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SME PMI® Business Activity Report.

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

Sharpest fall in business activity since January 2022

Key findings



Incoming new business contracts at faster rate



Employment growth buoyed by hiring in the service sector



Charge inflation strengthens despite slower increase in costs

Business activity across Australian SMEs deteriorated at a faster pace in the final month of 2023, according to the latest Judo Bank SME Business Activity Report data. Softening demand conditions, affected by high interest rates, led to business activity falling in December. That said, firms continued to raise their workforce capacity, though primarily in the service sector. Selling price inflation increased despite softer cost pressures, whilst business optimism improved.

The seasonally adjusted Judo Bank Australia SME Business Activity Index fell to 43.8 in December, down from 44.7 in November. This signalled a third successive monthly contraction of SME activity in Australia and at the most pronounced pace since January 2022.

Australian SMEs, across both the manufacturing and service sectors, saw a reduction in new business in December and at the fastest pace since September 2021. This was underpinned by high inflation, elevated interest rates and subdued economic

conditions, according to survey respondents. Goods producers saw a faster fall in new orders than service providers.

Firms continued to work through their existing orders amid the absence of sales growth. While solid, the rate at which backlogs depleted among SMEs was less pronounced than among large enterprises. This was despite SMEs raising their staffing levels at an accelerated pace, in contrast to slower hiring among larger companies in December. The rise in employment levels was notably limited to the service sector, with manufacturing SMEs lowering their headcounts in line with the trend for production.

Overall input costs continued to rise in December on the back of higher material, fuel and labour costs, albeit at the slowest rate since June. Australian SMEs nevertheless passed on higher costs at a faster rate, with manufacturing output prices notably rising for the first time since September. Firms reported sharing increased cost burdens with clients, thereby leading to the quicker rise in charges. This was

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Judo Bank SME Business Conditions Index

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI. Data were collected 05-19 December 2023.

Comment



“Judo Bank’s SME December Report indicates a further easing in economic activity as 2023 drew to a close.”

Matthew De Pasquale
Economist at Judo Bank



Comment

“SME activity indexes eased further in December, however current levels and SME hiring patterns suggest the central case for a soft landing remains in play for 2024.”

Matthew De Pasquale, Economist at Judo Bank said:

“Following soft results in November, Judo Bank’s SME December Report indicates a further easing in economic activity as 2023 drew to a close. Activity indexes have eased significantly but remain at levels consistent with a soft landing. Despite the continued slowdown in activity, labour demand among SMEs remained high, with firms expanding their workforces through December.

“The SME output index has been decreasing consistently and reached a low point of 43.8 in December. This is the lowest level seen since January 2022. Although this figure indicates a moderate slowdown in the sector, the index will become more aligned with a recession if it continues to ease. The central case, however, remains that the economy is on track for a soft landing in 2024. We will be watching the output index in the new year to see if the coming levels suggest otherwise.

“New orders also softened slightly through December, with the index falling to 46.0. Both indicators consistently residing below the neutral level confirms that the Australian SME economy has slowed through the December quarter

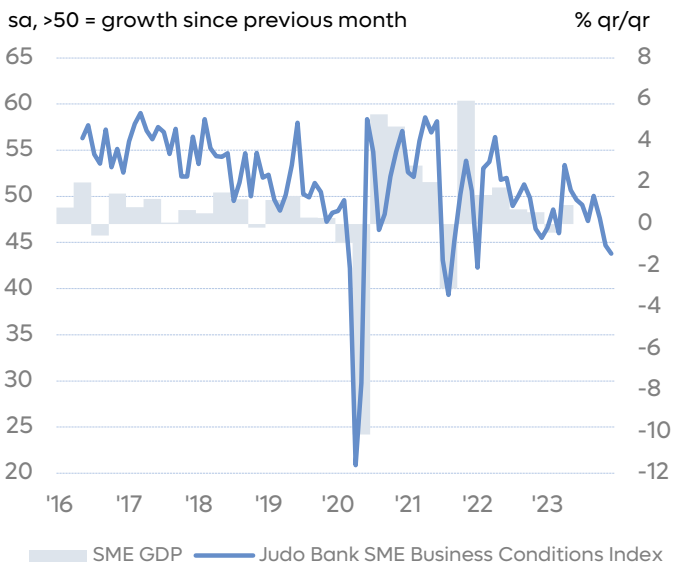
of 2023. As seen throughout the post-pandemic recovery, activity appears to be easing quicker among SMEs than larger organisations.

“Despite the difference in activity through the last quarter of 2023, SMEs and larger organisations are both expanding their workforces at similar rates. The SME employment index rose to 52.2 through December, driven primarily by the services sector. This result reflects the continued supply-demand imbalance within Australia’s services sector, despite the rise in interest rates. SMEs choosing to expand their labour forces as activity levels ease also suggests that businesses expect the economic slowdown to be short-lived.

“Price indexes through December have continued to point to sticky inflation levels inconsistent with the RBA’s 2-3% target range. On a positive note for SMEs, changes in these price indexes signify an improvement in margin pressure through December. Input price pressure slowed over the month after a sharp spike in November, while the output price index has risen consistently over the past three months. Margin pressure among SMEs is now comparable to that of larger organisations and is more reflective of levels faced before the pandemic commenced.

“With interest rate rises still working their way through the economy and households continuing to tighten through early 2024, the SME sector and broader Australian economy are expected to continue slowing through the start of 2024. The resilience of labour demand to date, combined with strong population growth and construction pipelines, will likely limit the degree to which business activity slows in the new year.”

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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Sources: Judo Bank, S&P Global PMI.

Comment



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Firms continued to raise their workforce capacity despite falling new business.

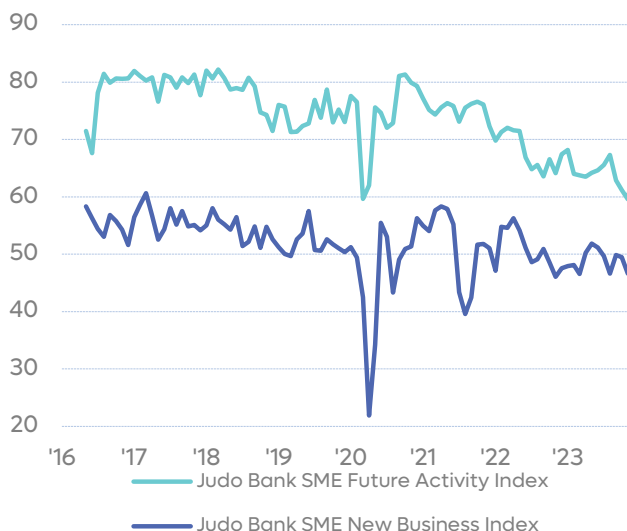


Demand and outlook

Incoming new orders for goods and services from Australian SMEs fell for a sixth successive month in December. Moreover, the rate of contraction accelerated to the fastest since September 2021 and was solid overall. Faster new business declines were observed across both manufacturing and services, with SMEs in both sectors citing high costs, elevated interest rates and subdued economic conditions dampening demand.

Despite the fall in new work intakes, Australian SMEs maintained an optimistic view with regards to output in the 12 months ahead. Furthermore, the level of confidence rose to the highest in four months, supported by improved optimism among both manufacturing and services SMEs in December. Firms were generally hopeful that economic conditions will improve in 2024 and drive sales growth.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.

Comment



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Matthew De Pasquale
Economist at Judo Bank



Employment and capacity

Staffing levels rose for a second successive month in December and at the quickest rate since September. That said, the latest rise in SME headcounts was limited to the service sector as manufacturing workforce capacity shrank for the sixth month in a row. While service providers continued to hire to cope with ongoing workloads, manufacturers shed staff at a quicker rate in line with sharper declines in new orders and output.

On the back of falling new work intakes, the level of unfinished orders at Australian SMEs declined for a fifteenth straight month in December. The rate of depletion eased from November but remained solid overall. The clearance of outstanding work took place at a faster pace among manufacturers compared to service providers.

sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global PMI.



Comment



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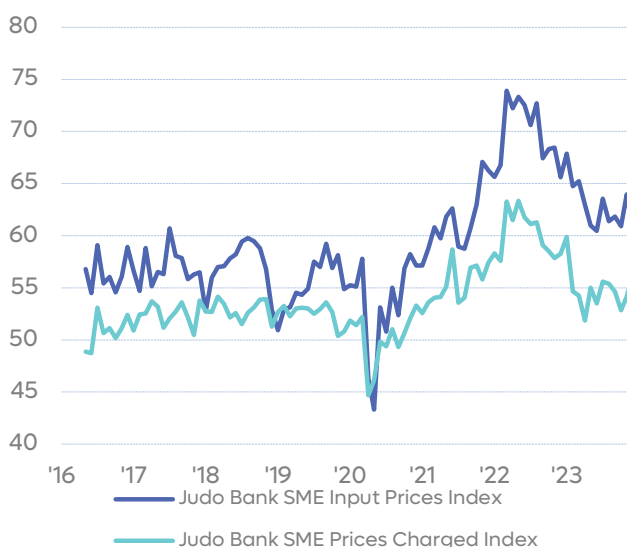
Prices



Higher raw material, fuel and wage costs contributed to another increase in average input costs in December, extending the sequence of input cost inflation that commenced in June 2020. That said, the rate of inflation eased to a six-month low, as cost pressures softened across both monitored sectors.

Australian SMEs nevertheless raised their selling prices at a faster rate in the final month of 2023, sharing both present and past rises in cost burdens with clients. The rate of selling price inflation increased for a second straight month to the highest since January. While manufacturing output prices increased for the first time in three months, the rate of inflation was well below the series average. In contrast, service sector charge inflation rose further above the long-run average in December.

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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