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SME PMI® Business Activity Report.

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

Business activity expands at fastest pace in two years

Key findings



New orders rise at most pronounced rate since May 2022

Business activity growth across Australian SMEs was sustained at the start of the second quarter of 2024, according to the latest Judo Bank SME Business Activity Report data. A faster new business expansion drove quicker activity growth and accelerated job creation in April. The level of backlogged work also increased for the first time since September 2022, though mainly in the service sector. Meanwhile business confidence improved among Australian SMEs, but firms were careful with raising selling prices in April.

The seasonally adjusted Judo Bank Australia SME Business Activity Index posted 55.1 in April, up from 53.2 in March. This indicated that an improvement in SME activity was sustained for a third straight month. Furthermore, the uptick was the fastest since April 2022.

Supporting the rise in business activity was a third monthly expansion of new business. Incoming new orders rose at the fastest pace in 23 months, attributed to higher services new business inflows.



Employment growth accelerates to seven-month high

Although manufacturing new orders remained in contraction, the rate of decline eased the lowest in nine months. Where new orders rose, firms often mentioned better customer demand and an expansion of client bases as reasons. The rate at which new orders increased for Australian SMEs far outpaced that among large enterprises at the start of the second quarter.

As a result of rising new business and activity, Australian SMEs hired additional staff at a solid pace to cope with ongoing workloads. The rise in headcounts was again limited to the service sector, which saw staffing levels increase at the quickest pace since last September. That said, the service sector saw an accumulation of outstanding work in April. The level of backlogged work at services firms rose for the first time in nineteenth months and at the most pronounced pace since May 2022, thereby resulting in the overall level of backlogged work to increase for the first time since September 2022.

On prices, average input costs rose at a rate



Output price inflation eases in April

that was unchanged from March’s 31-month low. The rate of inflation was nevertheless above the series average. Higher raw material, shipping and labour costs, underpinned the latest rise in average prices. That said, the rate of output price inflation fell to a six-month low in April as some firms partially absorbed cost increase to maintain competitiveness.

Finally, sentiment among Australian SMEs remained positive in April, as signalled by an above 50.0 print of the Future Output Index. The level of confidence climbed to the highest since January amid expectations of better economic conditions and business development efforts driving sales.

Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI. Data were collected 10-25 April 2024.

Comment



“While larger organisations have also seen an improvement in the new year, their output and new order readings have been weaker than that of SMEs, only slightly above the neutral level in April.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“SMEs continue to lead the recovery in business activity levels in early 2024.”

Matthew De Pasquale, Economist at Judo Bank said:

“In April, the SME Business Activity PMI report once again points to an SME-led recovery in early 2024 as activity and employment continued to expand throughout the month.

“Over the four months to April 2024, the SME output index has climbed sharply from 43.8 to 55.1. The index currently resides at its highest reading since April 2022 and is greater than the series pre-pandemic average of 53.8. The ongoing solid activity results suggest a recovery in SME business conditions is taking place in 2024, following a slowdown in activity levels in the latter half of 2023. The recovery is aligned with household balance sheets improving at the end of 2023, and the nominal shock of rapidly rising interest rates continuing to fade away.

“The improvement in SME conditions is further substantiated by the new orders index, which has been in expansion territory for the last three months, in contrast to the weak results seen in the second half of 2023.

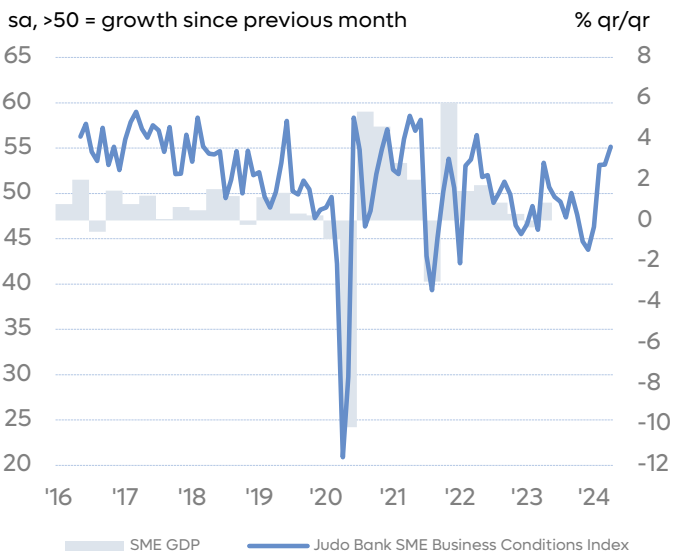
“Whether SMEs continue to see an improvement in overall business conditions is contingent on a recovery in consumer spending throughout 2024. While there are signs a recovery is underway, official retail sales data suggest it’s too early to confirm a recovery in consumer spending.

“The improvement in Australia’s headline PMIs has been driven primarily by an uptick in SME business conditions. While larger organisations have also seen an improvement in the new year, their output and new order readings have been weaker than that of SMEs, only slightly above the neutral level in April.

“While not to the same degree as the services sector, business conditions facing SME manufacturers have begun improving over the past two months, with the manufacturing output index improving to slightly under the neutral level in April. Employment growth remains subdued in the sector, with headcounts gradually easing since June 2023 in line with weakening activity levels.

“Overall, SME employment readings remained in expansion territory throughout April, driven by solid service sector results. In line with the broader economy, ongoing labour and skill shortages remain a pain point for SMEs. Still, demand for services continues to outstrip supply, explaining the employment growth expected to continue over the months ahead.”

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.

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Comment



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New sales, business activity and employment growth accelerated for Australian SMEs at the start of the second quarter.

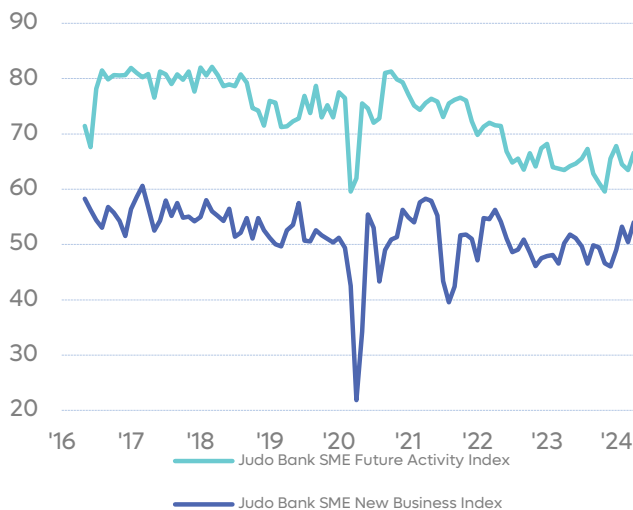


Demand and outlook

Growth of new work at Australian SMEs was sustained for a third successive month in April. Moreover, the pace of growth accelerated to the fastest in nearly two years. Incoming new business mainly rose in the service sector, supported by improvements in customer demand and expansions of client bases. The rate of services new business growth was the fastest since April 2022. While manufacturing new orders sustained contraction for a seventeenth straight month, the rate of decline was the slowest since last July.

Australian SMEs maintained an optimistic outlook for business activity in the year ahead. Furthermore, the level of business confidence rose to the highest in three months on the back of improvements in both the manufacturing and service sectors. Firms are generally hopeful that business activity can rise in the year ahead with better market conditions and business development efforts.

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 sixth straight month in April, in line with the expansions in output and new orders. Whilst moderate, the rate of growth was the highest since September 2023. This was underpinned by a solid expansion in service sector staffing levels, which rose at the most pronounced pace in seven months. Manufacturers meanwhile shed staff at a quicker rate in April.

Supporting the latest rise in staffing levels in April was also renewed capacity pressures in the service sector. The level of unfinished orders at Australian SMEs rose for the first time in 19 months due to an accumulation of outstanding business in the service sector. Manufacturers meanwhile continued to clear their backlogs for a fourteenth successive month, though with the rate of depletion was the slowest in five months.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



“Demand for services continues to outstrip supply, explaining the employment growth expected to continue over the months ahead.”

Matthew De Pasquale
Economist at Judo Bank



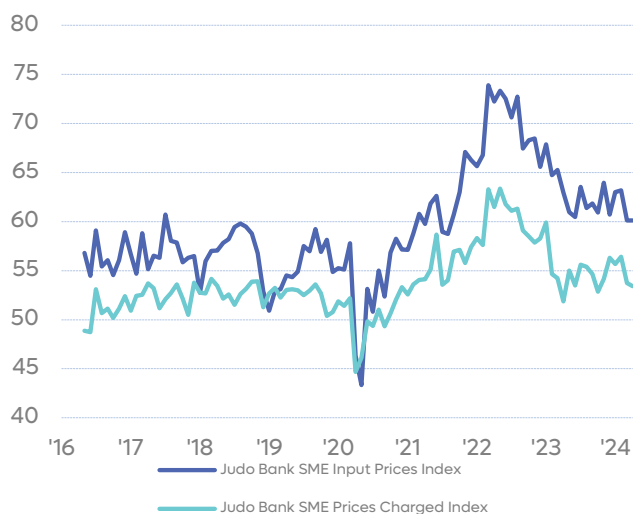
Prices



Rising raw material, transport and wage costs led to average input prices to rise in April. The rate of input cost inflation was unchanged from the 31-month low in March, with a stronger uptick in service sector operating expenses offsetting a slowdown in average cost increases in the goods-producing sector. Overall, the rate of inflation remained above the series average as service sector prices continued to increase at a steep rate.

Despite elevated cost inflation, Australian SMEs lifted their selling prices at a decelerated rate in April, the slowest in six months. Both the manufacturing and service sectors recorded lower rates of output price inflation, with anecdotal evidence indicating that some firms opted to partially absorb cost increases to stay competitive and 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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