Business conditions weak again in July

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) fell by 8.3 points to 43.9 points in July 2019 (seasonally adjusted). This was the largest monthly fall since July 2018 and signaled a return to contraction. It suggests trading conditions for many businesses dived again in July, following two months of more positive results. Results below 50 points indicate contraction in the Australian PSI®, with lower numbers indicating stronger rates of decline.

The Australian PSI® indicated expansion in three of the eight services sectors in July (trend). Among the business-oriented sectors, only wholesale trade reported positive results. Among the consumer-oriented segments, the large ‘health, education & community services’ sector was strongest. The retail trade sector continued to perform very weakly. All activity indicators in the Australian PSI® were negative in July, with sales and new orders contracting at an especially steep rate. Deliveries, employment, inventories and capacity utilisation were also weaker in July.
**Australian PSI® summary**

**Business-oriented services sectors:** Among the four business-oriented sectors, wholesale trade businesses reported the strongest results in July. Finance & insurance businesses reported stable conditions, while business & property services were mildly contractionary (trend). The transport & storage sector continued to contract but the pace eased slightly. This sector has now experienced negative conditions for more than a year, following a positive period in the first half of 2018.

**Consumer-oriented services sectors:** Two of the four consumer-oriented sectors expanded in July 2019 (trend). The large ‘health, education & community services’ sector reported the strongest results. Accommodation, cafes & restaurants expanded at a similar rate as it has over the past two months. ‘Personal, recreational & other services’ was weaker. Retail trade continued to indicate contraction, albeit at a slightly slower rate of decline, following a recent low in January 2019.

**Services wages and prices:** The input price index increased in July and remains strongly positive, indicating an acceleration in input price pressures. The average wage price index moderated in July from recent highs in June. The selling prices index continues to track below 50 points, indicating price cutting and/or discounting in response to weak demand.

**Services activity:** All five activity indexes in the Australian PSI® were negative in July. New orders and supplier deliveries tumbled from expansion in June to contraction in July. The start of the financial year saw weak sales as business customers had brought forward spending in June. End of Financial Year sales that carried over into July did not boost retail spending, however the rate of contraction for the bellwether sector continued to ease. The decline in employment and inventories accelerated in July.

**Capacity utilisation** in the Australian PSI® eased by 0.1 percentage points to 79.2% of available capacity in July 2019. Capacity utilisation in the Australian PSI® has been higher over the past two years (79.3% on average) than the long-term average for this series (76.1%). This suggests investment might be needed by more businesses should they wish to expand.

**Services highlights:** Following two months of more promising results in May and June, July proved to be quite disappointing for many businesses. All activity indicators were down in the month, however there were pockets of positive results. Businesses who export noted a pickup in offshore orders. Some wholesalers reported increased interest from local customers, as the lower trading range of the AUD increased their competitiveness against imported products. Increased activity in the mining and agricultural sectors were positive factors for some business-oriented respondents.

**Services concerns:** Factors reported to be inhibiting activity for many businesses in July included soft sales to retail customers, slower sales into the construction sector, increased price competition within sectors, drought conditions affecting large parts of Australia and generally low business and consumer confidence.

### Australian PSI® key numbers

<table>
<thead>
<tr>
<th>Australian PSI® key numbers</th>
<th>Index this month</th>
<th>Change from last month</th>
<th>12-month average</th>
<th>Index this month</th>
<th>Change from last month</th>
<th>12-month average</th>
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<tbody>
<tr>
<td><strong>Australian PSI®</strong></td>
<td><strong>43.9</strong></td>
<td><strong>-8.3</strong></td>
<td><strong>49.3</strong></td>
<td><strong>trend</strong></td>
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<td><strong>Activity indexes</strong></td>
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<tr>
<td>Sales</td>
<td>45.1</td>
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<td>47.5</td>
<td>Australian PSI®</td>
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<td>0.5</td>
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<td>Employment</td>
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<td>-3.8</td>
<td>49.5</td>
<td>Business-oriented services</td>
<td>49.1</td>
<td>-1.1</td>
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<td>New Orders</td>
<td>44.1</td>
<td>-12.7</td>
<td>49.6</td>
<td>Finance &amp; insurance</td>
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<td>0.8</td>
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<td>Supplier deliveries</td>
<td>40.5</td>
<td>-12.3</td>
<td>50.0</td>
<td>Wholesale trade</td>
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<td>0.5</td>
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<td>Finished stocks</td>
<td>46.2</td>
<td>-3.4</td>
<td>51.5</td>
<td>Transport &amp; storage</td>
<td>44.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Capacity Utilisation (%)</td>
<td>79.2</td>
<td>-0.1</td>
<td>78.7</td>
<td>Consumer-oriented services</td>
<td></td>
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</tr>
<tr>
<td>Prices and wages</td>
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<td></td>
<td>Retail trade</td>
<td>43.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Input Prices</td>
<td>61.0</td>
<td>3.9</td>
<td>61.2</td>
<td>Hospitality</td>
<td>54.8</td>
<td>0.2</td>
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<tr>
<td>Selling Prices</td>
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<td>0.4</td>
<td>46.4</td>
<td>Health &amp; education</td>
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<tr>
<td>Average Wages</td>
<td>56.8</td>
<td>-0.5</td>
<td>57.7</td>
<td>Recreation &amp; other services</td>
<td>46.4</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

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

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 49.1 points (trend), indicating mildly contractionary conditions in July. This was the eighth month of stable or mildly negative conditions for this sector, following two years of positive results.

Respondents in this sector reported mixed influences in July. Some businesses were steady over the month, while several respondents noted slower demand from the construction sector.

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 slightly to be stable in June, rising by 0.8 points to 50.4 points (trend). This marked ten months of relatively stable conditions for this sector, following almost three years of positive conditions.

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

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 improved by 0.5 points to 56.0 points in July (trend). This was the fourth month of positive and improving conditions for wholesalers.

The lower trading range for the AUD led to increased orders from domestic customers and increased export demand from overseas customers. A lift in mining activity had a positive influence on sales and new orders in July.
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 low point in April 2019. This index it rose by 1.1 points to 44.5 points in July.

Several respondents noted weaker activity with slower retail demand a notable factor. Competition increased within the sector as businesses lowered their selling prices.

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 July, but the rate of contraction eased slightly. The index for this sector rose by 0.4 points to 43.8 points (trend). This was the eighth month of contractionary conditions for this sector, with a recent low point in February.

All activity sub-indexes were negative in July. Stocks and deliveries were well down. Sales, new orders and employment were weak.

Some retailers reported improved sales due to winter discounting and an improved outlook among customers. Others noted weak consumer sentiment, low new inquiries and increased costs due to wage increases.
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 increased by 0.2 points to 54.8 in July, a similar level to May and June 2019 (trend).

Sales and employment were stable and new orders improved. Selling prices were weak across the month but wages costs continue to rise, maintaining pressure on margins for the industry.

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 July, with its index rising by 3.2 points to 60.8 points (trend).

Sales expanded in July while new orders and employment were stable. Selling prices were also stable but wages rose. This sector tends to operate at higher levels of capacity than others and is currently above its own long-term average.

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’ services fell by 1.3 points to 46.4 points in July (trend). This marks five months of contraction following a very brief period of mildly positive results around the start of the year.

Low consumer demand was reflected in weak sales, new orders and employment results for this sector.
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 July with the index rising by 3.9 points to 61.0 points (seasonally adjusted). This follows a reduction in June. This index had been trending down in 2019 since its most recent peak in December 2018, but it appears to have turned and is now heading up again. Input prices were reported to be rising or flat in all sectors in July.

Price increases from imported inputs as a result of the lower trading range of the Australian dollar have started to filter through to businesses using imported goods.

**Selling prices**

The ABS consumer price index (CPI) was 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 slowed in July, with the index rising by 0.4 points to 45.8 points (seasonally adjusted). Selling prices in the Australian PSI® have been falling for most of the past year (excepting a briefly stable period in December 2018).

Selling prices have been weak for both the business and consumer-oriented sectors for the past year. Consumer facing businesses have been unable to enact price increases despite rising input costs. This is also evident in the latest ABS inflation data, which shows very subdued consumer price increases in the year to June 2019.

**Average wages**

The ABS private sector wage index rose by 0.5% q/q in Q1 of 2019 and 2.4% over the year to Q1.

The average wages index slowed by half a point to 56.8 points in July, indicating a mild easing in wage pressures across the services sectors. This moderation follows a bounce upwards in May 2019 (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 moderating since then, reaching a recent low in March 2019.
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 sales index dropped dramatically in July falling 8.0 points to 45.1 (seasonally adjusted). This followed just one month of positive results in June. The sales index hit a recent low in February 2019, as did new orders.

Respondents to the Australian PSI® attributed this latest fall in sales to economic conditions and weak confidence. The reduction in the cash rate and the increase to the tax offset have not yet stimulated sales to consumers in July.

Business facing respondents noted a soft demand from the retail sector and slowing demand from constructors.

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® fell by 3.8 points to 43.8 points in July. This was a second month of contraction following a positive result in May (seasonally adjusted).

Employment was stable or contracting across all the services sectors in July. No sector reported increasing employment.

New orders

New orders fell in July 2019, with the index falling by 12.7 points to 44.1 points (seasonally adjusted). This marks a return to contraction following two months of growth.

New orders rose in two sectors and were stable or contracted for the rest.

Respondents attributed the fall in orders to: increased price competition locally and from international competitors, low demand from constructors outside of Victoria and subdued retail activity.
Supplier deliveries

The supplier deliveries index fell by 12.3 points to 40.5 points in July. This was the largest monthly fall since July 2018 (seasonally adjusted).

Deliveries were positive in one sector, stable in three and contracted in three.

Deliveries to retailer and wholesalers were notably weak. This index has mostly been trending down since a series high in June 2018 and the improvements seen in Q1 have since evaporated.

Finished Stocks

The index for finished stocks (inventories) fell by 3.4 points to 46.2 points in July, falling from broadly stable inventory levels in June (seasonally adjusted).

Stock levels have been moderating across the services sectors for the past year. In trend terms, this index hit a recent peak in the middle of 2018 and has since fallen.

Stock levels decreased or were stable across all but one sector in July. Businesses, particularly retailers, continue to run inventories down.

Capacity Utilisation

Capacity utilisation across the services sectors dropped slightly by 0.1 percentage point to 79.2% of available capacity being used in July. Businesses across the services sectors 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 more elevated levels of capacity utilisation. Other segments including hospitality and ‘personal, recreational and other’ face lower capacity constraints at present.
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 establishment of 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:  

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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