

AUSTRALIAN Performance of Services Index

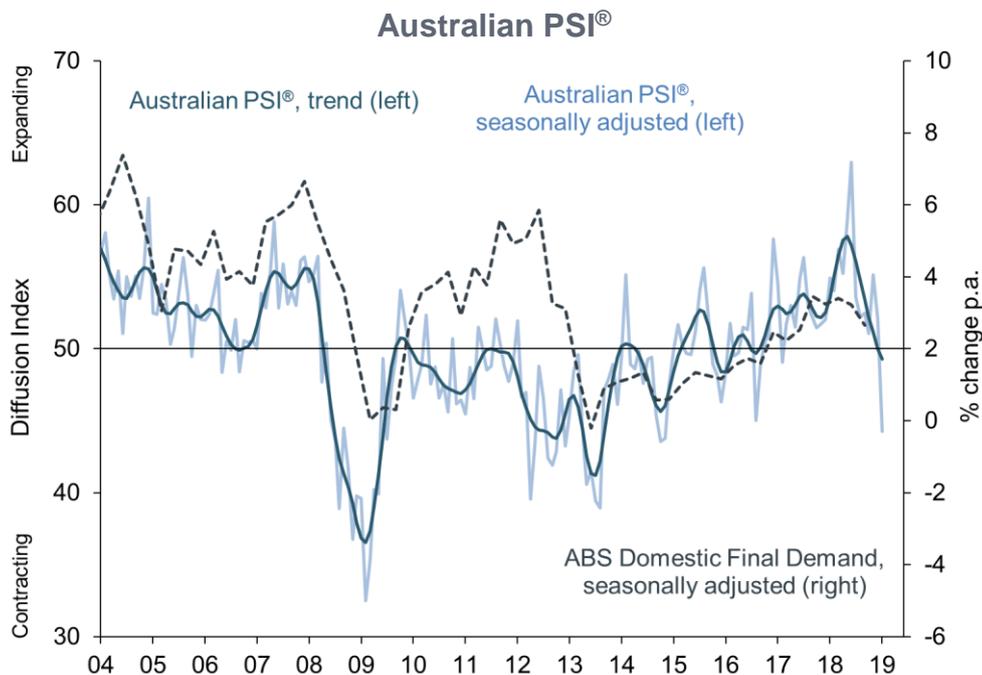


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Services sector: slow start to 2019 as sales drop

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) tumbled by 7.8 points to 44.3 points in January 2019 (seasonally adjusted), indicating a sharp contraction across the sector. This was the first contraction across the services sector since February 2017 and the lowest result in the Australian PSI® since October 2014. Results above 50 points indicate expansion in the Australian PSI®, with higher numbers indicating stronger growth rates.

In trend terms, the Australian PSI® indicated expansion in four sectors and contraction in four sectors in January. Retail trade and wholesale trade both indicated deep rates of contraction in January. Among the business-oriented sectors, only business & property services expanded. Consumer-oriented sectors other than retail trade were also positive (trend).



Australian PSI® consumer-oriented services sectors

| | | | | |
|--|---|--|--|---|
| AUSTRALIAN PSI® 44.3 ↓ 7.8 POINTS (seasonally adjusted) | RETAIL TRADE 39.9 ↓ 5.2 POINTS (trend) | HOSPITALITY 55.1 ↓ 0.7 POINTS (trend) | HEALTH, EDUCATION & COMMUNITY 51.7 ↓ 1.8 POINTS (trend) | PERSONAL, RECREATION & OTHER 55.6 ↑ 2.6 POINTS (trend) |
|--|---|--|--|---|

Australian PSI® business-oriented services sectors

| | | | | |
|--|---|--|--|--|
| AUSTRALIAN PSI® 49.3 ↓ 0.7 POINTS (trend) | BUSINESS & PROPERTY SERVICES 51.3 ↑ 0.2 POINTS (trend) | WHOLESALE TRADE 43.3 ↓ 1.3 POINTS (trend) | FINANCE & INSURANCE 49.7 ↑ 0.7 POINTS (trend) | TRANSPORT & STORAGE 49.3 ↑ 1.2 POINTS (trend) |
|--|---|--|--|--|

Australian PSI® summary

Business-oriented services sectors: The only business-oriented sector of the Australian PSI® to expand in January was property & business services, which improved slightly from December. Finance & insurance and transport & storage experienced slightly negative conditions. The wholesale trade sector reported firmly negative conditions, with particularly weak sales, new orders and employment in January. No results were available this month for the communications sector.

Consumer-oriented services sectors: Retail trade contracted sharply in January with negative (and deteriorating) results for sales, new orders and employment. The other three consumer-focused sectors were positive. The personal, recreational & other services sector accelerated in January, while hospitality (cafes, restaurants and accommodation services) and the very large health, education & community services sector continued to grow, but at a slightly decelerating pace.

Services wages and prices: The input price index expanded in January (63.2 points) but at a slower rate than in December (66.8 points) and slightly below the long-term average for this index (64.0 points). Average wages continued to rise (55.2 points) but at a slower pace than in the previous two months. The average wage index has been trending down since its recent peak in May 2018. The selling prices index indicated contraction in January, following a stable month in December (seasonally adjusted). This marked a seventh month of flat or falling selling prices for services sector businesses.

Services activity: Four of five of the activity indexes in the Australian PSI® were negative and indicated contraction in January, while one expanded. Inventories saw a mild increase as sales contracted, along with new orders and deliveries. Employment also shrank in January but the pace of decline eased compared to December.

Services highlights: The Australian PSI® contracted in January following 22 months of positive conditions. It has been trending down (and indicating a gradual slowing) since its recent peak in the middle of 2018. Business-oriented respondents are now facing tighter conditions than consumer-facing businesses, although expansion in the consumer sectors has weakened. Capacity utilisation in the Australian PSI® fell by half a percentage point to 76.8% of available capacity in January. This is just above the long-run average of 76% but down from the average across 2018 (79.7%).

Services concerns: Retail trade and increasingly, wholesale trade, are the weakest services sectors in early 2019. Several other key services sectors also appear to be slowing. Services businesses reported weak customer demand in January due to drought conditions in some areas of Australia, a decline in building activity for others and a deterioration in consumer spending. The lower Australian dollar increased competition for local businesses and increased costs for those using imported inputs.

| 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® | 44.3 | -7.8 | 54.1 | Australian PSI® | 49.3 | -0.7 | 54.2 |
| <i>Activity indexes</i> | | | | <i>Business-oriented services</i> | | | |
| Sales | 39.3 | -13.8 | 53.2 | Business & property | 51.3 | 0.2 | 57.7 |
| Employment | 47.5 | 2.0 | 54.0 | Finance and insurance | 49.7 | 0.7 | 56.3 |
| New Orders | 45.4 | -12.6 | 55.6 | Wholesale trade | 43.3 | -1.3 | 51.3 |
| Supplier deliveries | 40.3 | -11.6 | 53.4 | Transport & storage | 49.3 | 1.2 | 52.2 |
| Finished stocks | 51.7 | 0.2 | 53.8 | Communications | N/A | N/A | 52.0 |
| Capacity Utilisation (%) | 76.8 | -0.5 | 79.4 | <i>Consumer-oriented services</i> | | | |
| <i>Prices and wages</i> | | | | Retail trade | 39.9 | -5.2 | 48.5 |
| Input Prices | 63.2 | -3.6 | 63.3 | Hospitality | 55.1 | -0.7 | 51.1 |
| Selling Prices | 47.0 | -3.9 | 50.0 | Health & education | 51.7 | -1.8 | 57.7 |
| Average Wages | 55.2 | -7.4 | 60.2 | Recreation & other services | 55.6 | 2.6 | 52.9 |

Results above 50 points indicate expansion. All indexes for sub-sectors in the Australia PMI® 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 produced \$237.7bn in real value-added output in the year to Q3 2018 (13% of gross domestic product). It employed 1,705,000 people in November 2018 (13% of total employment).

The index for business & property services rose by 0.2 points to 51.3 in January (trend), indicating slower growth. This is the third month of softening conditions for this large sector which includes legal, accounting, consulting, engineering, administrative and office services, as well as real estate and property management. Several respondents mentioned an easing in demand and noted some customers were having difficulty obtaining finance. Positive drivers of business in January were increased demand for legal, accounting and property services from the agriculture sector and a flow-on from mining activity.

Finance & insurance

Finance & insurance services produced \$159.5bn in real value-added output in the year to Q3 2018 (9% of gross domestic product). It employed 447,800 people in November 2018 (4% of total employment).

The large finance & insurance sector reported broadly stable results in January, with its index improved 0.7 points to 49.7 points (trend).

Sales and new orders fell in January, but employment grew. This is the fourth month of largely flat results for this sector, following 33 months of continuous growth. The past four months have signaled the weakest conditions for finance & insurance since the end of 2015.

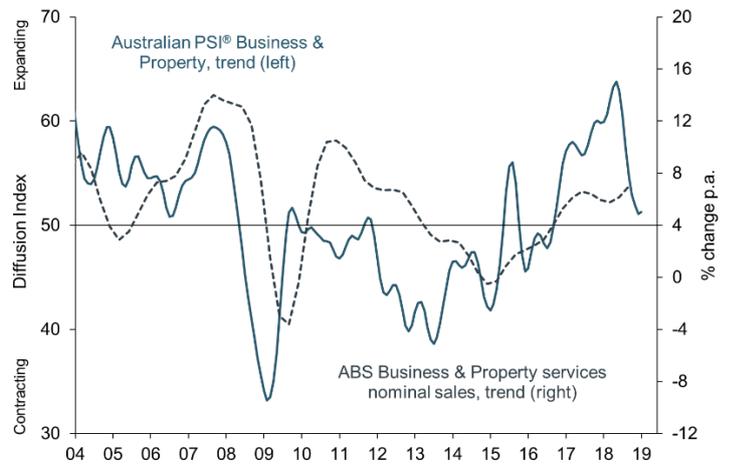
Wholesale trade

Wholesale trade produced \$70.3bn in real value-added output in the year to Q3 2018 (4% of gross domestic product). It employed 408,100 people in November 2018 (3% of total employment).

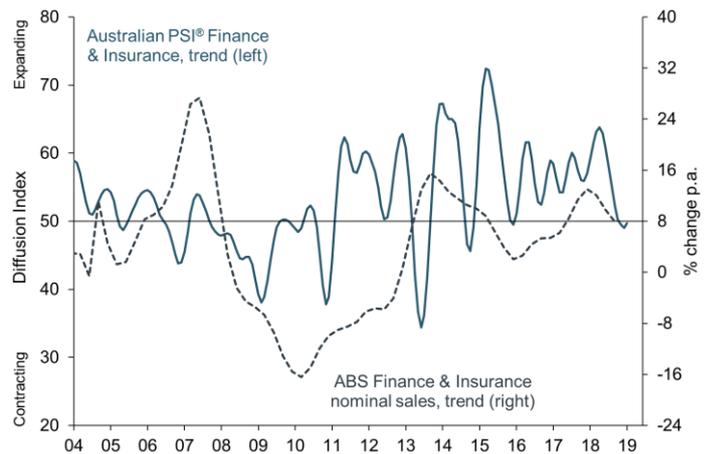
The wholesale trade sector contracted further in January and at a steeper pace, with its index dropping by 1.3 points to 43.3 points (trend).

Wholesale trade slipped into contraction during the final quarter of 2018. Employment, sales, new orders, and deliveries all deteriorated further in January, leading to an increase in inventory. Businesses reported falling demand due to increased import competition, lower sales to retailers and for some wholesales, softer demand from the construction sector. Increased sales and new orders in the lead-up to the Lunar New Year (in February) was a bright spot for some wholesalers in January.

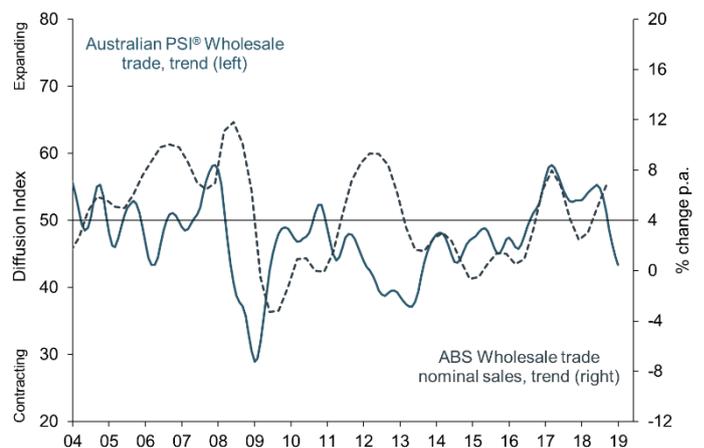
Business & property services



Finance & insurance



Wholesale trade



Australian PSI® business services sectors

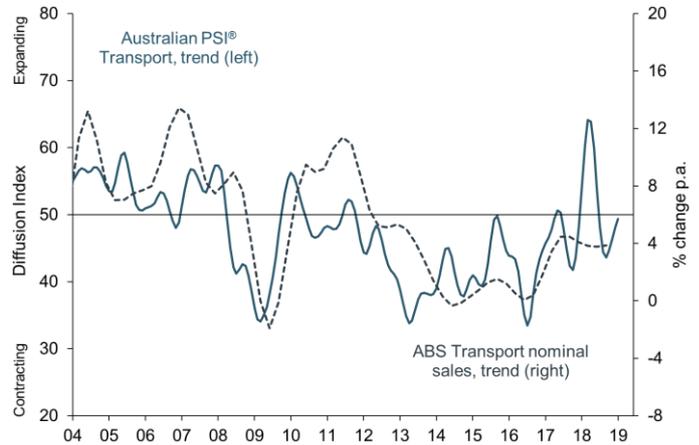
Transport & storage services

Transport & storage services produced \$83.5bn in real value-added output in the year to Q3 2018 (5% of gross domestic product). It employed 651,700 people in November 2018 (5% of total employment).

The rate of contraction eased in the transport & storage services sector in January (49.3 points), with its index lifting by 1.2 points from December (48.1 points). This was the fourth month of improving but negative results (trend).

Sales were flat, while new orders and employment contracted for this sector in January. Demand was patchy with some respondents reporting a drop-off in inquiries but others increasing their marketing efforts to maintain sales.

Transport & storage services



Australian PSI® consumer services sectors

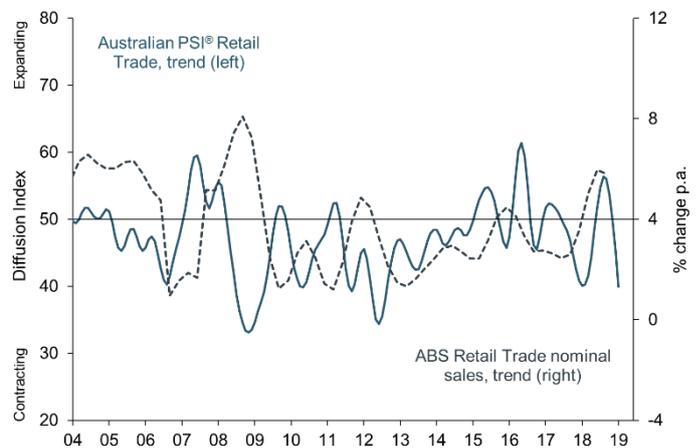
Retail trade

Retail trade produced \$78.1bn in real value-added output in the year to Q3 2019 (4% of gross domestic product). It employed 1,273,600 people in November 2018, (10% of total employment). 51.4% work part-time.

Retail trade slipped further into contraction in January 2019 (trend). Indeed, January 2019 was the weakest monthly result for this sector since August 2012. All indicators for this sector were negative in January, with particularly weak results for sales and new orders.

Retail trade was the only consumer-oriented sector to contract in January 2019. It appears that customers are continuing to direct their discretionary spending to consumer services rather than purchasing retail goods.

Retail trade



Australian PSI® consumer services sectors

Hospitality

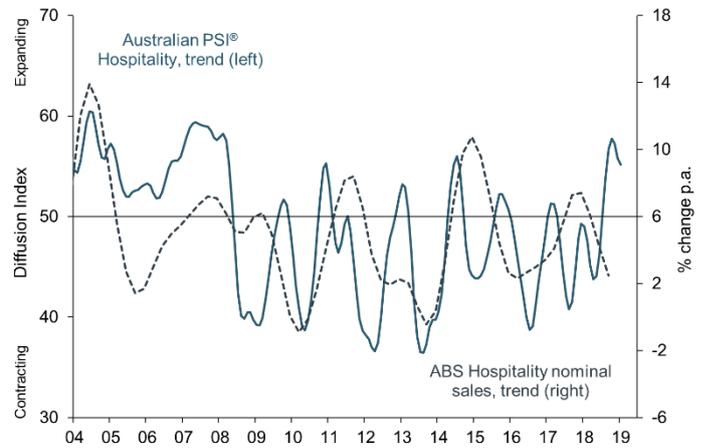
(accommodation, cafes & restaurants)

Hospitality produced \$42.9bn in real value-added output in the year to Q3 2018 (2% of gross domestic product). It employed 903,200 people in November 2018 (7% of total employment). 60.7% work part-time.

The hospitality (accommodation, cafes & restaurants) sector continued to grow in January but eased marginally. Its index dropped by 0.7 points to 55.1 points (trend).

January marked six months of expansion for this sector after 15 months of contraction (trend). Sales, new orders, employment and stocks were positive or stable in January, but inputs costs remain relatively elevated and selling prices decreased again. This suggests that heavy discounting is being offered to encourage sales growth.

Hospitality (accommodation, cafes & restaurants)



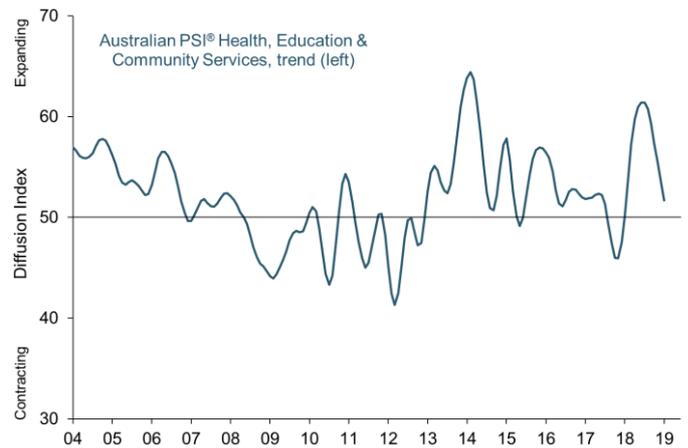
Health, education & community services

Health, education & community services produced \$213.9bn in real value-added output in the year to Q3 2018 (12% of gross domestic product). This industry employed 2,728,900 people in November 2018 (21% of total employment). 51% of workers in education and 21% in health and welfare are employed by the public sector.

The very large health, education & community services sector's index eased by 1.8 points to 51.7 points in January (trend). This marks 13 months of expansionary conditions, but the rate of growth has been slowing since the recent peak in June 2018.

Sales and employment were positive in January, but new orders were flat and supplier deliveries contracted. Input costs for this sector remain high and the sector continues to operate at relatively high levels of capacity.

Health, education & community services

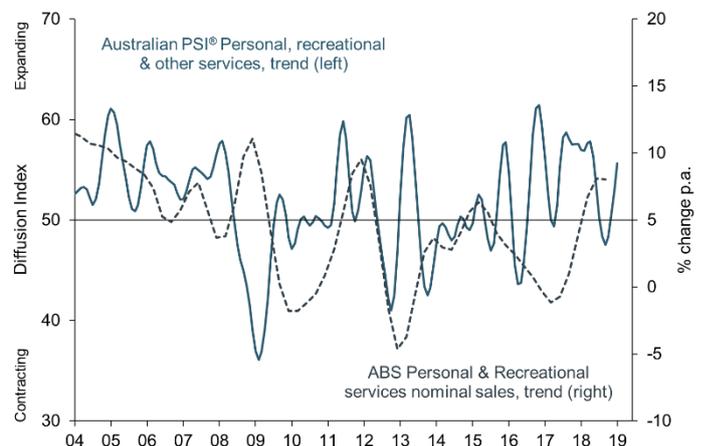


Recreational & other services

Recreational & other services produced \$47.2bn in real value-added output in the year to Q3 2018 (3% of gross domestic product) and employed 731,300 people in November 2018 (6% of total employment). 48% of workers in recreation and 33% in personal services are part-time.

The index for personal, recreational & other services improved by 2.6 points to 55.6 points in January (trend). This was the second month of growth following a month of stability and three months of contraction. In January sales were down but new orders increased and capacity utilisation remains elevated. Hot weather had a positive impact for some respondents, but drought conditions in some areas had an adverse effect on business.

Recreational & other services



Australian PSI[®] prices and wages

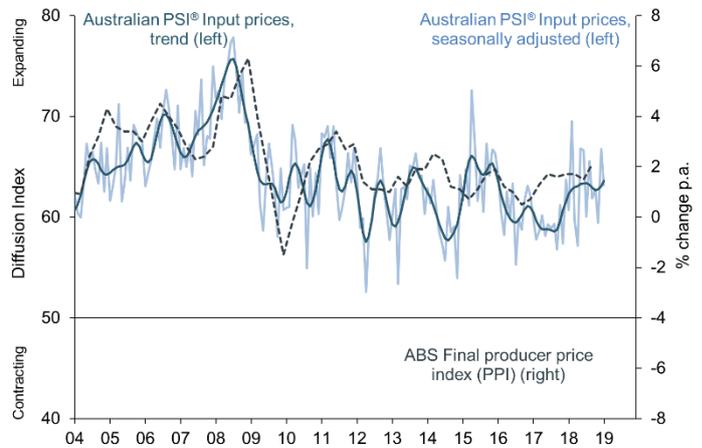
Input prices

The ABS final producer price index (PPI) rose by 0.5% q/q and 2.0% y/y in Q4 of 2018.

The input prices sub-index moderated by 3.6 points to 63.2 points in January 2019, following an acceleration in price rises in December 2018. January's result is below the long-term average of 64.0 points for this data series.

While some respondents reported increasing input costs in January, especially for energy and imported inputs, others particularly in the business-oriented sectors reported stable input prices.

Input prices



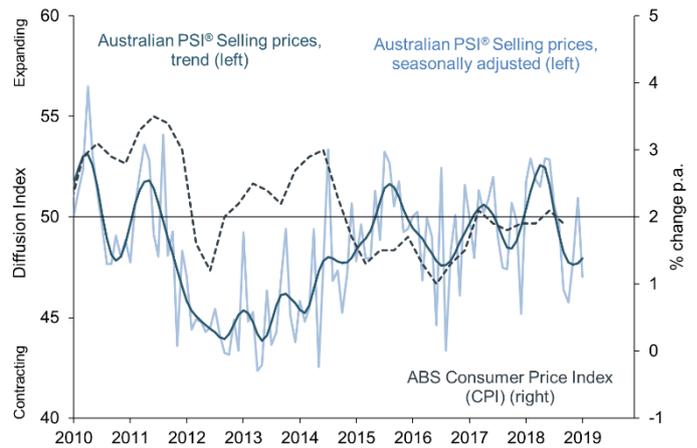
Selling prices

The ABS consumer price index (CPI) rose by 0.5% q/q and 1.8% y/y in Q4 of 2018.

The selling prices index for the Australian PSI[®] contracted in January declining by 3.9 points to 47.0 points. This followed a brief lift in selling prices in December.

The first half of 2018 saw weak growth in selling prices but this index has been stable or contracting since mid-2018. Only two services sectors were (on average) able to increase their selling prices in January, with the rest reporting stable or falling selling prices.

Selling prices



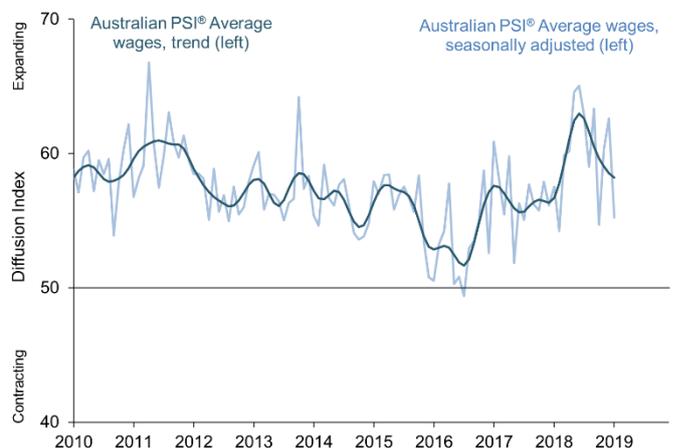
Average wages

The ABS private sector wage index rose by 0.5% q/q in and 2.1% y/y in Q3 of 2018.

The average wages index fell by 7.4 points to 55.2 points in January, indicating decelerating wage pressures across the services sectors. The wages index has now fallen below its long-term average (57.1 points since 2009).

The average wages sub-index has been trending down since a recent peak of 65.0 points in June 2018.

Average wages



Australian PSI® activity

Sales

The services sectors that are included in the Australian PSI® produced \$978.3bn in real value-added output in the year to Q3 2018 (53.6% of total output).

The sales index fell by 13.4 points to 39.3 points in January 2019. This is the lowest result for this index since August 2013. It has been trending down since a recent peak in May 2018.

Sales contracted or were stable in all but one services sector in January. Respondents said the seasonal holiday shutdown had a larger impact on sales than in previous years, with the softening in demand that was apparent for many businesses in December carrying through into January. Drought may have dented sales in some locations. A handful of business-to-business services respondents reported an increase in customer difficulties obtaining finance.

Employment

The services sectors that are included in the Australian PSI® employed 9,076,100 people in November 2018 (71% of total employment).

The employment index in the Australian PSI® lifted by 2.0 points to 47.5 points in January, indicating that the rate of contraction eased from the previous month. January marked a second month of employment contraction in the Australian PSI® following 26 months of stable or growing employment. It has been trending down since the middle of 2018.

Employment fell or was flat across seven of the eight services sectors in January 2019.

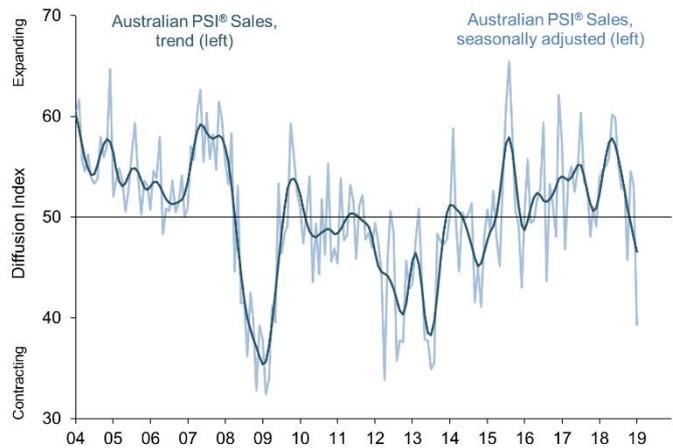
New orders

The new orders index fell by 12.6 points to 45.4 in January 2019 the lowest level since November 2014. New orders had been positive or stable in 27 of the past 28 months, having had a solid run since September 2016.

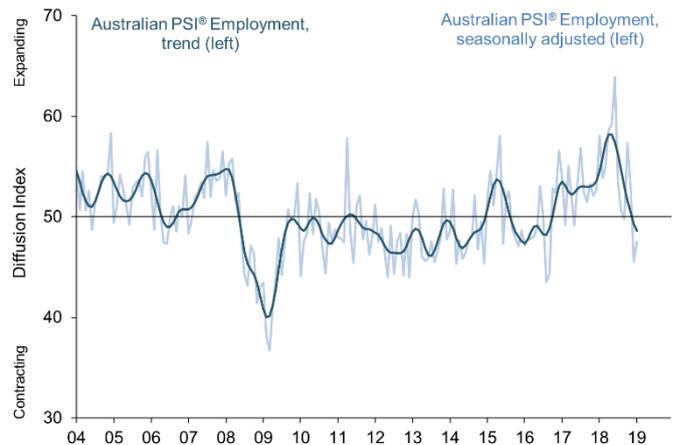
New orders contracted or were stable across eight of the nine sectors in January.

As with several other indicators in the Australian PSI®, new orders reached a recent peak around the middle of 2018 and has mostly been trending down since then.

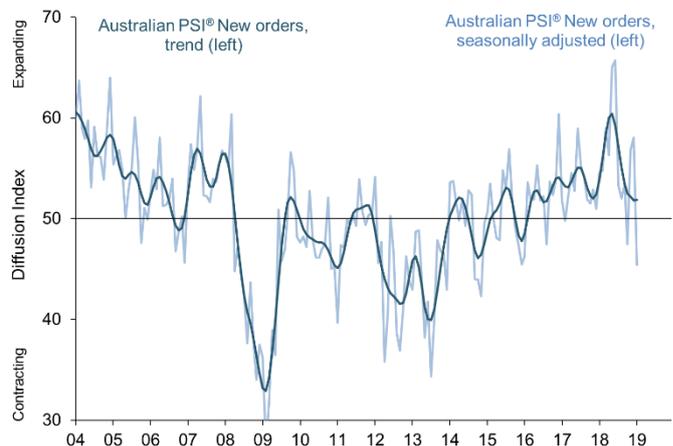
Sales



Employment



New orders



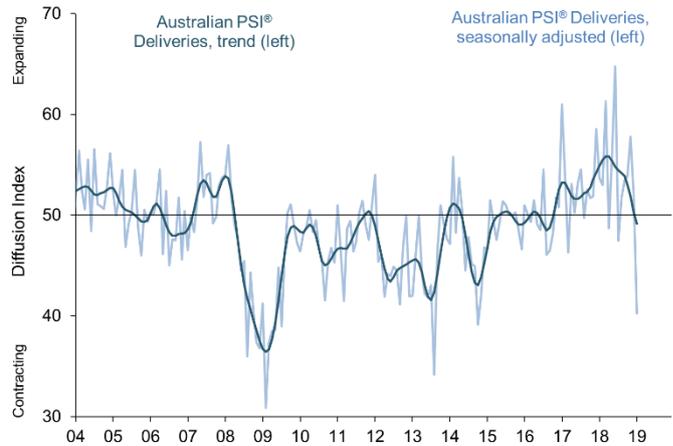
Australian PSI® activity

Supplier deliveries

The supplier deliveries index plummeted by 11.6 points to 40.3 points in January, indicating a sharp contraction in deliveries from suppliers. This was the lowest monthly result for this index since October 2014.

Supplier deliveries contracted or were stable across all sectors in the Australian PSI® in January, reflecting weaker sales and new orders for services businesses across the board.

Supplier deliveries



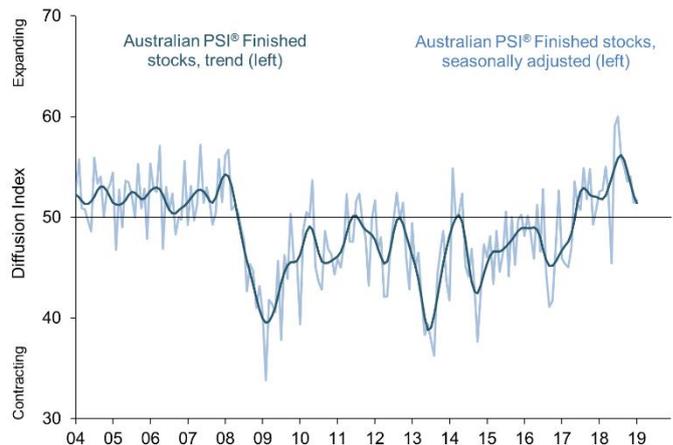
Finished Stocks

The index for finished stocks (inventories) rose marginally in January, lifting by 0.2 points to 51.7 points. This indicated a mild increase in inventories held by services businesses, at about the same rate as in December 2018.

Growth in stocks peaked in the middle of 2018. It has been trending down since then, in line with other indicators in the Australian PSI®.

Stock levels expanded or were stable across seven of the eight services sectors in the Australian PSI® in January.

Finished Stocks



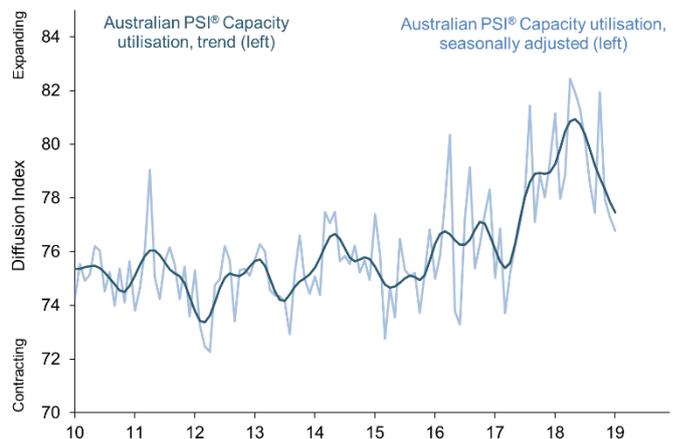
Capacity Utilisation

Capacity utilisation across the services sectors fell half a percentage point to 76.8% of available capacity in January, which is around the long-term average for this indicator (76.0%).

Businesses in the services sector had been operating at a higher level of capacity during 2018 (79.7%), reaching a series peak in April 2018.

Across the services sectors, health, education & community services and personal, recreational & other services (both very labour intensive services sectors) are still operating at elevated levels of capacity utilisation. Other services sectors currently face lower capacity constraints.

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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