

Business conditions slump in summer 2020

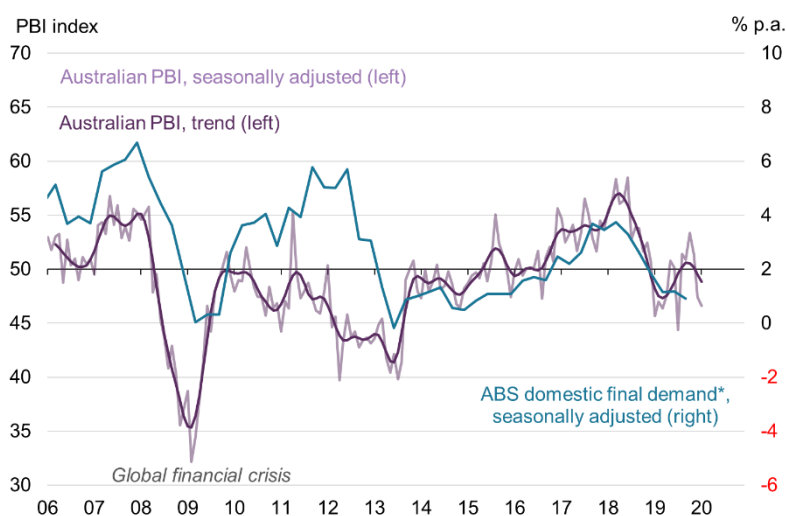
The Australian Industry Group Australian Performance of Business Index (**Australian PBI**) slumped in December 2019 and sank further into contraction in January 2020. Conditions and activity levels for businesses deteriorated as Australia moved into 2020. This reflects a summer marred by widespread drought, bushfire and (more recently) escalating responses to the risk of a global coronavirus pandemic.

The Australian PBI fell by a further 0.8 points to 46.6 points in January 2020, after dropping by 3.9 points to 47.4 points in December 2019 (seasonally adjusted). Results below 50 points in the Australian PBI indicate deteriorating business conditions, with lower numbers indicating a faster pace of deterioration in the month.

All four of the activity indexes included in the Australian PBI indicated a contraction in January. Current production declined at about the same rate as in December. The employment index dropped into contraction for the first time since July. The more forward-looking indicators in the Australian PBI – new orders and supplier deliveries – both showed substantial declines in December and January, albeit at a moderating pace in January.

Input price pressures moderated through late 2019 and are now below their long-run average. Selling prices are broadly stable but average wage growth remains elevated, relative to the long-run average for this series.

Ai Group Australian Performance of Business Index (PBI) and ABS domestic final demand*



* real domestic final demand (seasonally adjusted and inflation adjusted), to Q3 2019.
Source: ABS National Accounts, Sep 2019.

JANUARY 2020

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Australian PBI ▼ - 0.8 points (seasonally adjusted)	46.6
Australian PBI ▼ - 0.6 points (trend)	48.8
Production / activity ▼ - 0.4 points (seasonally adjusted)	46.7
Employment ▼ - 3.5 points (seasonally adjusted)	48.8
New orders ▲ + 0.7 points (seasonally adjusted)	47.5
Supplier deliveries ▲ + 1.0 points (seasonally adjusted)	44.5
Capacity utilisation ▼ - 0.3 percentage points (seasonally adjusted)	79.1
Input prices ▲ + 0.5 points (seasonally adjusted)	61.0
Selling prices ▼ - 0.6 points (seasonally adjusted)	50.3
Average wages ▲ + 0.4 points (seasonally adjusted)	63.0

The Australian PBI declined by a further 0.8 points to 46.6 points in January, after slumping by 3.9 points to 47.4 points in December. This signifies that on average, Australian business conditions were deteriorating in December and January.

The PBI production / activity index declined by a further 0.4 points to 46.7 points in January, indicating an accelerating rate of decline through December and January. This indicator was negative for seven months of 2019, indicating a year of lacklustre results on average, for Australian business sales and production. In line with this disappointing trend, the Australian Bureau of Statistics (ABS) estimates that real output volumes (for all industries excluding agriculture and mining) decelerated to just 1.4% p.a. in the year to September (Q3) 2019, while growth in the real volume of business sales (for the ABS *Business Indicators* industries excluding mining) slowed to just 0.3% over the year to Q3 2019.

The PBI employment index deteriorated by 3.5 points to 48.8 points in January, indicating a mild fall in employment levels across all businesses. This was the first negative result (under 50 points) since July. The ABS estimates that total Australian employment growth remained positive through 2019 but slowed to 2.1% p.a. to December (from 2.8% p.a. in May). Private-sector employment levels were flat throughout 2018-19, but grew by 2.1% over the year to November 2019.

The PBI new orders index improved by 0.7 points to 47.5 points in January, indicating a moderation in the sharp fall in orders that was evident in December. This index is below its own long-run average of 49.1 points, suggesting a weaker period of sales ahead for Australian businesses. History suggests this index 'leads' business sales by about three months.

The PBI capacity utilisation index fell slightly in each of December and January, but at 79.1% it remains close to recent peaks (80.2 in August 2019) and is well above its long-run average (75.2%). This elevated level of capacity utilisation is historically associated with a lower unemployment rate than is currently evident. It also implies that stronger rates of business investment may be needed if output is to grow from here. The latest ABS estimate shows that private sector non-mining capital investment (CAPEX, excluding mining) grew by just 1.0% p.a. in real terms to Q3 of 2019.

The PBI input prices index lifted slightly (+0.5 points) to 61.0 points in January. This is below the average for 2019 (61.9) and well below the long-term average for this series (65.6 points), indicating reduced pricing pressures at present. The ABS final producer price index decelerated to 1.4% p.a. in December 2019, from a recent high of 2.1% p.a. in Q3 of 2018.

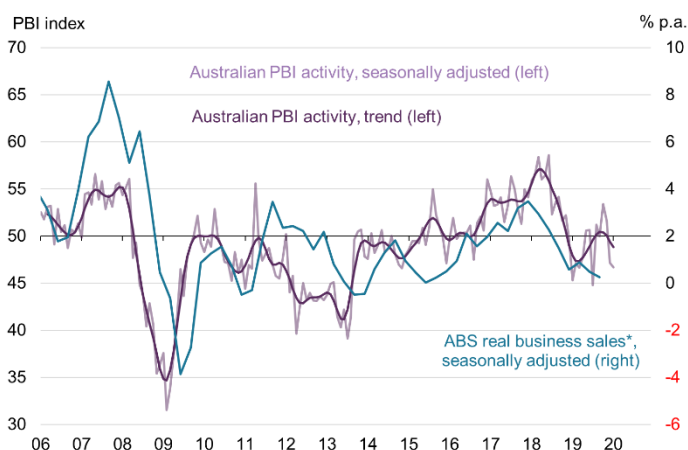
The PBI selling prices index fell by 0.6 points to 50.3 in January, indicating broadly stable prices after four months of mild price rises in 2019. This was reflected in a very mild acceleration in headline consumer inflation to 1.8% p.a. in Q4 of 2019.

The PBI average wages index rose by a further 0.4 points to 63.0 points in January, which was the highest result since August 2018. This is well above the 2019 average (58.4) and the long-term average (58.0) for this index, suggesting an acceleration in wage pressures (from relatively slow wage growth rates) across the private sector in January 2020.

Australian PBI seasonally adjusted	Index this month	Change from last month	Series average	Australian PBI trend	Index this month	Change from last month	Series average
Australian PBI	46.6	-0.8	49.1	Australian PBI	48.8	-0.7	49.0
Australian PMI®	45.4	-2.9	50.6	Australian PMI®	47.0	-1.4	50.6
Australian PSI®	47.4	-1.3	50.3	Australian PSI®	50.4	-0.7	50.2
Australian PCI®	41.3	2.3	46.1	Australian PCI®	40.5	-0.4	45.8
PBI activity indices				PBI activity indices			
Production / activity	46.7	-0.4	49.0	Production / activity	48.8	-0.6	48.9
Employment	48.8	-3.5	49.6	Employment	51.7	-0.5	49.4
New Orders	47.5	0.7	49.1	New Orders	49.7	-0.7	49.0
Supplier deliveries	44.5	1.0	48.8	Supplier deliveries	46.3	-1.1	48.7
Capacity Utilisation (%)	79.1	-0.3	75.2	Capacity Utilisation (%)	79.3	0.0	75.1
PBI prices and wages				PBI prices and wages			
Input Prices	61.0	0.5	65.6	Input Prices	61.3	-0.3	65.4
Selling Prices	50.3	-0.6	49.1	Selling Prices	51.5	0.1	48.8
Average Wages	63.0	0.4	58.0	Average Wages	62.2	0.9	57.8

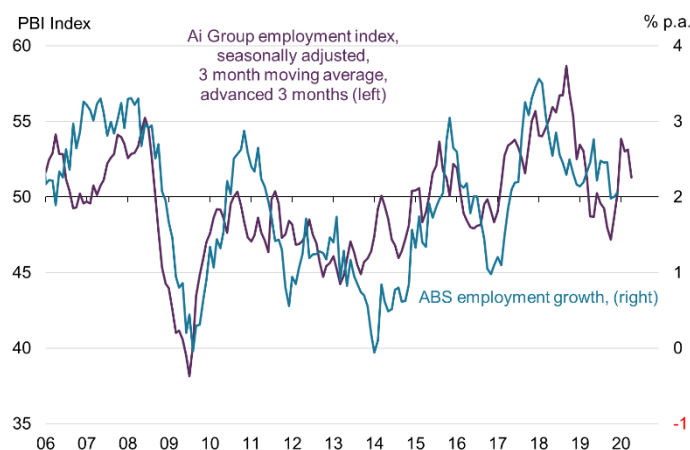
Results above 50 points indicate expansion. All indexes for sub-sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

PBI activity and ABS real business sales*



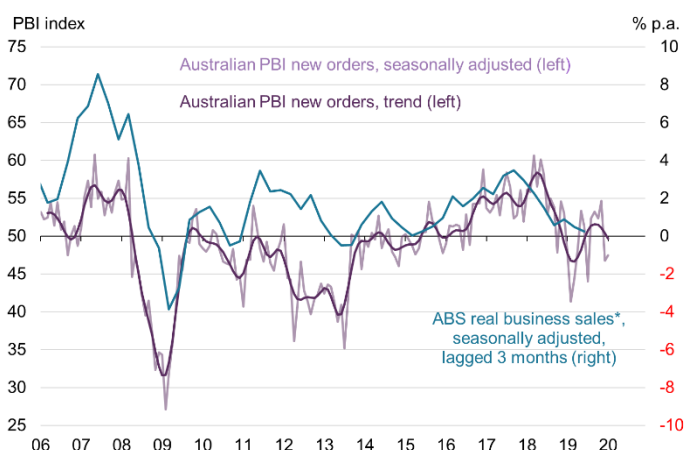
* real business sales excluding mining (seasonally adjusted & inflation adjusted), to Q3 2019. Source: ABS *Business Indicators*, Sep 2019.

PBI employment# and ABS employment growth*



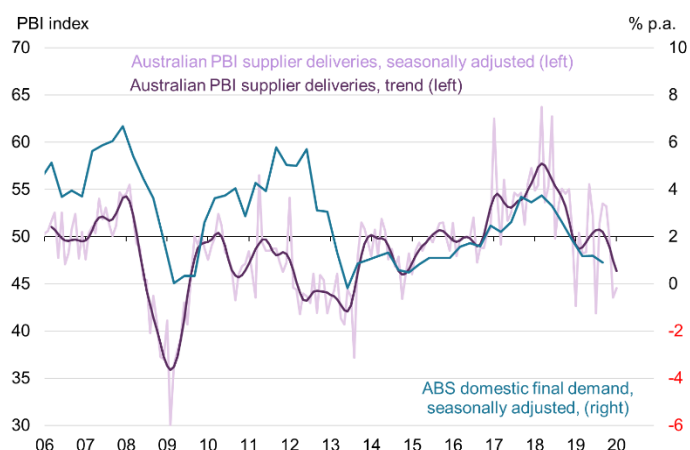
weighted by industry employment. * total employment growth (seasonally adjusted), to Dec 2019. Source: ABS, *labour force survey*, Dec 2019.

PBI new orders and ABS real business sales*



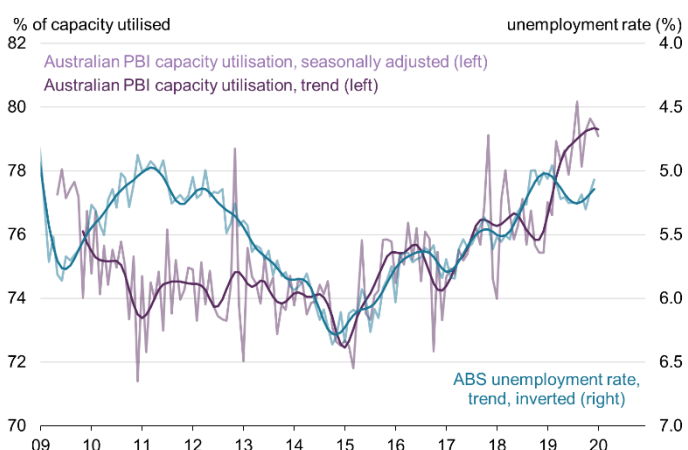
* real business sales excluding mining (seasonally adjusted & inflation adjusted), to Q3 2019. Source: ABS *Business Indicators*, Sep 2019.

PBI supplier deliveries and ABS final demand*



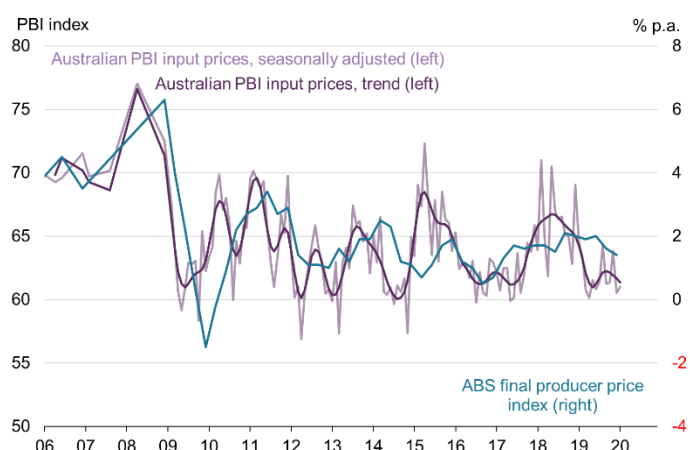
* real domestic final demand (seasonally adjusted & inflation adjusted), to Q3 2019. Source: ABS *National Accounts*, Sep 2019.

PBI capacity utilisation and ABS unemployment rate



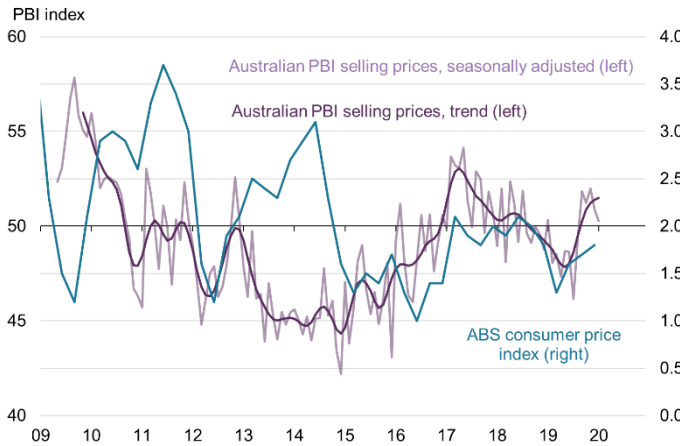
* national unemployment rate (trend), to Dec 2019. Source: ABS, *labour force survey*, Dec 2019.

PBI input prices and ABS final producer prices*



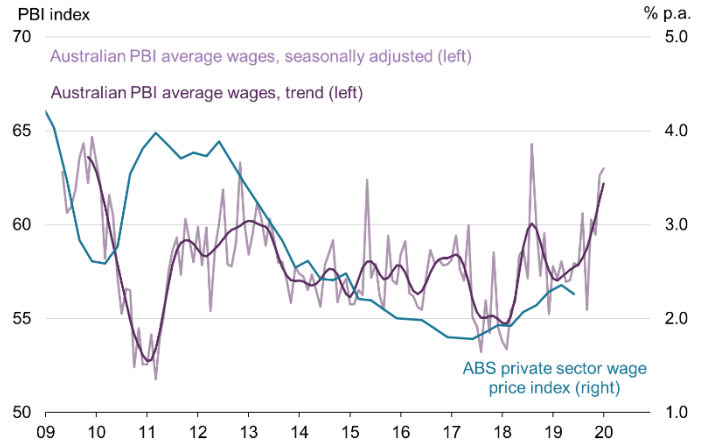
* final stage producer prices index, all industries (seasonally adjusted), to Q4 2019. Source: ABS *Producer Price Index*, Dec 2019.

PBI selling prices and
ABS consumer price index*



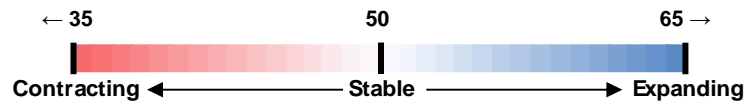
* headline consumer price index (seasonally adjusted), to Q4 2019.
Source: ABS Consumer Price Index, Dec 2019.

PBI average wages index and
ABS private sector wage price index*



* private sector wage price index, all industries (seasonally adjusted), to Q3 2019. Source: ABS Wage Price Index, Sep 2019.

Business conditions across Australia: detailed industries (trend indexes)



Industry (trend)	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020
Manufacturing (PMI, trend)	52.2	52.4	52.4	52.3	52.3	52.3	52.3	51.9	51.0	49.7	48.4	47.0
Food & beverage products	58.7	60.0	60.4	60.2	59.6	59.1	59.3	60.0	60.7	60.9	60.8	60.3
Machinery & equipment	47.7	46.5	46.3	47.5	49.7	51.9	53.2	53.2	52.3	51.2	50.1	49.0
Metal products	47.1	45.3	43.2	41.1	39.9	40.1	41.4	42.8	43.8	44.1	43.9	43.3
Chemical & rubber products	52.3	52.7	53.5	54.0	53.9	53.6	53.3	52.4	50.8	48.9	46.8	44.6
Building materials, furniture, other	52.3	55.6	59.0	60.9	60.6	58.5	54.4	49.4	44.8	40.7	36.8	33.4
TCF, paper, printing products	53.9	52.4	49.8	46.8	44.1	42.5	41.9	41.9	41.5	40.6	39.7	39.0
Construction (PCI, trend)	43.3	43.0	42.6	42.3	42.1	42.1	42.2	42.2	41.9	41.4	40.9	40.5
Housing	35.4	35.3	35.8	37.0	38.9	41.3	44.1	46.5	48.4	49.7	50.7	51.7
Apartments	30.9	33.4	35.4	36.0	35.7	35.2	35.1	35.4	35.9	36.4	36.9	37.0
Commercial construction	44.0	44.4	45.1	45.9	46.5	46.7	46.1	45.1	43.9	42.5	41.0	39.9
Engineering construction	48.4	50.1	51.3	50.7	48.5	45.1	41.4	38.2	35.7	34.3	33.7	34.2
Service businesses (PSI, trend)	47.6	47.4	47.8	48.5	49.5	50.5	51.3	51.9	52.0	51.7	51.1	50.4
Professions, business & property	45.7	46.3	47.3	48.3	48.7	48.5	47.7	46.9	46.3	45.9	45.4	45.4
Logistics	46.8	48.2	49.2	49.1	48.5	47.5	46.9	47.2	48.6	50.5	52.4	54.1
Finance & insurance	40.9	36.0	34.2	36.5	42.0	48.5	53.8	57.6	59.6	60.3	60.4	60.3
Retail trade & hospitality	39.8	41.2	42.7	43.8	44.7	46.2	48.3	50.7	52.0	51.7	50.1	48.0
Health, welfare & education	44.6	46.5	51.2	57.1	61.8	63.2	60.7	55.9	51.2	47.4	44.2	41.8
Recreation, personal & other	49.0	47.6	46.5	46.3	46.8	47.2	47.1	48.0	50.7	54.0	57.2	60.9
All Businesses (PBI, seas. adj.)	47.0	46.4	47.6	50.8	50.1	44.4	51.4	50.9	53.4	51.4	47.4	46.6
All Businesses (PBI, trend)	47.5	47.3	47.6	48.1	48.8	49.6	50.2	50.6	50.6	50.2	49.5	48.8

The Australian Performance of Business Index (Australian PBI) is a weighted composite of Ai Group's Australian Performance of Manufacturing Index (PMI®), Australian Performance of Services Index (PSI®), and Australian Performance of Construction Index (PCI®). An Australian PBI result above 50 points indicates that business activity is generally expanding in that month compared to the previous month; below 50, that it is contracting. The distance from 50 indicates the strength of the expansion or decline.

Australian PBI results are based on responses from a representative sample of around 500 private-sector businesses per month, drawn from industries that account for 72% of Australia's total industry output, 62% of total GDP and 89% of all filled jobs. Industry classifications and definitions in the Australian PBI and all other Ai Group indexes follow the ANZSIC 2006 coding system. Industry weights are derived from ABS estimates of value-added output and employed persons in each industry. Seasonal adjustment and trend adjustments follow ABS methodology.

AI GROUP AUSTRALIAN PMI, PSI, PCI AND PBI INDUSTRY COVERAGE IN 2019	Included in Aust PBI	Share of Aust PBI	Share of GDP	Share of all industry output	Share of all filled jobs
ANZSIC major industry groups		%	%	%	%
Agriculture	-	-	2.3	2.7	3.3
Mining	-	-	8.1	9.6	1.3
Manufacturing (Australian PMI)	x	8.2	5.5	6.5	6.1
Utilities	-	-	2.4	2.8	0.8
Construction (Australian PCI)	x	10.7	7.2	8.4	8.1
Wholesale Trade	x		3.8	4.5	3.9
Retail Trade	x		4.2	5.0	9.8
Food & Accommodation	x		2.3	2.7	7.8
Transport, Post & Warehousing	x		4.5	5.3	4.6
IT, Media & Telecommunications	x		2.5	3.0	1.3
Finance & Insurance	x		8.8	10.3	3.1
Rental & Real Estate services	x		2.9	3.4	2.0
Professional services	x		7.0	8.2	8.4
Administrative services	x		3.4	4.0	6.3
Public Administration & Safety	-	-	5.3	6.2	5.5
Education	x		4.7	5.5	8.4
Health	x		7.5	8.8	13.3
Arts & Recreation	x		0.8	1.0	1.8
Personal & Other Services	x		1.8	2.2	4.0
Services industries included in the Australian PSI	x	81.1	48.9	57.6	74.9
All industries included in the Australian PBI		100.0	61.6	72.5	89.1
All Australian Industries			85.0	100.0	100.0
Ownership of dwellings	-	-	8.4	-	-
Taxes less subsidies	-	-	6.6	-	-
Total Australian GDP			100.0	-	-



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