

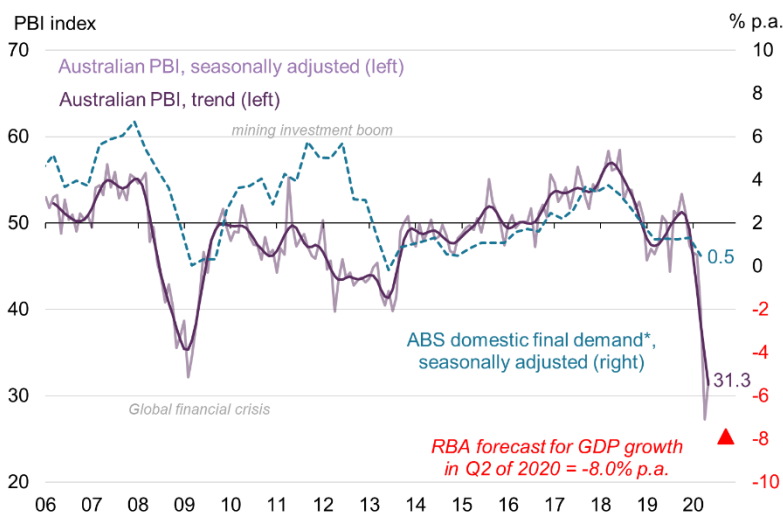
Fall in business conditions eases in May

The Australian Industry Group Australian Performance of Business Index (**Australian PBI**) lifted by 4.5 points to 31.8 points in May (seasonally adjusted). This points to a further serious contraction in activity in May in response to the COVID-19 pandemic, but at a slower pace than in April. It comes after the Australian PBI recorded its lowest ever monthly result in April and the largest single-month drop since the series commenced in 2005. Results below 50 points indicate deteriorating business conditions in the month, with lower numbers indicating a faster pace of deterioration.

Three of the four activity indices (production, employment and new orders) in the Australian PBI also lifted in May after reaching record lows in April. Looking ahead, the new orders index improved by 7.0 points to 30.1 points but remains deeply contractionary. New orders are drying up rapidly across large segments of manufacturing and construction. Capacity utilisation improved to 70.0% of existing capacity across all business sectors. The index for supplier deliveries slipped 0.5 points lower to 32.6 points and its lowest since 2009, as businesses reduced their orders and reported disruptions to interstate and international freight services.

Business conditions remain distinctly negative across almost all sectors of the economy in May. Rare spots of stability are evident in food, grocery and medical manufacturing, wholesaling and retailing. The giant construction industry and most parts of 'heavy' manufacturing (e.g. metals, machinery, equipment, building materials) remain open but they are now experiencing a severe downturn in new orders, activity, employment and supplies.

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



* real domestic final demand (seasonally adjusted and inflation adjusted), to Q1 2020.

Source: ABS *National Accounts*, Mar 2020.

May 2020

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Australian PBI ▲ 4.5 points (seasonally adjusted)	31.8
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Australian PBI ▼ -3.2 points (trend)	31.3
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Production / activity ▲ 3.4 points (seasonally adjusted)	28.2
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Employment ▲ 6.2 points (seasonally adjusted)	35.0
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New orders ▲ 7.0 points (seasonally adjusted)	30.1
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Supplier deliveries ▼ -0.5 points (seasonally adjusted)	32.6
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Capacity utilisation ▲ 2.1 percentage points (seasonally adjusted)	70.0
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Input prices ▼ -0.6 points (seasonally adjusted)	62.5
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Selling prices ▼ -1.9 points (seasonally adjusted)	37.7
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Average wages ▲ 7.9 points (seasonally adjusted)	45.4
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The **Australian PBI** rose by 4.5 points to 31.8 points in May (seasonally adjusted). This suggests a further severe contraction in activity in May, in response to the COVID-19 pandemic and the various activity restrictions that remain in place around Australia. The pace of contraction is slower in May than in April, which was a record low for this data series.

The **PBI production / activity index** lifted by 3.4 points to 28.2 points in May (seasonally adjusted). This indicates a further severe contraction in activity in May. Large reductions in output and activity have been evident right across the economy. Indeed, across all the sectors that are included in the PBI, only the 'food and beverages manufacturing' and 'chemicals & related manufacturing' sectors have not reported large sudden drops in activity in April and May.

The **PBI employment index** rose by 6.2 points to 35.0 points in May (seasonally adjusted), indicating further large falls in employment in Australian businesses. The ABS estimates that almost 900,000 workers lost their jobs in April and total employment shrank by 600,000 (-4.6% m/m and -3.1% p.a.). The RBA and Treasury expect total employment to shrink by 7% p.a. to June 2020 (and total work hours to shrink by 15%), with the unemployment rate rising to a peak of 10%.

The **PBI new orders index** rose by 7.0 points to 30.1 points in May (seasonally adjusted), indicating further large falls in orders. While some consumer-oriented sectors and locations are preparing for easier activity restrictions, other large industrial and commercial sectors (including construction, heavy manufacturing and professional services) are reporting further declines in new orders from regular customers and few signs of new customers. The PBI supplier deliveries index fell a further 0.5 points to 32.6 points in May, its lowest level since 2009. Industrial businesses reduced their own orders from their regular suppliers. Many businesses continue to report local and global freight disruptions and rising freight costs.

The **PBI capacity utilisation index** improved by 2.1 percentage points to 70% of existing capacity (on average) across all business sectors, after falling to a record low of 67.9% in April. This index has an inverse historical correlation to the national unemployment rate. Exceedingly low capacity utilisation suggests unemployment will continue to rise from here.

The **PBI input prices index** fell by a further 0.6 points to 62.5 points in May, further unwinding the price spikes reported in March. This reflects deflationary cost pressures as local and global demand falls.

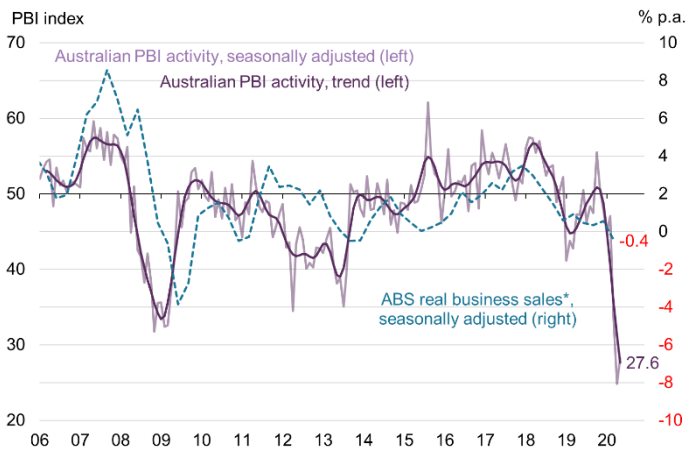
The **PBI selling prices index** fell by a further 1.9 points to a new low of 37.7 points in May. This reflects a virtual collapse in local sales for many businesses and mounting deflationary pressures. The RBA expects headline inflation (CPI) to have turned negative in Q2 of 2020 and for prices to rise by an average of just 0.25% over the year to December 2020.

The **PBI average wages index** recovered by 7.9 points to 45.4 points in May, after hitting a record low in April. This suggests further falls in wages paid, but it does not explicitly include the JobKeeper wage subsidy. The ABS estimates that 55% of all businesses were accessing JobKeeper by 22 May, in order to support their eligible workers' incomes.

Australian PBI seasonally adjusted	Index this month	Change from last month	12 month average	Australian PBI trend	Index this month	Change from last month	12 month average
Australian PBI	31.8	4.5	45.1	Australian PBI	31.3	-3.2	45.3
Australian PMI®	41.6	5.8	48.1	Australian PMI®	41.9	-1.2	48.4
Australian PSI®	31.6	4.5	45.8	Australian PSI®	30.8	-3.4	46.0
Australian PCI®	24.9	3.3	38.4	Australian PCI®	27.1	-3.2	38.6
PBI activity indices				PBI activity indices			
Production / activity	28.2	3.4	43.8	Production / activity	27.6	-3.6	43.9
Employment	35.0	6.2	46.6	Employment	33.9	-3.0	46.8
New Orders	30.1	7.0	45.3	New Orders	28.8	-4.2	45.6
Supplier deliveries	32.6	-0.5	45.1	Supplier deliveries	34.4	-2.2	45.5
Capacity Utilisation (%)	70.0	2.1	77.1	Capacity Utilisation (%)	69.2	-2.2	77.2
PBI prices and wages				PBI prices and wages			
Input Prices	62.5	-0.6	63.0	Input Prices	65.3	0.0	63.1
Selling Prices	37.7	-1.9	45.7	Selling Prices	40.6	-2.4	45.9
Average Wages	45.4	7.9	54.9	Average Wages	43.5	-2.1	55.1

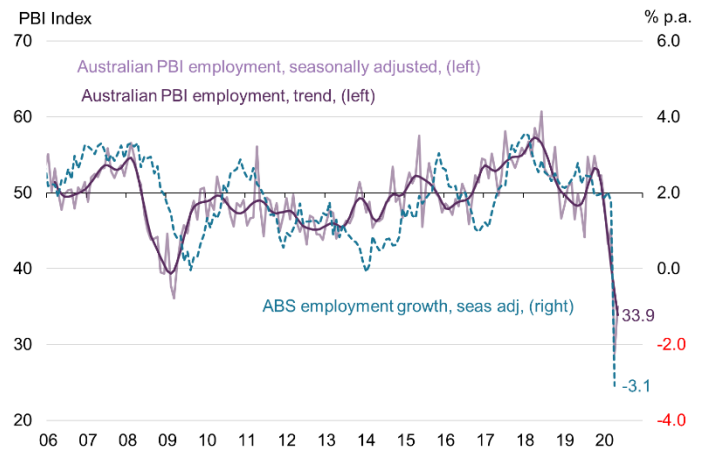
Results above 50 points indicate expansion. Trend indexes in the Australia PBI® use the Henderson 13-month filter methodology.

PBI activity and ABS real business sales*



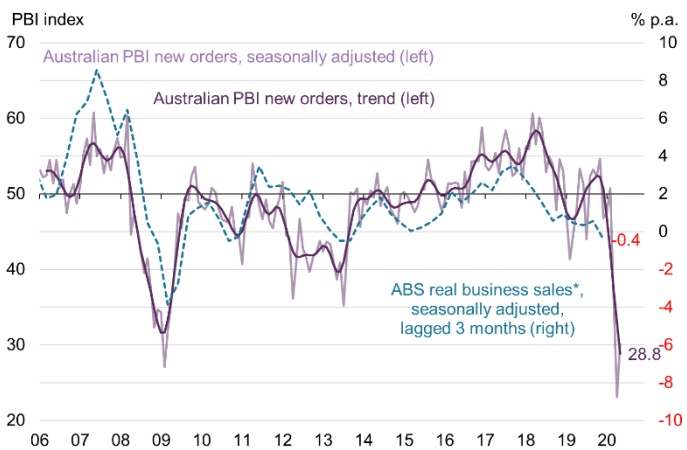
* real business sales excluding mining (seasonally adjusted & inflation adjusted), to Q1 2020. Source: ABS *Business Indicators*, Mar 2020.

PBI employment# and ABS employment growth*



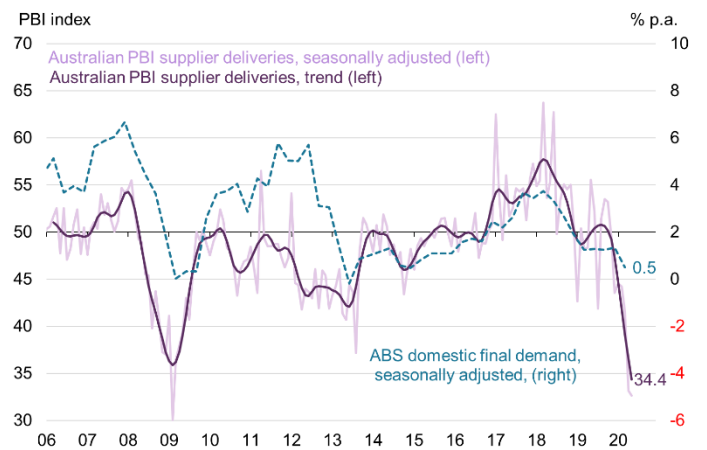
weighted by industry employment. * total employment growth (seasonally adjusted), to Apr 2020. Source: ABS, *labour force survey*, Apr 2020.

PBI new orders and ABS real business sales*



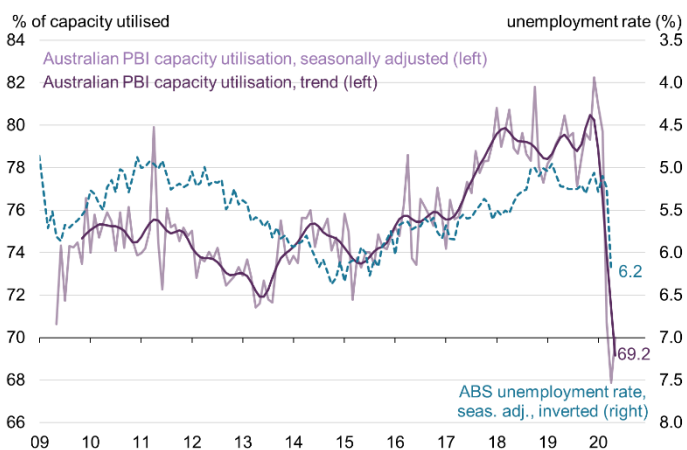
* real business sales excluding mining (seasonally adjusted & inflation adjusted), to Q1 2020. Source: ABS *Business Indicators*, Mar 2020.

PBI supplier deliveries and ABS final demand*



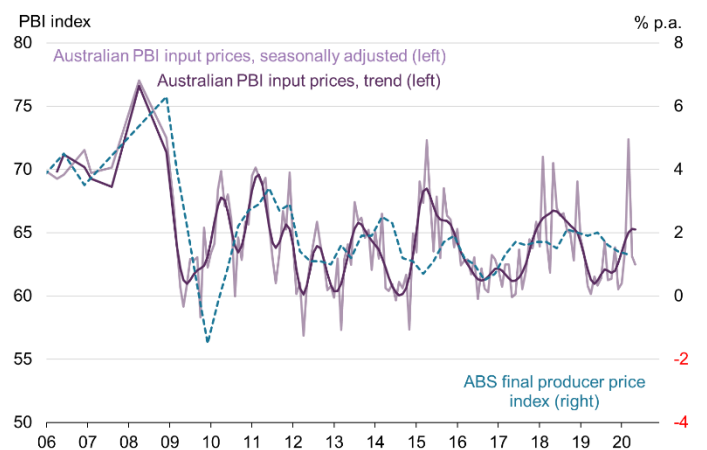
* real domestic final demand (seasonally adjusted & inflation adjusted), to Q1 2020. Source: ABS *National Accounts*, Mar 2020.

PBI capacity utilisation and ABS unemployment rate*



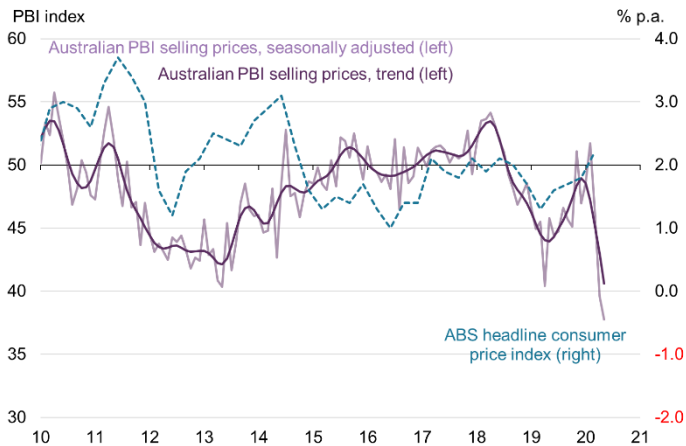
* national unemployment rate (trend), to Apr 2020. Source: ABS, *labour force survey*, Apr 2020.

PBI input prices and ABS final producer prices*



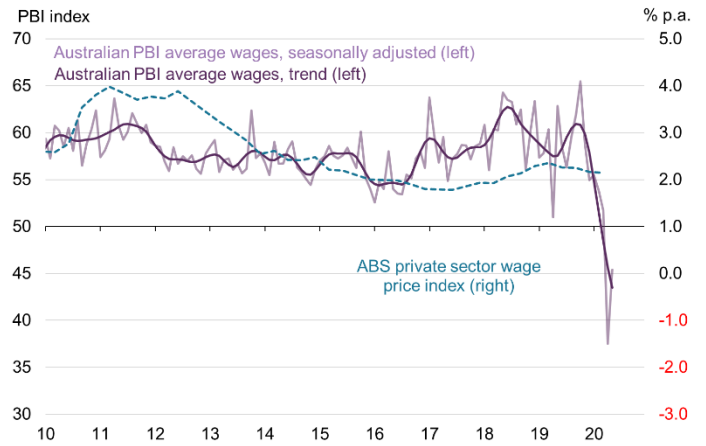
* final stage producer prices index, all industries (seasonally adjusted), to Q1 2020. Source: ABS *Producer Price Index*, Mar 2020.

PBI selling prices and ABS consumer price index*



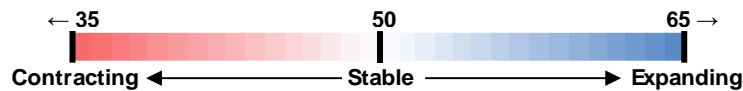
* headline consumer price index (seasonally adjusted), to Q1 2020.
Source: ABS Consumer Price Index, Mar 2020.

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



* private sector wage price index, all industries (seasonally adjusted), to Q1 2020. Source: ABS Wage Price Index, Mar 2020.

Business conditions across Australia: detailed industries (trend indices)



Industry (trend)	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020
Manufacturing (PMI, trend)	52.3	52.3	52.4	51.8	51.0	49.9	48.5	47.1	45.7	44.4	43.1	41.9
Food & beverage products	59.6	59.1	59.5	60.1	60.7	60.8	59.9	58.2	56.2	54.3	52.5	51.0
Machinery & equipment	49.7	51.9	53.3	53.5	52.9	51.5	49.5	47.3	45.3	43.8	42.5	41.4
Metal products	39.9	40.1	41.6	43.2	44.1	43.6	41.5	38.9	36.9	35.7	35.0	34.5
Chemical & rubber products	53.9	53.6	53.3	52.1	50.2	48.8	48.1	48.2	48.7	49.2	49.6	49.7
Building materials, furniture, other	60.6	58.5	54.3	48.8	44.2	41.1	39.0	38.2	37.7	37.3	36.6	36.8
TCF, paper, printing products	44.1	42.5	41.8	41.6	41.8	41.8	41.0	39.1	36.0	31.8	27.1	22.7
Construction (PCI, trend)	42.1	42.1	42.2	42.2	42.4	42.4	41.6	39.9	37.1	33.9	30.3	27.1
Housing	38.9	41.3	44.0	46.6	49.4	51.9	52.7	50.9	46.2	39.8	32.7	25.6
Apartments	35.7	35.2	35.2	35.7	36.6	37.2	36.6	34.1	30.4	26.3	22.3	19.0
Commercial construction	46.5	46.7	46.2	45.3	44.6	43.3	41.0	37.6	33.0	28.1	23.2	18.8
Engineering construction	48.5	45.1	41.1	37.6	35.6	35.4	36.6	37.8	37.5	35.8	33.1	30.2
Service businesses (PSI, trend)	49.5	50.5	51.4	52.2	52.8	52.5	50.6	47.0	42.7	38.3	34.2	30.8
Business services												
Professions, business & property	48.7	48.5	47.6	46.9	46.6	46.7	46.2	44.5	41.9	39.2	36.5	34.3
Logistics (transport, wholesale)	48.5	47.5	47.1	47.9	49.6	50.9	50.4	47.8	43.6	39.2	35.1	31.6
Finance & insurance	42.0	48.5	54.1	58.6	61.4	61.7	59.0	54.1	47.8	41.1	34.6	28.9
Consumer services												
Retail trade & hospitality	44.7	46.2	48.5	51.1	53.0	52.4	48.9	43.3	37.6	33.2	30.1	28.0
Health, welfare & education	61.8	63.2	61.0	55.8	50.8	47.5	45.7	44.4	42.6	40.4	37.6	34.5
Recreation, personal & other	46.8	47.2	46.9	48.7	52.2	55.8	56.4	53.7	49.0	43.7	38.5	35.3
All Businesses (PBI, seas. adj.)	50.1	44.4	51.4	50.9	53.4	51.4	47.4	46.6	46.3	39.8	27.2	31.8
All Businesses (PBI, trend)	48.8	49.6	50.3	50.9	51.3	50.9	49.2	46.2	42.3	38.4	34.6	31.3

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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