

AUSTRALIAN Performance of Services Index

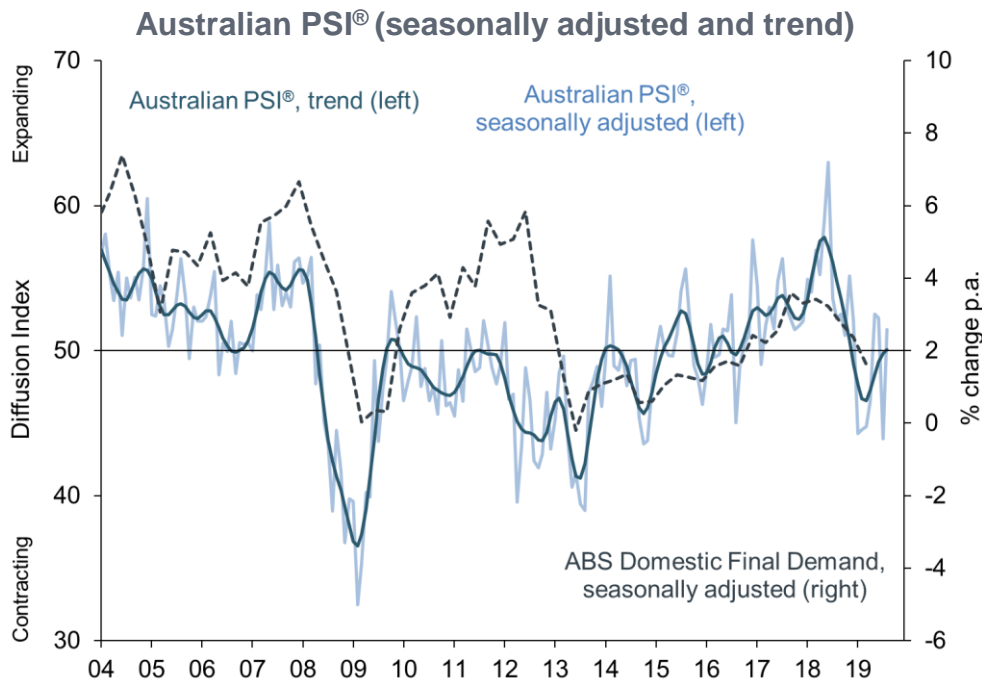


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Business improves for services sector in August

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose by 7.5 points to 51.4 points in August 2019 (seasonally adjusted). This marked a return to mildly positive conditions following a weak month in July. It suggests trading conditions for some businesses picked up in August, returning to similar levels seen earlier in the year. Results above 50 points indicate expansion in the Australian PSI®, with higher numbers indicating stronger rates of growth.

The Australian PSI® indicated expansion in four of the eight services sectors in August (trend). Among the business-oriented sectors, only finance & insurance reported positive results. Among the consumer-oriented segments, the 'health, education & community services' sector was strongest and the retail trade sector continued to perform very weakly. Two activity indicators in the Australian PSI® were positive and indicating growth in August; employment increased substantially, and supplier deliveries rose. Inventories and new orders were broadly stable while sales fell across the month.



Australian PSI® consumer-oriented services sectors

AUSTRALIAN PSI® 51.4 ↑ 7.5 POINTS (seasonally adjusted)	RETAIL TRADE 45.2 ↓ 0.2 POINTS (trend)	HOSPITALITY 57.9 ↑ 1.1 POINTS (trend)	HEALTH, EDUCATION & COMMUNITY 65.2 ↑ 3.0 POINTS (trend)	PERSONAL, RECREATION & OTHER 51.1 ↑ 0.6 POINTS (trend)
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Australian PSI® business-oriented services sectors

AUSTRALIAN PSI® 50.1 ↑ 0.3 POINTS (trend)	BUSINESS & PROPERTY SERVICES 47.4 ↓ 1.1 POINTS (trend)	WHOLESALE TRADE 49.9 ↓ 2.0 POINTS (trend)	FINANCE & INSURANCE 51.6 ↑ 0.3 POINTS (trend)	TRANSPORT & STORAGE 45.2 ↑ 0.9 POINTS (trend)
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Australian PSI® summary

Business-oriented services sectors: Among the four business-oriented sectors, finance & insurance businesses reported mildly positive results in August. Wholesale trade reported stable conditions, while business & property services contracted (trend). The transport & storage sector continued to contract but the pace eased slightly. This sector has now experienced negative conditions for 14 months, following a positive period in the first half of 2018.

Consumer-oriented services sectors: Three of the four consumer-oriented sectors expanded in August 2019 (trend). The large 'health, education & community services' sector experienced the strongest results. Accommodation, cafes & restaurants continued to expand and 'personal, recreational & other services' reported mild growth. Retail trade continued to languish with a slightly faster rate of decline, following several months of easing contraction.

Services wages and prices: The input price index increased in August and remains strongly positive, indicating an acceleration in input price pressures. The average wage price index lifted in August from recent moderation in June and July. The selling prices index continues to track below 50 points. It has been negative throughout 2019 but the rate of contraction has eased in August compared to June and July.

Services activity: Two activity indexes expanded, two were stable and one contracted in the Australian PSI® in August. Employment growth was strong and supplier deliveries expanded, both rising from contraction the previous month. Finished stocks and new orders were broadly stable, while sales fell but at a slower pace than in July.

Capacity utilisation in the Australian PSI® fell by 2.0 percentage points to 77.2% of available capacity in August 2019. Capacity utilisation in the Australian PSI® has been higher over the past two years (79.1% on average) than the long-term average for this series (76.1%), so the recent easing has been from elevated results.

Services highlights: Following a disappointing month in July the pickup in conditions in August was encouraging for businesses in consumer-oriented sectors. While sales remained contractionary, all indicators improved from July. Activity in the mining and engineering construction sectors continue to be positive factors for some business-oriented respondents.

Services concerns: Factors reported to be inhibiting activity for many businesses in August included soft sales to customers in the agriculture sector as drought conditions and access to water affect large parts of Australia. There was low demand from the retail sector due to a general cautiousness from customers.

Australian PSI® key numbers	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>Seasonally adjusted</i>				<i>trend</i>			
Australian PSI®	51.4	7.5	49.3	Australian PSI®	50.1	0.3	49.3
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	47.5	2.4	47.0	Business & property	47.4	-1.1	50.7
Employment	55.2	11.4	49.9	Finance & insurance	51.6	0.3	50.2
New Orders	51.4	7.3	49.5	Wholesale trade	49.9	-2.0	49.5
Supplier deliveries	52.3	11.8	50.1	Transport & storage	45.2	0.9	44.5
Finished stocks	50.9	4.7	51.1	Communications	N/A	N/A	45.8
Capacity Utilisation (%)	77.1	-2.1	78.6	<i>Consumer-oriented services</i>			
<i>Prices and wages</i>				Retail trade	45.2	-0.2	45.6
Input Prices	63.4	2.4	61.0	Hospitality	57.9	1.1	54.3
Selling Prices	47.5	1.7	46.2	Health & education	65.2	3.0	54.5
Average Wages	59.2	2.4	57.7	Recreation & other services	51.1	0.6	49.8

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

For more detail about the Ai Group Australian PSI® visit: www.aigroup.com.au/policy-and-research/economics/

Australian PSI® business services sectors

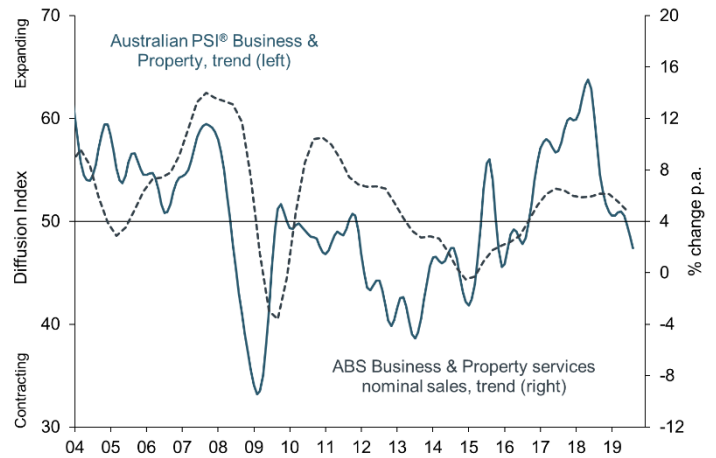
Business & property services

Business & property services includes professional services, administrative services, real estate and property services. It produced \$241.2bn in real value-added output in the year to Q1 2019 (equal to 13% of gross domestic product). It employed 1,815,100 people in May 2019 (14% of total employment).

The index for business & property services fell by 1.1 points to 47.4 points (trend), indicating contractionary conditions in August. This was the third month of weakening conditions for this sector, following a stable first half of the year.

Respondents in this sector reported mixed influencing factors in August. Most respondents reported that business was steady over the month, while several respondents noted subdued demand and a general lack of business confidence.

Business & property services



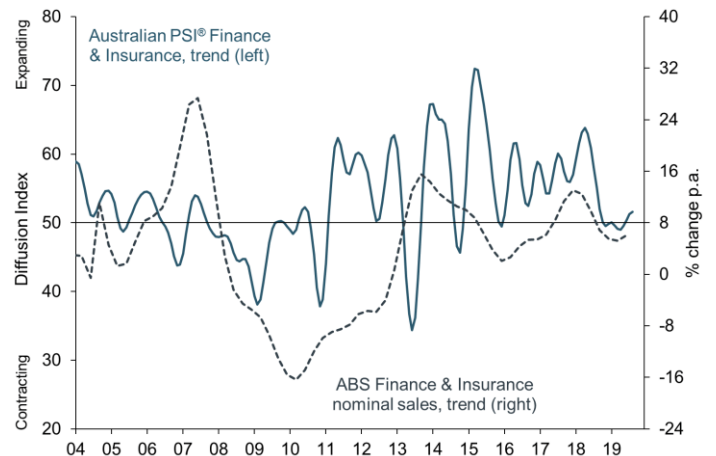
Finance & insurance

Finance & insurance services produced \$161.4bn in real value-added output in the year to Q1 2019 (equal to 9% of gross domestic product). It employed 436,000 people in May 2019 (3% of total employment).

The finance & insurance sector's index improved again in August rising by 0.3 points to 51.6 points (trend). This marked two months of growth following nine months of stability for this sector.

While there were pockets of positive activity for the sector several respondents noted weak business and consumer confidence was an inhibiting factor for their business.

Finance & insurance



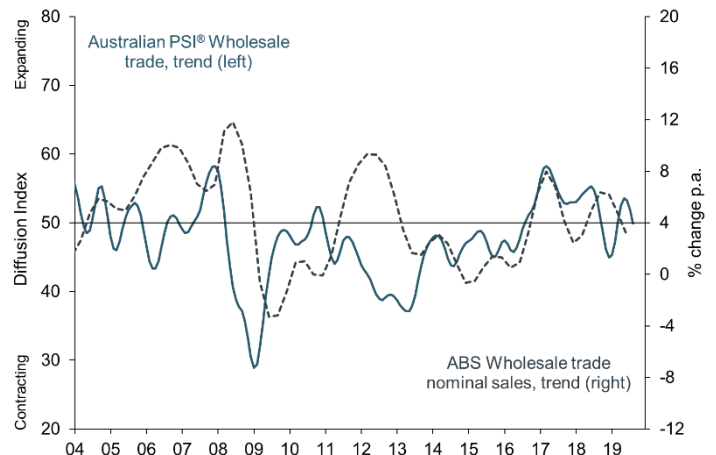
Wholesale trade

Wholesale trade produced \$70.9bn in real value-added output in the year to Q1 2019 (equal to 4% of gross domestic product). It employed 407,200 people in May 2019 (3% of total employment).

The wholesale trade sector's index deteriorated by 2.0 points to be steady at 49.9 points in August (trend). This month of stable conditions was preceded by four months of positive and improving indicators for wholesalers.

Mining and engineering construction were positive sources of demand for some businesses, others noted a fall in demand from domestic and international customers and lower sales to local retail customers.

Wholesale trade



Australian PSI[®] business services sectors

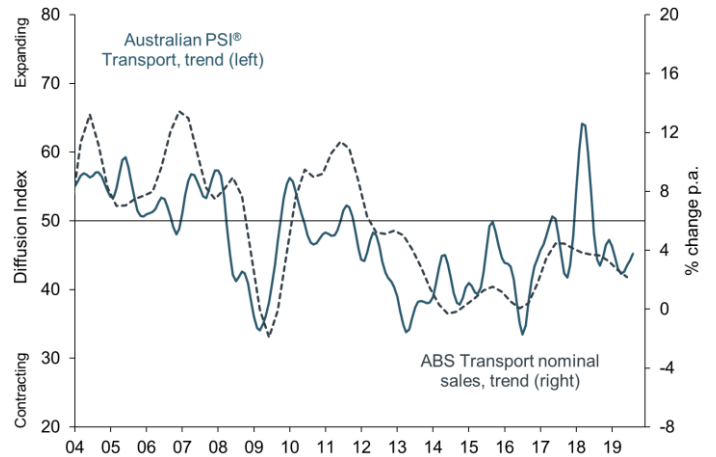
Transport & storage services

Transport & storage services produced \$83.7bn in real value-added output in the year to Q1 2019 (equal to 5% of gross domestic product). It employed 658,800 people in May 2019 (5% of total employment).

The index for transport & storage services has indicated contraction for the past thirteen months, but the rate of contraction has eased since the recent trough in April 2019 – it rose 0.9 points to 45.2 points in August.

Transport & storage has been contracting for 14 months; August respondents reported a slow down in deliveries from international suppliers, and a lack of demand from local customers. Strong price competition has been a constricting factor within the sector for some time.

Transport & storage services



Australian PSI[®] consumer services sectors

Retail trade

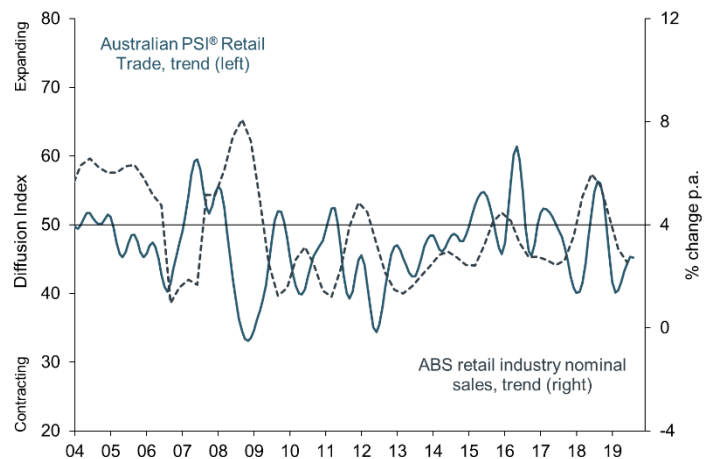
Retail trade produced \$78.5bn in real value-added output in the year to Q1 2019 (equal to 4% of gross domestic product). It employed 1,301,400 people in May 2019, (10% of total employment), but 51% of retail workers are part-time (under 35 hours per week).

The retail trade sector continued to decline in August and the rate of contraction increased slightly. The index for this sector fell by 0.2 points to 45.2 points (trend). This was the ninth month of contractionary conditions with a recent low point in February.

Sales and new orders fell in August, but employment was stable. Stocks and deliveries were weak.

Some retailers reported improved sales due to winter conditions while others were steady across the month. For most, the effects of expected stimulus following the reduction to the cash rate and the increase to the tax offset were not evident in sales across August.

Retail trade



Australian PSI® consumer services sectors

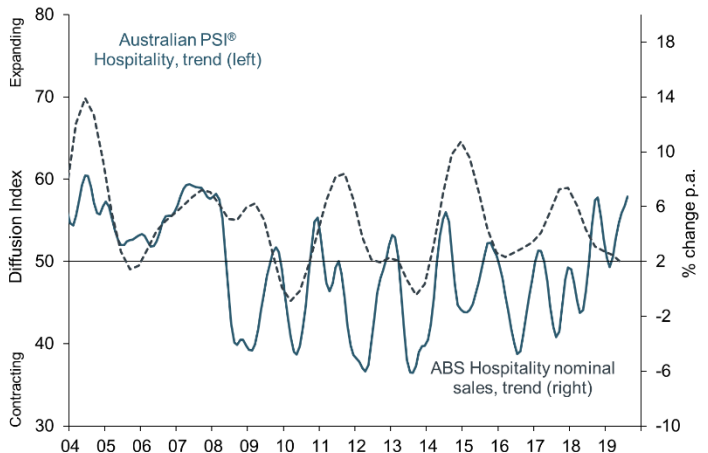
Hospitality (accommodation, cafes & restaurants)

Hospitality includes accommodation, cafes & restaurants. It produced \$43.0bn in real value-added output in the year to Q1 2019 (equal to 2% of gross domestic product). It employed 917,200 people in May 2019 (7% of total employment) but 62% of hospitality workers are part-time (under 35 hours per week).

The hospitality sector's index continued to be positive, it increased 1.1 points to 57.9 in August (trend).

Sales were stable, however, new orders and employment improved. Hospitality businesses reported high levels of inventory while selling prices remained subdued.

Hospitality (accommodation, cafes & restaurants)

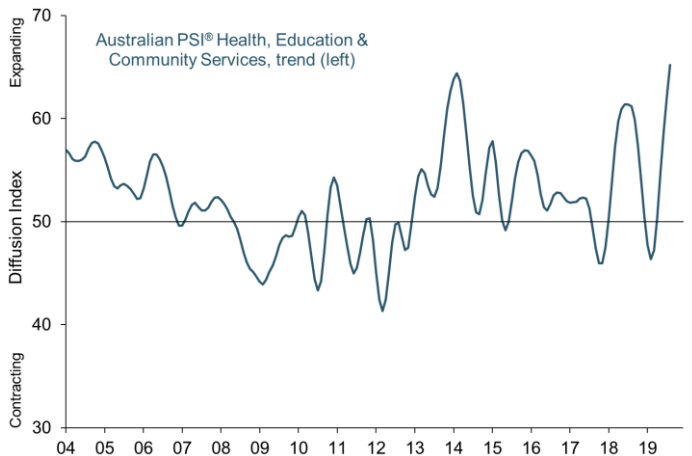


Health, education & community services

Health, education & community services produced \$219.5bn in real value-added output in the year to Q1 2019 (12% of gross domestic product). This industry employed 2,743,600 people in May 2019 (21% of total employment). 56% of workers in education and 25% in health and welfare are employed by the public sector.

The very large 'health, education & community services' sector reported improving conditions in August to reach a series high with its index rising by 3.0 points to 65.2 points (trend). Sales, new orders and employment all increased in August while inventories remained stable. Businesses reported a boost from funding for the new financial becoming available. This sector is operating at high levels of capacity.

Health, education & community services



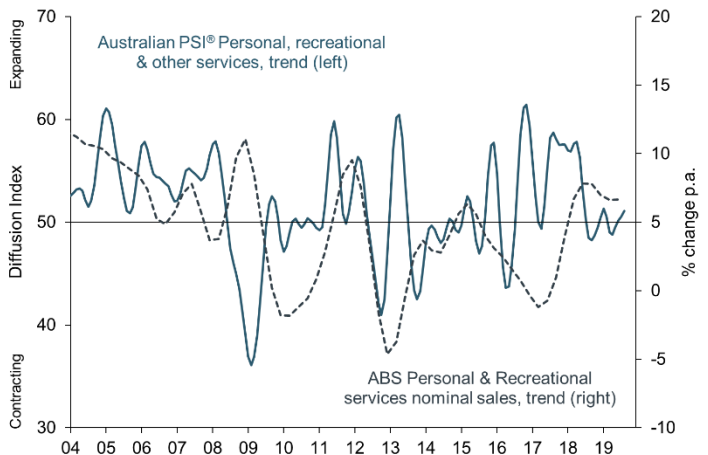
Recreational, personal & other services

Recreational, personal & other services produced \$48.2bn in real value-added output in the year to Q1 2019 (equal to 3% of gross domestic product) and employed 776,100 people in May 2019 (6% of total employment). 49% of workers in recreational services and 32% in personal and other services are part-time.

The index for 'recreational, personal & other' improved marginally rising by 0.6 points to 51.1 points in August (trend). The sector has been reporting results in a very narrow range, hovering around stability for almost a year.

Sales, new orders and employment improved, but average wages were elevated.

Recreational, personal & other services



Australian PSI[®] prices and wages

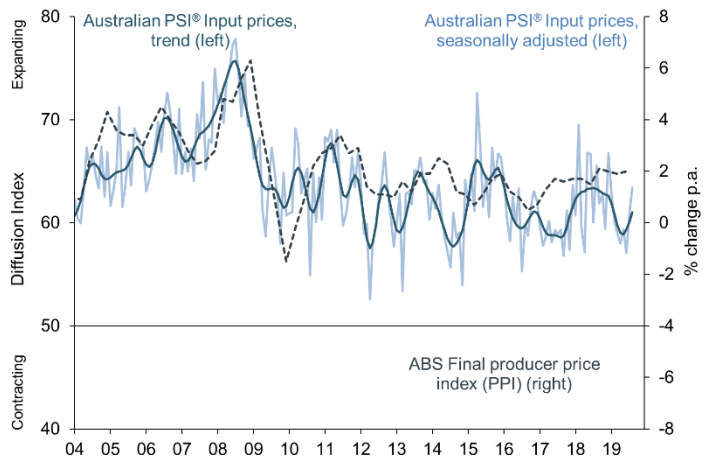
Input prices

The ABS final producer price index (PPI) rose by 0.4% q/q and 2.0% y/y in Q2 of 2019.

Input price pressures increased in August with the index rising by 2.4 points to 63.4 points (seasonally adjusted). This index had been trending down since its most recent peak in December 2018, however the trend has changed direction. Input costs are very similar to the long-term average for this indicator (63.9) after being below it for the past six months.

Price increases from imported inputs as a result of the lower trading range of the Australian dollar are evident for businesses using imported goods. Input prices increased in all sectors in August, particularly in health & education and wholesale trade.

Input prices



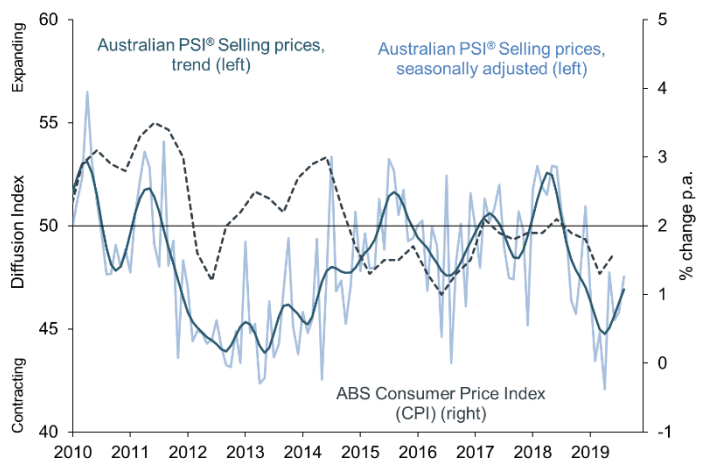
Selling prices

The ABS consumer price index (CPI) rose slightly in Q2 of 2019 (0.6% q/q) and up by 1.6% over the year to Q2.

The rate of decline in selling prices eased in August, with the index rising by 1.7 points to 47.5 points (seasonally adjusted). Selling prices in the Australian PSI[®] have been contractionary for 12 of the past 13 months.

Selling prices have been weak for both the business and consumer-oriented sectors for the past year. Business-oriented respondents were very limited in their ability to enact price rises, however, some consumer facing businesses lifted selling prices in August. The latest available ABS data reflected very subdued consumer price increases in the year to June 2019.

Selling prices



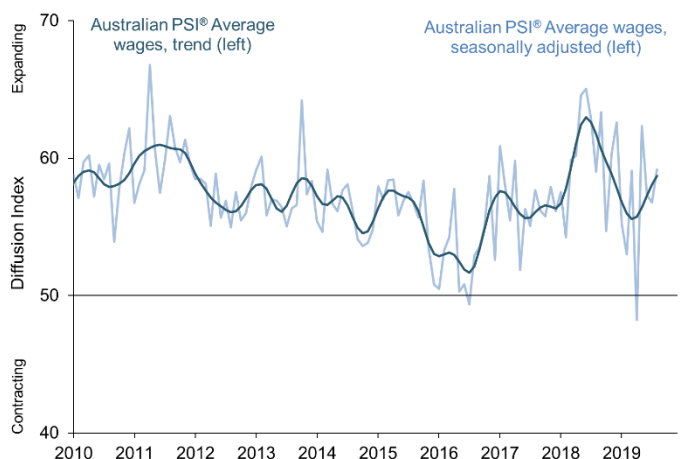
Average wages

The ABS private sector wage index rose by 0.5% q/q in Q2 of 2019 and 2.3% over the year to Q2.

The average wages index rose by 2.4 points to 59.2 points in August, indicating a lift in wage pressures across all sectors except retail where it was stable (seasonally adjusted).

In trend terms, the average wage index reached a recent peak in mid-2018. Along with other indicators in the Australian PSI[®], it had been falling before reaching a recent low in March 2019. Since then, this index has been rising in trend terms.

Average wages



Australian PSI® activity

Sales

The services sectors that are included in the Australian PSI® produced \$992.4bn in real value-added output in the year to Q1 2019 (equal to 53.7% of total gross value added output).

The decline in sales moderated in August with the index rising 2.4 points to 47.5 points (seasonally adjusted). This followed a sharp drop in July. Sales contracted in seven of the past eight months – the index was only positive in June 2019.

Respondents to the Australian PSI® continue to attribute this fall in sales to slow demand from retail and some parts of the construction sector. Economic concerns and weakening business and consumer confidence were mentioned by several respondents; there is no evidence that the reduction in the cash rate and the increase to the tax offset provided any stimulatory effects for businesses

Employment

The services sectors that are included in the Australian PSI® employed 9,254,600 people in May 2019 (72% of total Australian employment).

The employment index in the Australian PSI® rose by 11.4 points to 55.2 points in August (seasonally adjusted).

Employment was stable across most sectors in August following a contraction in July, however the larger employing and stronger performing sectors, increased their employment in August.

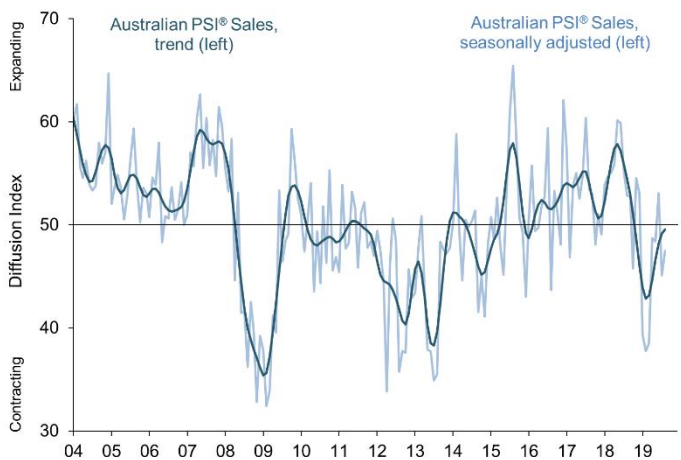
New orders

New orders rose in August 2019, with this activity index lifting by 7.3 points to be mildly positive at 51.4 points (seasonally adjusted). This indicates stable conditions following a month of contraction and two months of growth.

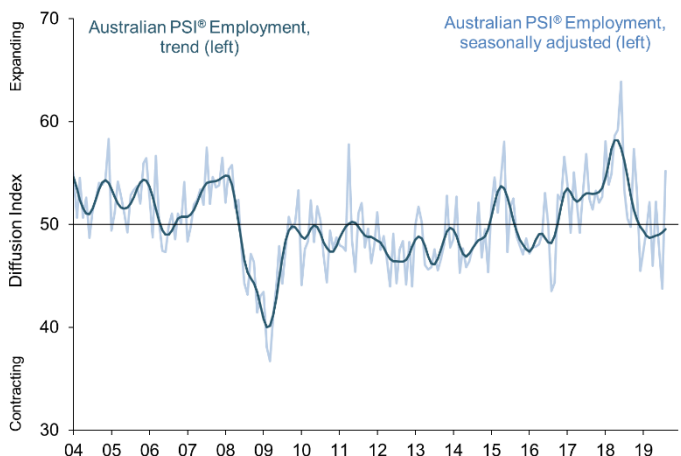
New orders rose in three sectors, was stable in one and contracted in four. None of the business facing sectors reported growth.

Respondents noted a fall in demand from local and overseas customers. Locally it was attributed to drought conditions, weak demand from retail and lower enquiries from some construction sectors.

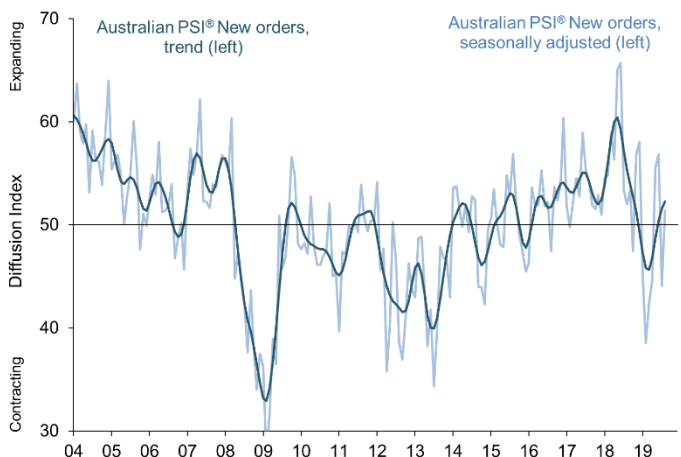
Sales



Employment



New orders



Australian PSI® activity

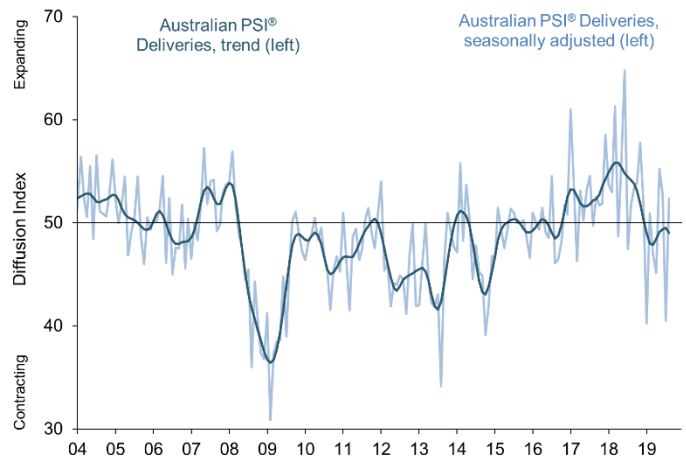
Supplier deliveries

The supplier deliveries index lifted into growth rising by 11.8 points to 52.3 points in August following the largest monthly fall in a year in July (seasonally adjusted).

While the indicator across all industries was positive, it was notably weak in the retail and wholesale sectors.

This index has mostly been trending down since a series high in July 2018, and in trend terms deliveries have been contracting across 2019.

Supplier deliveries



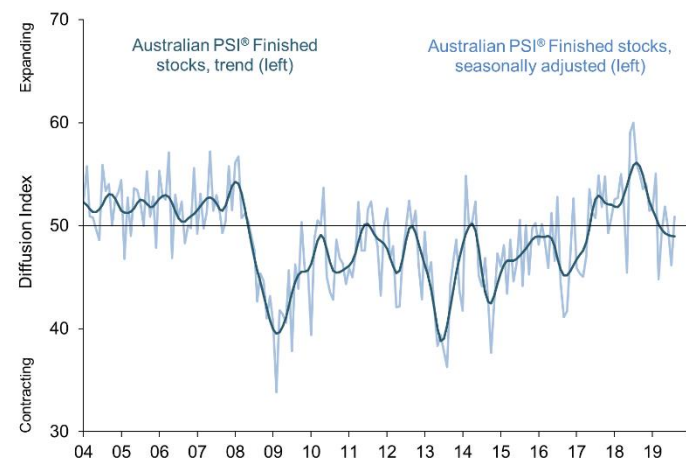
Finished Stocks

The index for finished stocks (inventories) rose by 4.7 points to 50.9 points to be stable in August (seasonally adjusted).

Stock levels have been hovering in a very narrow band around stability for the eight months of 2019. In trend terms, this index hit a recent peak in the middle of 2018 and has been moderating ever since, falling into mild contraction from April this year.

Stock levels decreased or were stable across all but one sector in August. Businesses, particularly those affected by retail conditions continue to run inventories down

Finished Stocks

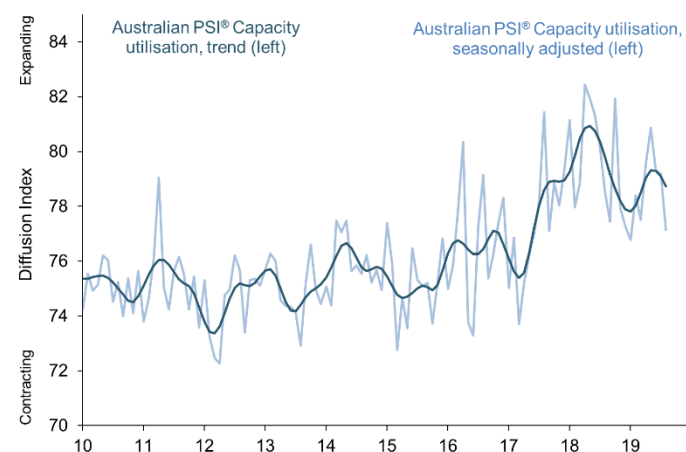


Capacity Utilisation

Capacity utilisation across the services sectors fell by 2.1 percentage points to 77.1% of available capacity being used in August. Business sectors represented in this report have been operating at a higher level of capacity on average throughout 2018 and 2019 (79.3% to date) than the long-term average for this indicator (76.1%).

Across the services sectors health, education & community services is operating at very high levels of capacity utilisation. Other segments including retail and transport & storage face lower capacity constraints at present.

Capacity Utilisation



Australian PSI[®] data definitions

The Australian PSI[®] classifies each business according to their main activity using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use the same codes. The definitions of the 9 sectors in the Australian PSI[®] are:

Business services sectors

1. Property & Business services (Divisions L, M and N) includes businesses mainly engaged in renting, hiring, or otherwise allowing the use of tangible or intangible assets (except copyrights), and businesses providing related services; businesses mainly engaged in providing professional, scientific and technical services; and businesses mainly engaged in performing routine support activities for the day-to-day operations of other businesses or organisations.
2. Wholesale trade (Division F) includes businesses mainly engaged in the purchase and onselling, the commission-based buying, and/or the commission-based selling of goods, without significant transformation, to businesses.
3. Finance & Insurance (Division K) includes businesses mainly engaged in financial transactions involving the creation, liquidation, or change in ownership of financial assets, and/or in facilitating financial transactions.
4. Transport & storage (Division I) includes businesses mainly engaged in providing transportation of passengers and freight by road, rail, water or air. Other transportation activities such as postal services, pipeline transport and scenic and sightseeing transport are included in this division.
5. Information Media & Telecommunications (Division J) includes businesses mainly engaged in: creating, enhancing and storing information products in media that allows for their dissemination; transmitting information products using analogue and digital signals (via electronic, wireless, optical and other means); and providing transmission services and/or operating the infrastructure to enable the transmission and storage of information and information products.

Consumer services sectors

6. Retail Trade (Division G) includes businesses mainly engaged in the purchase and onselling of goods, without significant transformation, to the public. The Retail Trade Division also includes units that purchase and onsell goods to the public using non-traditional means, including the internet.
7. Accommodation & Food Services (Division H) includes businesses providing short-term accommodation for visitors and/or meals, snacks, and beverages for consumption by customers both on and off-site.
8. Education, Health & Community Services (Divisions P and Q) includes businesses mainly engaged in the provision and support of education and training and businesses mainly engaged in providing human health care and social assistance.
9. Arts, Recreation & Other Services (Divisions R and S) includes businesses mainly engaged in the preservation and exhibition of objects and sites of historical, cultural or educational interest; the production of original artistic works and/or participation in live performances, events, or exhibits intended for public viewing; and the operation of facilities or the provision of services that enable patrons to participate in sporting or recreational activities. Other Services includes a broad range of personal services; religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff.

For more information about the Ai Group Australian PSI[®] visit:

www.aigroup.com.au/policy-and-research/economics/

What is the Australian PSI[®]? The Australian Industry Group Australian Performance of Services Index (Australian PSI[®]) is a national composite index constructed from data about sales/activity, new orders, deliveries, inventories and employment with varying weights. An Australian PSI[®] reading above 50 points indicates that services is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PSI[®] results are based on responses from a national sample of services businesses. The Australian PSI[®] uses the ANZSIC industry classifications for services sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/policy-and-research/economics/economicindicators/>.

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