and how it affects inflation.”

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



“Margin pressure facing SMEs is now only slightly higher than the pre-pandemic levels and in line with larger organisations.”

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Business activity rose across Australian SMEs in February amid a solid expansion in new business.

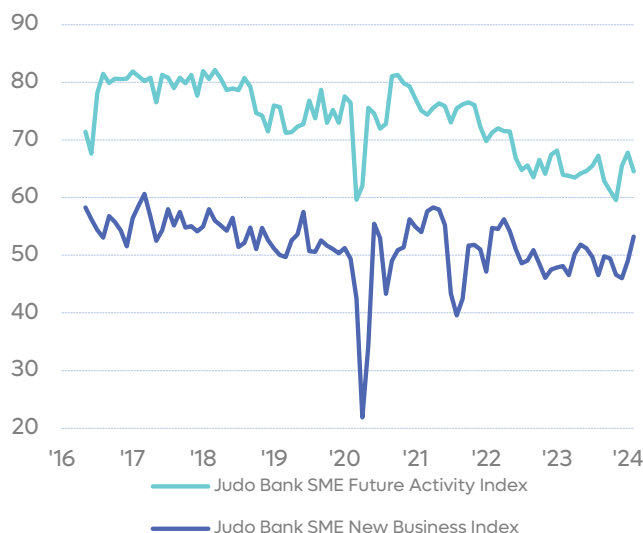


Demand and outlook

Incoming new orders for goods and services from Australian SMEs rose in February following seven successive months of contraction. Moreover, the pace of new orders growth was the fastest since May 2022, quicker than large enterprises, and solid overall. This was driven mainly by improvements in services new business, however, as manufacturing new orders remained in contraction. Anecdotal evidence suggested that demand for services improved amid increased enquires and the widening of customer bases.

Australia SMEs maintained an optimistic outlook for business activity in the year ahead. That said, the level of confidence fell to a three-month low, affected by reduced optimism within the service sector. Meanwhile, manufacturers grew more hopeful that economic and financial conditions can improve in the year ahead to support sales.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



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Employment and capacity

Staffing levels climbed for a fourth straight month, though with the pace of growth easing for a second time in a row in February. This was largely attributed to a quicker reduction in manufacturing headcounts amid lower demand and production. Services employment levels rose at a rate that was little changed from January as firms continued to hire to cope with ongoing operations.

Supported by higher workforce capacity, the level of unfinished orders at Australia SMEs fell for a seventeenth successive month in February. The pace of depletion slightly eased from January to the slowest since October as incoming new business rose. Sector data revealed that manufacturing backlogs depleted at a faster rate compared to services in February.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



“Growing employment levels have been primarily driven by domestic services SMEs, facing high levels of consumer demand relative to their supply capabilities.”

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Economist at Judo Bank



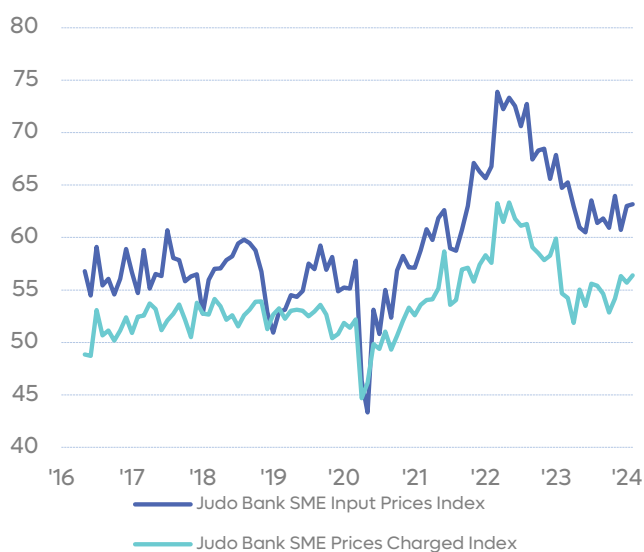
Prices



Higher raw material, energy and shipping costs led to average input prices rising again in February, extending the sequence of input cost inflation that commenced in June 2020. Furthermore, the level of cost inflation rose to the highest since last July and was well above the series average, attributed mainly to higher services cost inflation.

Consequent of rising cost inflation, Australian SMEs lifted their selling prices at a quicker rate in February. This propelled output price inflation to the highest since January 2023 and was likewise above the series average in February.

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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