

SME Business Activity.

Judo Bank Australia PMI

The SME output index retreated in May but remains well into net positive territory above the neutral-50 level, indicative of strengthening business activity in the month. This builds on the strong results since February. SMEs have led the business recovery across the Australian economy in 2024. Over the first five months of 2024, SME activity has been consistently stronger than that of large businesses.

The recovery in SME activity has brought implied business growth back to its highest rate since the start of the interest rate tightening cycle in May 2022. It is great news to see the resilience of the SME sector despite the numerous challenges confronting Australian businesses in recent years. New Orders picked up in May, reaching the highest level since April 2022. Along with a relatively high level for future activity (mid-60s index readings), the results suggest that SME confidence has lifted strongly in 2024 despite weak consumer spending, cost pressures and labour force management issues.

Key Charts

SME New Orders Index

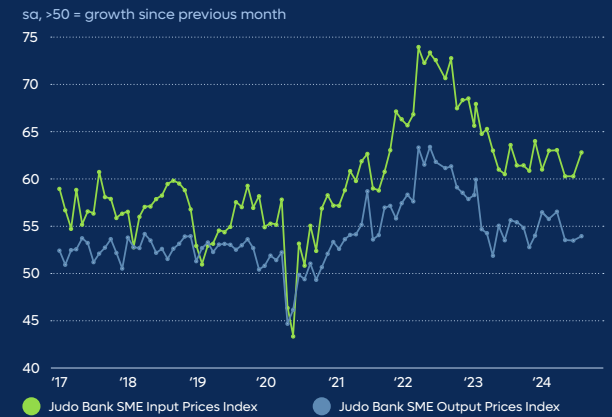
SME new orders increased through May at the quickest rate in two years.



Sources: Judo Bank, S&P Global.

SME Input Prices Index & SME Prices Charged Index

SME margin pressure picked up through May, driven by greater growth in input costs



Sources: Judo Bank, S&P Global.

Employment

16% of SMEs saw employment increase in May, 3pts above pre-Covid average

New Business

64% of SMEs saw new business remain level in May, 9pts above pre-Covid average

Outstanding Business

73% of SMEs saw outstanding business remain level in May, 6pts above pre-Covid average

Business Activity

62% of SMEs saw business activity remain level in May, 10pts above pre-Covid average

Future Activity

48% of SMEs expect future activity to remain level over the next 12 months, 15pts above pre-Covid average

Input Prices

24% of SMEs saw input prices increase in May, 6pts above pre-Covid average

Prices Charged

11% of SMEs saw prices charged increase in May, 2pts above pre-Covid average



In 2024 SMEs are expanding headcounts at a quicker rate than large businesses

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Employment rose to 54.2, again the highest reading in two years. Hiring intentions are a good measure of confidence and investment. This suggests that the recovery in SME activity in 2024 has solid foundations.

These results for May came after a household sector-focused Federal Budget and warnings from the RBA that inflation is still too high to be confident that we will get rate cuts anytime soon. The improvement in SME confidence could be partly driven by an expectation that tax cuts and cost-of-living relief will boost spending and support businesses impacted by the ongoing softness in household finances.

Warren Hogan
Chief Economic Advisor, Judo Bank



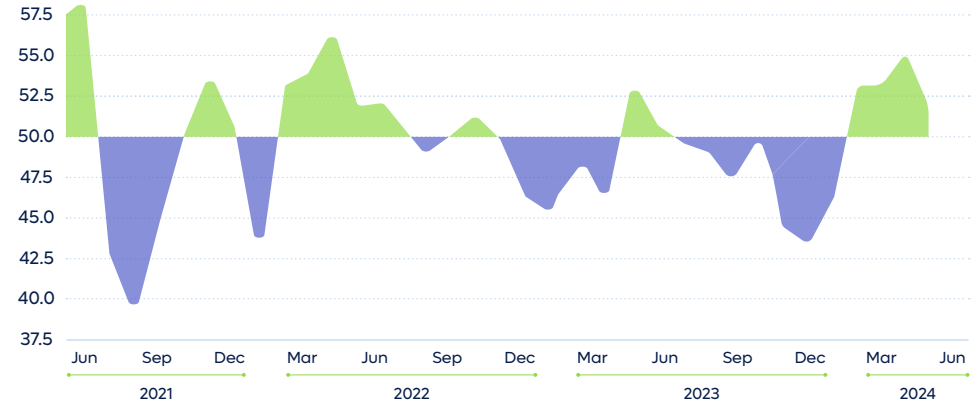
The SME employment index has risen in recent months, reaching a two year high in May, suggesting businesses are now finding it easier to source labour.



For four consecutive months, the average SME has reported an increase in business activity

SME Business Conditions Index

sa, +50 = growth since previous month



Sources: Judo Bank, S&P Global.

Services Industry

Business Activity



63% of services sector SMEs saw business activity remain level in May, 10pts above pre-Covid average

New Business

66% of services sector SMEs saw new business remain level in May, 10pts above pre-Covid average

Employment

16% of services sector SMEs saw employment increase in May, 4pts above pre-Covid average

Manufacturing Industry

Output



24% of manufacturing sector SMEs saw output fall in May, 2pts above pre-Covid average

New Orders

30% of manufacturing sector SMEs saw new orders fall in May, 7pts above pre-Covid average

Employment

13% of manufacturing sector SMEs saw employment fall in May, 2pts above pre-Covid average