AiGROUP

May 2019

AUSTRALIAN Performance of Services Index

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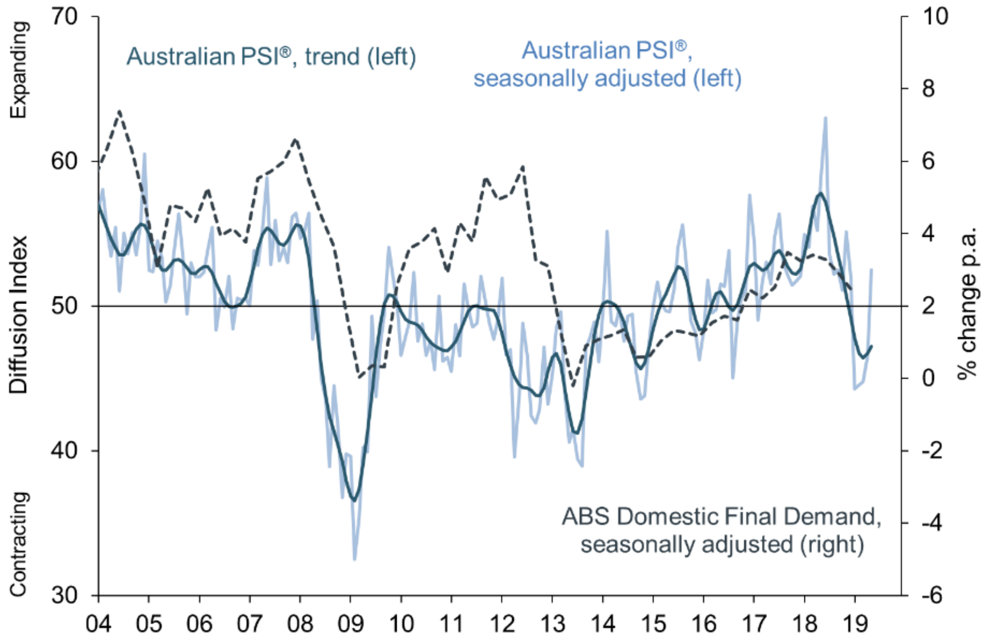
Services sector returns to growth

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose by 6.0 points to 52.5 points in May 2019 (seasonally adjusted), indicating a return to growth in the services sector. This was the first month of positive results for services in 2019 following four months of contractionary conditions. Results above 50 points indicate expansion in the Australian PSI®, with higher numbers indicating stronger growth rates.

The Australian PSI® indicated expansion in four of its eight sectors in May (trend). Wholesale trade and business & property services reported positive results for the business-oriented sectors. Hospitality and ‘personal, recreational & other’ services led growth for the consumer-oriented segments. New orders and employment drove the lift in positive results while sales remained weak for the month.

Australian PSI® (seasonally adjusted and trend)



Australian PSI® consumer-oriented services sectors

AUSTRALIAN PSI®	RETAIL TRADE	HOSPITALITY	HEALTH, EDUCATION & COMMUNITY	PERSONAL, RECREATION & OTHER
52.5	40.4	60.1	50.2	52.2
↑ 6.0 POINTS (seasonally adjusted)	↑ 0.2 POINTS (trend)	↑ 4.1 POINTS (trend)	↑ 2.3 POINTS (trend)	↑ 1.6 POINTS (trend)

Australian PSI® business-oriented services sectors

AUSTRALIAN PSI®	BUSINESS & PROPERTY SERVICES	WHOLESALE TRADE	FINANCE & INSURANCE	TRANSPORT & STORAGE
47.2	51.3	55.8	47.0	39.9
↑ 0.5 POINTS (trend)	↑ 0.5 POINTS (trend)	↑ 3.0 POINTS (trend)	↓ 1.4 POINTS (trend)	↓ 1.5 POINTS (trend)

Australian PSI® summary

Business-oriented services sectors: Wholesale trade reported robust results as it improved over the month and business & property services rose slightly in May (trend). Finance & insurance remained negative and declined from the previous month. Transport & storage continued to deteriorate, this sector has reported contractionary conditions for the past 11 months following positive conditions in the first half of 2018.

Consumer-oriented services sectors: Two of the four consumer-oriented sectors expanded in May 2019 (trend). Hospitality returned robust results for the month while the 'personal, recreational & other services' sector expanded slightly, and 'health, education & community services' rose from contraction to be stable in May. Retail trade continued to contract but at a marginally slower pace, marking six months of declining conditions for the consumer facing segment.

Services wages and prices: The input price index rose in May (up 1.4 point to 59.4 points). This was the first month input costs lifted in 2019 but it remains below the long-term average for this indicator (63.9 points). The average wage price index rose into expansion in May after contracting in April and the average selling prices index rose 5.6 points to 47.7, both reporting their highest result since December 2018.

Services activity: Four of the five activity indexes in the Australian PSI® were positive in May and one contracted. New orders lifted substantially after four months of contractionary results, deliveries were robust, and employment rose into positive territory after contracting the previous month. Inventories were mildly positive in May. The weakness in the sales sub-index continued as it declined for a fifth month.

Capacity utilisation in the Australian PSI® rose by 1.4 points to 80.9% of available capacity in May 2019. Capacity utilisation in the Australian PSI® has been higher on average across the past two years (79.2%), than the long-term average for this series (76.1%).

Services highlights: Increased certainty following the Federal election as well as strong mining activity and higher export demand were all noted by respondents to the PSI as having a positive effect on activity in May. Infrastructure construction along the east coast of the country continues to have a complementary follow-through to services businesses.

Services concerns: The Federal election was also mentioned as a dampening factor on activity in the earlier part of May as customers delayed purchasing decisions until election results were known. The downturn in the property market particularly housing, was also reported as an inhibitor to sales as were the rising cost of imports due to the lower trading range of the Australian dollar against the US dollar.

Australian PSI® key numbers	**Index this month**	**Change from last month**	**12-month average**		**Index this month**	**Change from last month**	**12-month average**
seasonally adjusted				*trend*			
Australian PSI®	**52.5**	**6.0**	**51.0**	**Australian PSI®**	**47.2**	**0.5**	**50.7**
Activity indexes				*Business-oriented services*			
Sales	48.4	-0.3	48.9	Business & property	51.3	0.5	53.7
Employment	52.2	6.2	51.7	Finance & insurance	47.0	-1.4	51.7
New Orders	55.6	11.0	51.1	Wholesale trade	55.8	3.0	50.4
Supplier deliveries	55.3	10.2	51.6	Transport & storage	39.9	-1.5	45.3
Finished stocks	51.8	2.4	53.5	Communications	34.9	0.2	46.2
Capacity Utilisation (%)	80.9	1.4	79.0	*Consumer-oriented services*			
Prices and wages				Retail trade	40.4	0.2	47.7
Input Prices	59.4	1.4	61.9	Hospitality	60.1	4.1	53.4
Selling Prices	47.7	5.6	47.4	Health & education	50.2	2.3	53.9
Average Wages	62.3	14.1	58.8	Recreation & other services	52.2	1.6	50.1

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

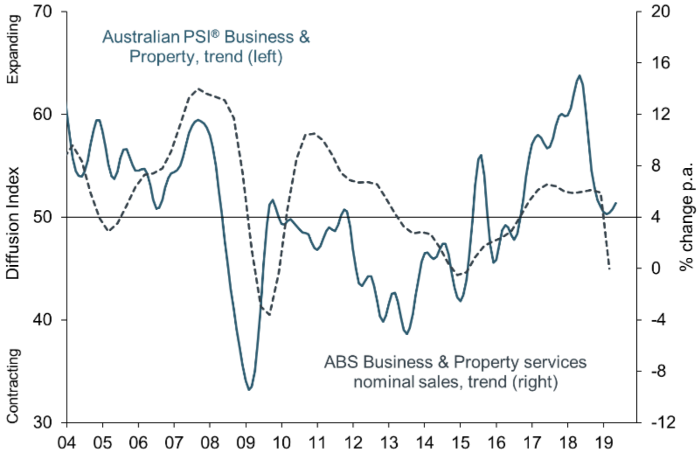
Business & property services

Business & property services produced $239.1bn in real value-added output in the year to Q4 2018 (13% of gross domestic product). It employed 1,757,700 people in February 2019 (14% of total employment). It includes professional services, real estate and property services.

The index for business & property services rose half a point to 51.3 points (trend) indicating mildly expansionary conditions in May 2019. This was the first month of mildly positive conditions following fours months of stable results.

Strong mining activity, greater certainty following the Federal election and an increase in customer demand were reported as positive influences on trade. A reported slowing in property market activity was noted by several respondents as dampening sales and new orders.

Business & property services



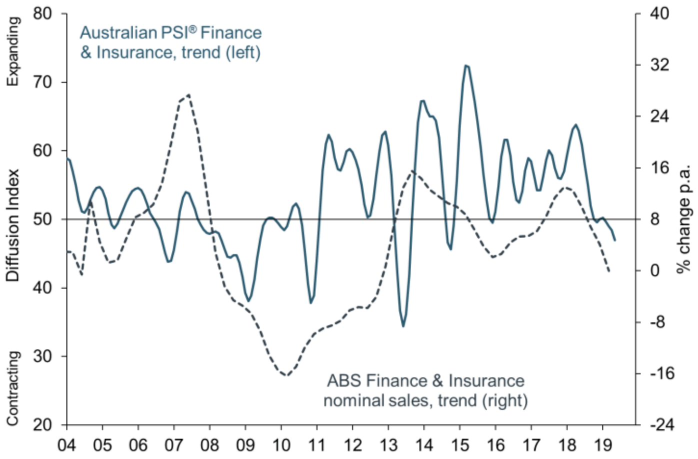
Finance & insurance

Finance & insurance services produced $160.6bn in real value-added output in the year to Q4 2018 (9% of gross domestic product). It employed 444,100 people in February 2019 (3% of total employment).

The finance & insurance sector weakened further in May, falling 1.4 points to 47.0. This marks the eighth month of stable or negative results for the large sector.

Finance sector respondents reported uncertainty leading up to the Federal election restrained activity in business investment and reduced customer demand. Sales, new orders and employment for the sector were all subdued.

Finance & insurance



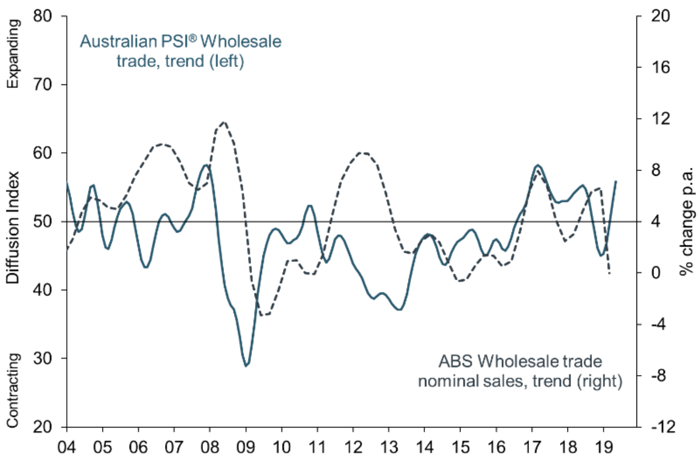
Wholesale trade

Wholesale trade produced $70.6bn in real value-added output in the year to Q4 2018 (4% of gross domestic product). It employed 386,600 people in February 2019 (3% of total employment).

Wholesale trade expanded and improved by 3.0 points to 55.8 points in May (trend). This was the second month of growth following six months of contractionary conditions for the sector.

All sub-indexes expanded in May, with new orders, deliveries and employment all improving. Respondents reported increased business activity following the Federal election and a return to normal business after Easter and the holidays, strong orders from the mining sector and additional export activity.

Wholesale trade



Australian PSI® business services sectors

Transport & storage services

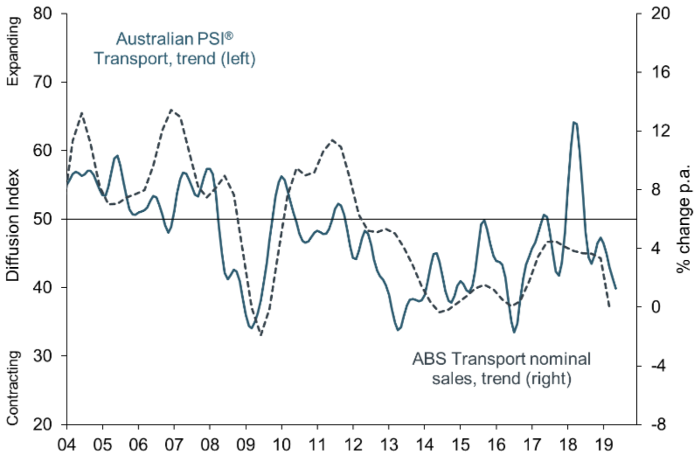
Transport & storage services produced $83.6bn in real value-added output in the year to Q4 2018 (5% of gross domestic product). It employed 665,000 people in February 2019 (5% of total employment).

The rate of contraction accelerated in the transport & storage sector in May, with its index falling by 1.5 points to 39.9 points (trend). This marked eleven months of deterioration following a briefly positive period in early 2018.

Employment improved in May, however it was the only indicator to do so. Capacity utilisation for the segment has been above its long-term average for most of the past six months.

Some respondents reported a slow-down in import activity and others suggested uncertainty around the Federal election outcome had deferred business activity.

Transport & storage services



Australian PSI® consumer services sectors

Retail trade

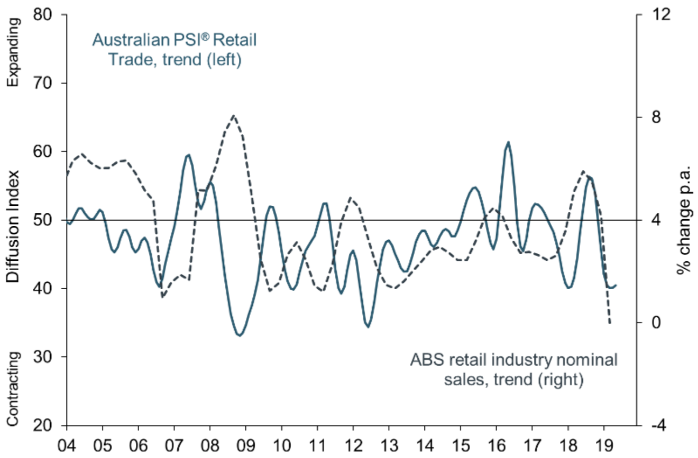
Retail trade produced $78.4bn in real value-added output in the year to Q4 2018 (4% of gross domestic product). It employed 1,280,400 people in February 2019, (10% of total employment). 49% of retail workers are part-time.

The retail trade sector continued to decline in May however the rate of contraction eased very slightly as its index rose by 0.2 points to 40.4 points (trend). This was the sixth month of contractionary conditions for this segment following six months of positive outcomes. The past four months have returned similar results.

All activity indicators contracted in May, input costs continued to rise and selling prices remained flat.

Competition, subdued localised economies and a move away from discretionary spending on goods led to lacklustre results as the sector continued to languish in May. Consumers appear to be directing their spending to sectors other than retail.

Retail trade



Australian PSI® consumer services sectors

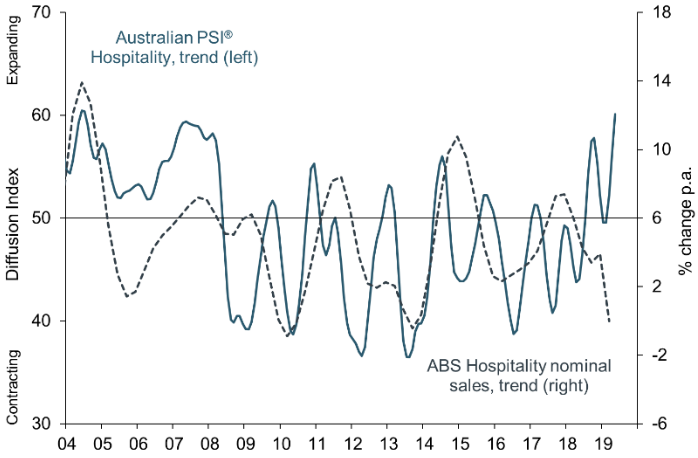
Hospitality (accommodation, cafes & restaurants)

Hospitality produced $43.0bn in real value-added output in the year to Q4 2018 (2% of gross domestic product). It employed 911,700 people in February 2019 (7% of total employment). 59% of hospitality workers are part-time.

The hospitality sector (accommodation, cafes & restaurants) expanded for a third month in May, rising 4.1 points to 60.1 (trend).

The return to normal business in May following Easter and holidays in April benefitted some businesses. Consumer spending in the hospitality sector has been elevated in recent months as consumers direct their discretionary spending to this sector.

Hospitality (accommodation, cafes & restaurants)

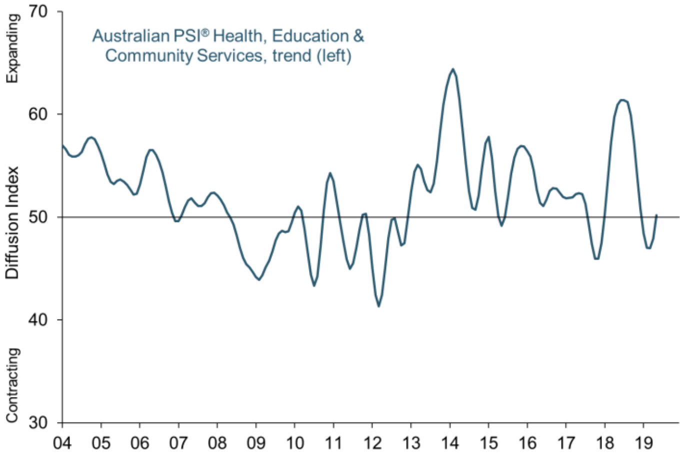


Health, education & community services

Health, education & community services produced $216.9bn in real value-added output in the year to Q4 2018 (12% of gross domestic product). This industry employed 2,726,200 people in February 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 stable results in May rising 2.3 points to 50.2 (trend). This marks a lift out of contractionary conditions to steady conditions following four months of contraction. Sales and new orders picked up in May however employment declined, and employment was level. Selling prices also remain largely flat. While this sector operates at generally higher levels of capacity, it has below its long-term average.

Health, education & community services



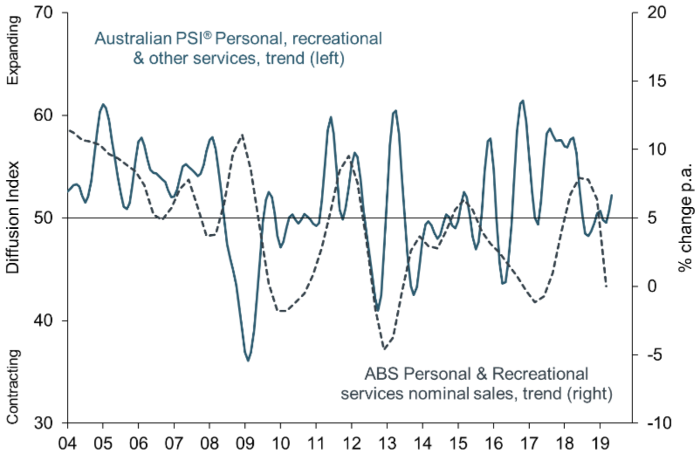
Recreational, personal & other services

Recreational, personal & other services produced $47.5bn in real value-added output in the year to Q4 2018 (3% of gross domestic product) and employed 774,200 people in February 2019 (6% of total employment). 47% of workers in recreational services and 34% in personal and other services are part-time.

The index for 'recreational, personal & other' services rose by 1.6 points to 52.2 points in May (trend). This marks a return to weak growth following 10 months of stable or contractionary conditions.

Sales, new orders and employment were positive in May however input costs rose and selling prices fell. Positive responses to the **Australian PSI®** noted greater certainty following the Federal election and increased customer demand lifted activity in May.

Recreational, personal & other services



Australian PSI® prices and wages

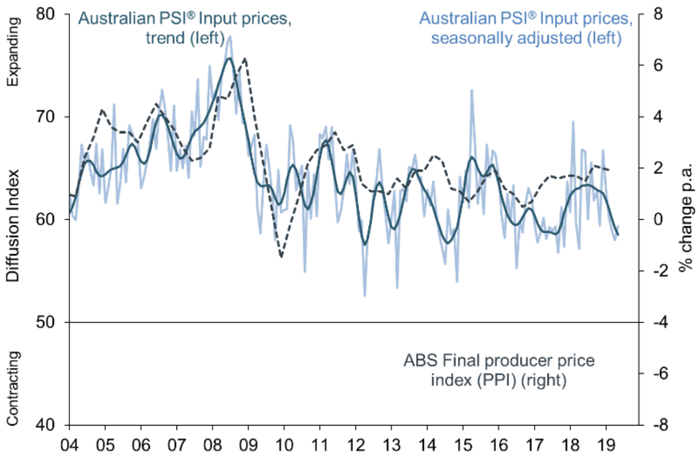
Input prices

The ABS final producer price index (PPI) rose by 0.4% q/q and 1.9% y/y in Q1 of 2019.

The input prices index rose by 1.4 points to 59.4 points in May 2019. This was the first month of accelerating input costs following four months of deceleration (seasonally adjusted).

The result for May remains below the long-term average of 63.9 points for this data series. It had been moderating since June 2018 in trend terms, suggesting a moderation in input price pressures since 2018. This may reflect the rising costs of imported inputs as the Australian dollar has traded at the lowest range against the US dollar since January 2016.

Input prices



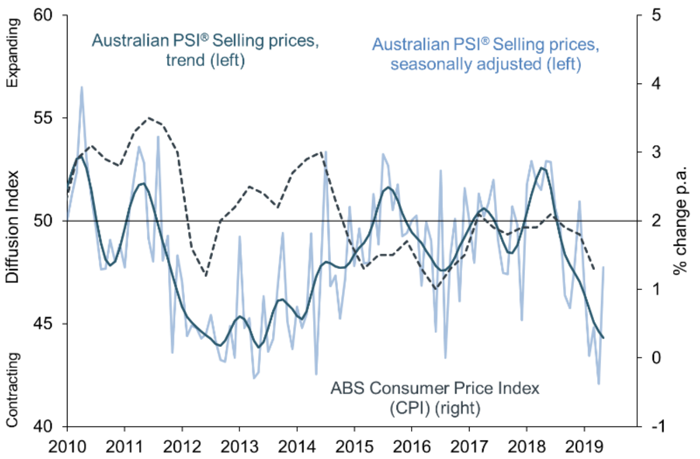
Selling prices

The ABS consumer price index (CPI) remained unchanged (0% q/q) and rose 1.3% y/y in Q1 of 2019.

The rate of decline in selling prices eased in May as the index lifted by 5.6 points to 47.7 points. Selling prices returned positive results in the first part of 2018 but have been trending down for the past year and have declined for the past 5 months.

The constraint on selling price increases is evident across the business-oriented and consumer-oriented sectors, both have been weak for most of this year.

Selling prices



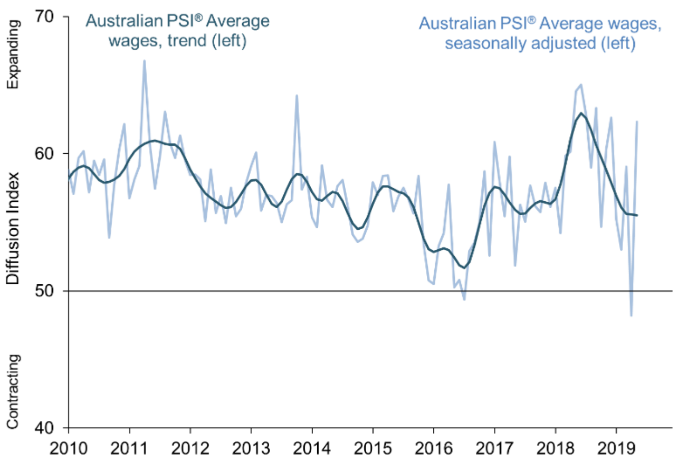
Average wages

The ABS private sector wage index rose by 0.5% q/q and 2.4% y/y in Q1 of 2019.

The average wages index rose by 14.1 points to 62.3 points in May, indicating an increase in wage pressure across the services sectors. This rebound follows the lowest monthly result recorded in this data in April 2019.

In trend terms, the average wage index reached a recent peak in midd-2018 along with other indicators in the Australian PSI® and has been trending done since then.

Average wages



Australian PSI® activity

Sales

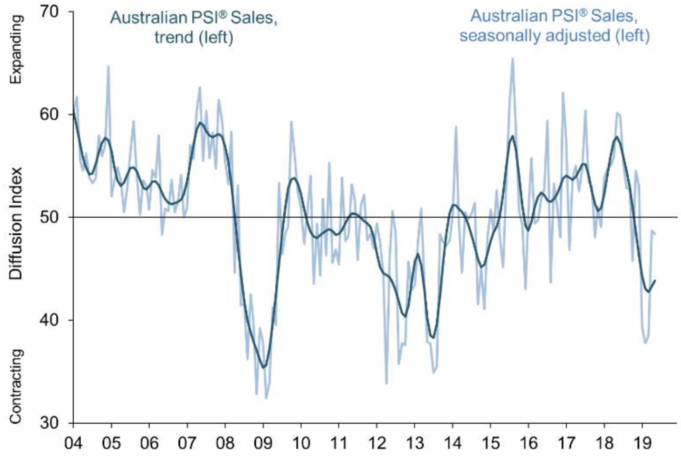
The services sectors that are included in the Australian PSI® produced $985.1bn in real value-added output in the year to Q4 2018 (53.6% of total output).

The contraction in the sales index accelerated slightly as it fell by 0.3 points to 48.4 points in May 2019 (seasonally adjusted).

Sales remain weak across most of the sectors with only 'health, education and community' and 'personal, recreational & other services' reporting strongly positive results.

The uncertainty surrounding the Federal election outcome was the most commonly cited reason businesses and consumers deferred sales over the past month. The fall in property markets was also seen as an inhibiting factor.

Sales



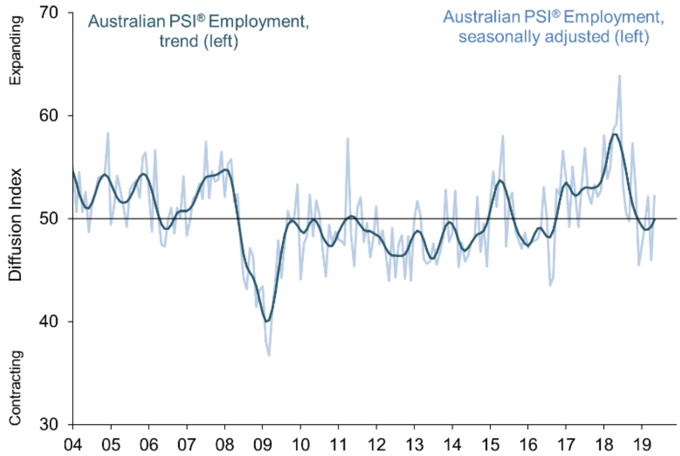
Employment

The services sectors that are included in the Australian PSI® employed 9,166,000 people in February 2019 (72% of total employment).

The employment index in the Australian PSI® rose by 6.2 points to 52.2 points in May, indicating a return to expansion following a contracting result in April (seasonally adjusted).

Employment results were mixed across the sectors; six sectors reported growth or stable employment, while two experienced falling numbers.

Employment



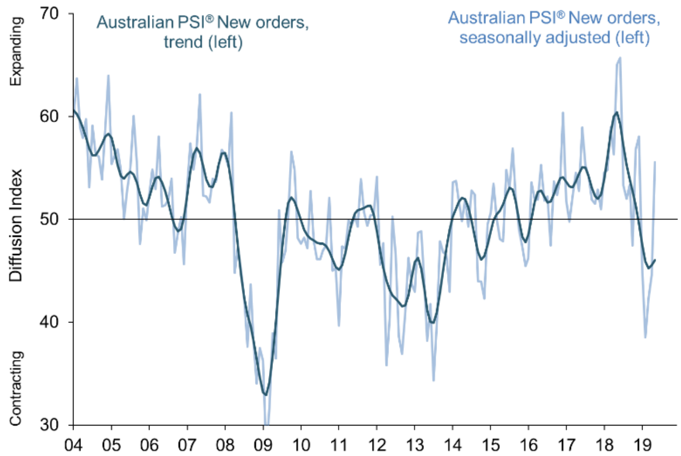
New orders

New orders grew in May 2019 as the sub-index lifted by 11.0 points to 55.6 points (seasonally adjusted). This marks a return to growth following four months of contraction in new orders across the first part of 2019.

New orders rose strongly in two of the business sectors, contracted in three and were stable in three sectors in May.

Several respondents attributed the rise in orders to a return to normal business trade following disruptions in April, solid mining sector demand, an extended product offering and election outcome certainty.

New orders



Australian PSI® activity

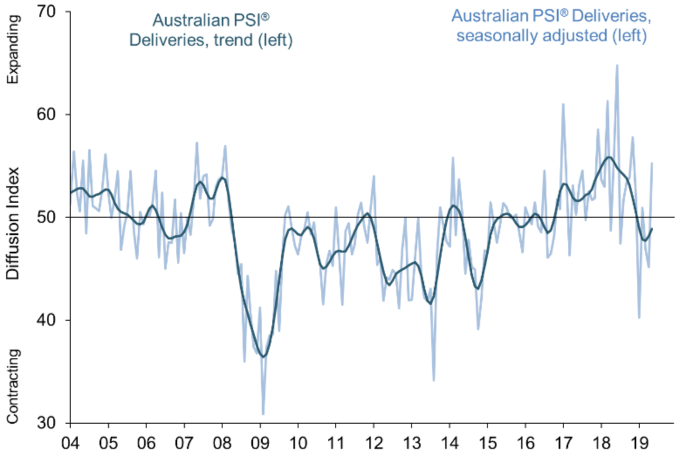
Supplier deliveries

The supplier deliveries index improved by 10.2 points to 55.3 points in May, following four months of flat or contractionary conditions (seasonally adjusted).

Deliveries were strongly positive in three sectors and stable or weak in five.

The sector had been trending down since a series high in June 2018, to the recent trough in March 2019, with a change of trend direction apparent from April 2019.

Supplier deliveries



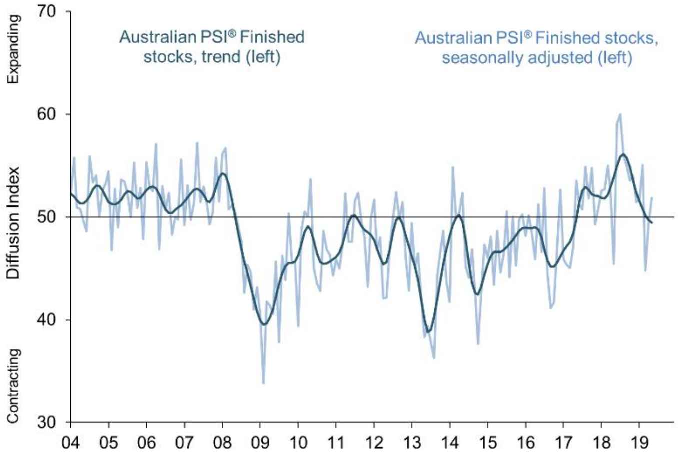
Finished Stocks

The index for finished stocks (inventories) rose by 2.4 points to 51.8 points, indicating soft expansion in May (seasonally adjusted).

Stocks levels have been moderating in services businesses for the past year, in trend terms this index hit a recent peak in the middle of 2018 and has been falling since then.

Increases or stability in stock levels were generally confined to the same sectors where sales and new orders were positive, those not experiencing strong sales ran their stock levels down at a faster rate.

Finished Stocks

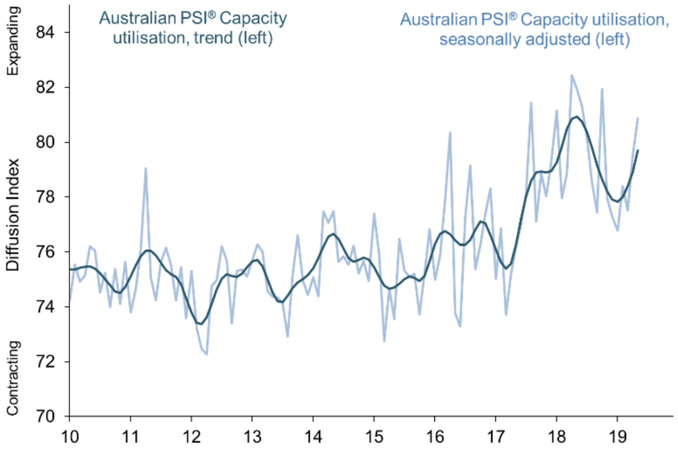


Capacity Utilisation

Capacity utilisation across the services sectors lifted by 1.4 percentage points in May, to reach 80.9% of available capacity being used. Businesses in the services sector have been operating at a higher level of capacity on average, throughout 2018 and 2019 (79.2%). Capacity utilisation reached a recent peak in May 2018 and has subsequently has remained above the long-term average for this indicator (76.1%).

Across the services sectors, finance & insurance, 'health, education & community services' and 'personal, recreational & other services' (all labour intensive sectors) are operating at generally elevated levels of capacity utilisation. Other segments, particularly retail and hospitality 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/.