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SME PMI® Business Activity Report.

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

Expansion of SME activity stagnates in June

Key findings



New business declines for the first time in five months

The expansion of business activity at Australian SMEs ground to a halt in June, according to the latest Judo Bank SME Business Activity Report data, as incoming new business declined amid subdued market conditions. That said, Australian SMEs continued to expand their workforce capacity, which supported the further clearance of backlogged work. Meanwhile output price inflation rose in June even as average input costs increased at the softest pace in 45 months.

The seasonally adjusted Judo Bank Australia SME Business Activity Index posted at the 50.0 neutral mark in June, down from 51.9 in May. This indicated that business conditions at Australian SMEs were unchanged in June after improving for four successive months.

The stagnation of business activity growth unfolded midway through the year as a quicker contraction in manufacturing output, the fastest in four months, offset a sustained but slower expansion in services activity.



Employment growth sustains for eighth straight month

Subdued market conditions and high interest rates dampened new sales at Australian SMEs, according to panellists, with new orders at manufacturers falling especially sharp in June. In contrast, services new business declined only marginally, albeit for the first time since January.

Employment levels continued to climb despite lower new sales and the stagnation of output. This was mainly attributed to job creation in the service sector, as companies lifted their staffing levels to cope with ongoing workloads. Additionally, employment growth was limited to SMEs while large enterprises lowered headcounts for the first time in 15 months.

Unfinished business at Australian SMEs fell at a quicker rate in June as lower new order inflows and higher workforce capacity supporting the clearance of backlogged work. The rate of backlog depletion was the fastest since last November and marked.

Turning to prices, average input costs increased



Input cost inflation eases to lowest since September 2020

again in June, extending the sequence of inflation to just over four years at Australian SMEs. The rate of inflation eased to the lowest since September 2020, however, as firms across both the manufacturing and service sectors indicated slower increases in costs. Firms nevertheless passed on rising cost burdens, stemming from higher raw material, shipping and labour costs, to clients at a faster pace in June. While input cost inflation dropped below the long-run average in the latest survey period, selling prices climbed back above the long-run trend.

Overall sentiment at Australian SMEs remained positive, as signalled by an above-50.0 print of the Future Activity Index. That said, firms were the least upbeat since November 2023 amid a loss of confidence across both the manufacturing and service sectors.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI. Data were collected 07-25 June 2024.

Comment



“We expect the June softening in activity growth to be short-lived. Relief is now on the way for businesses, with tax cuts and large-scale cost-of-living support at the state and federal levels likely to bolster consumer spending throughout FY25.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“While activity growth softened throughout June, SMEs saw a significant improvement in margin pressure, with input cost pressures easing.”

Matthew De Pasquale, Economist at Judo Bank said:

“In June, we saw key activity indexes soften to neutral levels that were in line with national figures. The SME output index softened to 50.0, marking the fifth consecutive month of an at-or-above-neutral reading for business activity. New orders, a more volatile series, dipped sharply from 54.1 to 48.0.

“We expect the June softening in activity growth to be short-lived. Relief is now on the way for businesses, with tax cuts and large-scale cost-of-living support at the state and federal levels likely to bolster consumer spending throughout FY25. Softer activity growth over the month didn’t prevent SMEs from continuing to expand headcounts. The employment index has remained stably above the neutral level since October 2023, and with an improvement in conditions in FY25 and ongoing labour shortages, this will likely continue.

“Unlike larger organisations, SMEs experienced significant improvement in margin pressure over the month. The input price index for SMEs fell sharply through June to the lowest level seen since late 2020, with only 17% of SMEs recording an increase in costs over the month, compared with 24% the month prior.

“Whether this improvement reflects monthly volatility or better business conditions to come will depend on the next few months of data. Seasonally, the start of the financial year is a period when a large number of SMEs (~28-30% pre-pandemic) experience an increase in input costs, so we expect some rebound in the index over the next month. The softening of input price pressures didn’t correspond with a drop in SME output prices through June. The output price index for SMEs rose above that of larger organisations, which weakened over the month.

“Despite incoming relief and improvement in business margins throughout June, SMEs, like the rest of the nation, continue to see a little rebound in confidence. Weakness in business confidence throughout June may be a reflection of increased labour costs through rising superannuation payments in 2024-25 and ongoing weakness in consumer demand.

“The future activity index, a proxy for business confidence, shows that most SMEs expect activity to expand over the next 12 months, but the share expecting improvement remains subdued on pre-pandemic levels. This index is very aligned with changes in business activity over the month. As consumer spending increases due to tax cuts and additional government support, better business conditions will likely boost SME confidence.”

Judo Bank SME Business Conditions Index



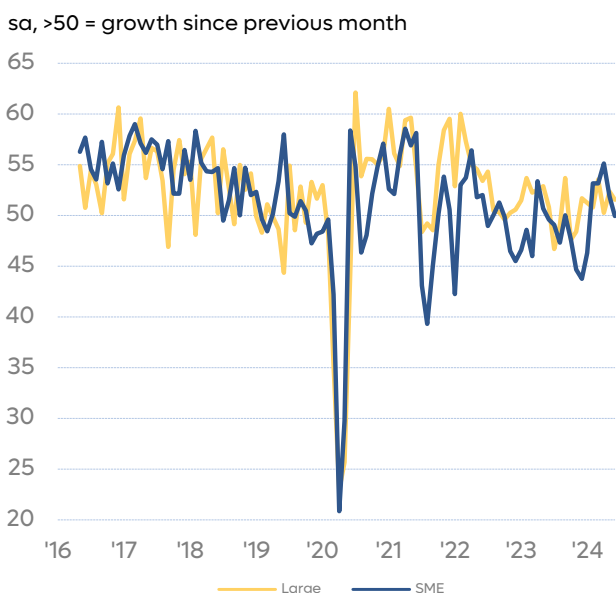
Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

Judo Bank SME Business Conditions Index



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Job growth sustained at Australian SMEs in June despite stagnant output growth and slower new business inflows.



Demand and outlook

Incoming new business shrank for the first time in five months at Australian SMEs in June. The reduction in new work was broad-based across both the manufacturing and service sectors. That said, the rate of decline was substantially sharper in the manufacturing sector, as firms cited that subdued economic conditions dampened demand for goods. Services new business meanwhile fell only marginally.

Sentiment among Australian SMEs remained positive midway through the year, with firms hopeful that sales can rise in the year ahead despite the latest downturn in new business. The level of confidence slipped to a seven-month low, however. Firms in the manufacturing sector were the least optimistic in over four years and less upbeat than service companies, amid concerns over elevated interest rates and heightened competition.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

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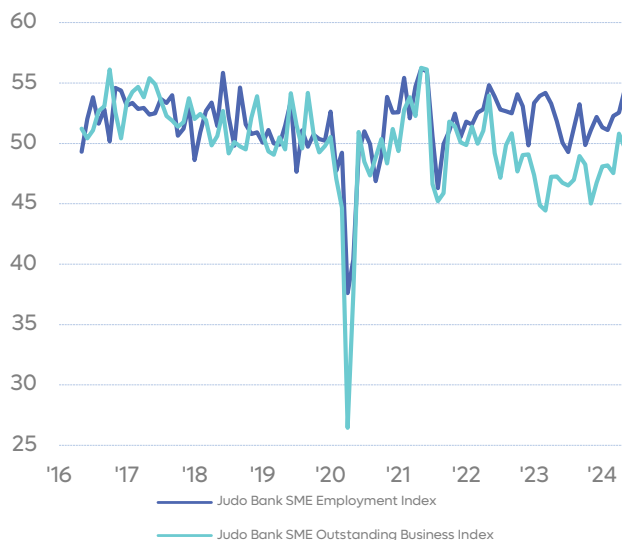


Employment and capacity

Staffing levels rose for an eighth straight month in June, attributed mainly to job additions in the service sector on the back of rising services activity. The overall pace of workforce expansion eased to a four-month low, however, as job shedding renewed in the manufacturing sector. The pace at which manufacturing employment fell was the fastest since October 2020 and solid, amid declines in new orders and production.

With new business inflows falling, the level of outstanding business declined in June at the fastest pace in seven months. A quicker reduction in manufacturing backlogs, the most pronounced in a year, and the first fall in services outstanding business since March led to the latest downturn.

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Sources: Judo Bank, S&P Global PMI.



Comment



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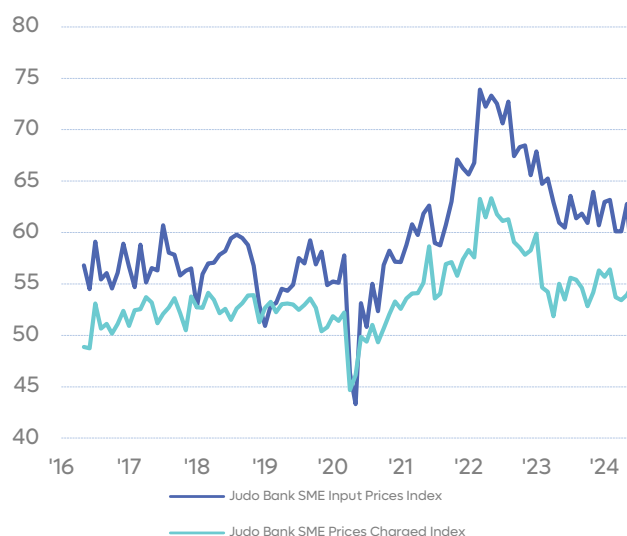
Prices



Cost pressures eased at Australian SMEs in June. While average input prices increased again due to rising raw material, transport and wage costs, the rate of input cost inflation fell to the lowest since September 2020 and was below the series average. The rate of services input price inflation eased to the lowest in 45-months, with cost burdens also softening at manufacturers.

Despite slower input cost increases, Australian SMEs raised selling prices at the fastest pace since February. This was primarily driven by a quicker rise in service charges, while manufacturing output price inflation eased. Overall, the rate of output price inflation remained elevated above the long-run average in June.

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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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