

AUSTRALIAN Performance of Services Index

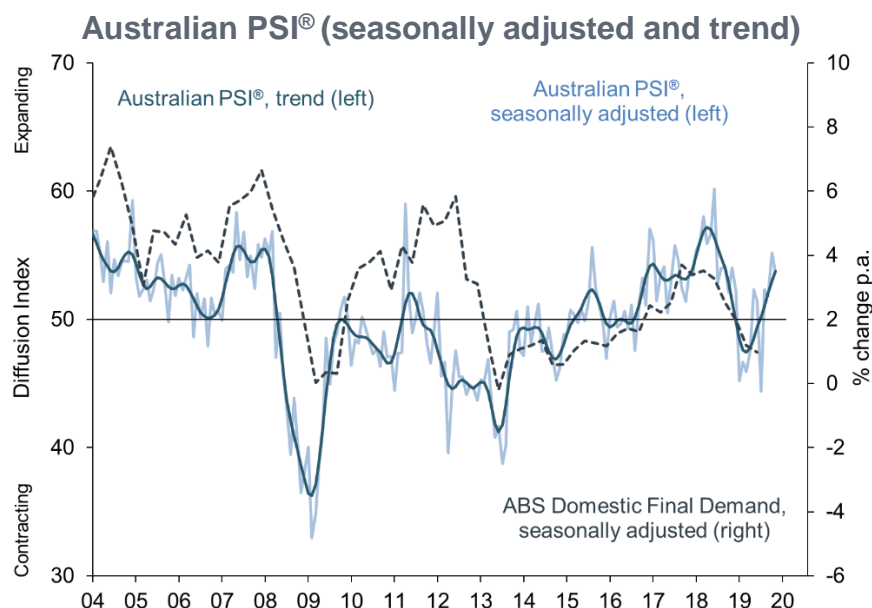


Media Contact: Tony Melville, Australian Industry Group. 0419 190 347

Business conditions drop down a gear in November

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) fell by 1.5 points to 53.7 points in November 2019 (seasonally adjusted). This marked four months of positive but moderating conditions, with a deceleration in November. Results above 50 points indicate expansion in the Australian PSI® with higher numbers indicating stronger growth.

The Australian PSI® indicated expansion in three sectors, stability in one sector and contraction in two sectors in November (trend). Among the business-oriented sectors finance & insurance reported positive results, logistics (wholesale trade, transport & storage) was stable, while business & property services contracted. Among the consumer-oriented segments 'retail trade & hospitality' and 'personal, recreational and other services' were positive, while 'health, education & community services' contracted slightly. Three activity indicators in the Australian PSI® were positive and indicating growth in November. Most positively for the months ahead, new orders strengthened significantly. Employment and sales decelerated but remained positive.



Australian PSI® consumer-oriented services sectors

| | | | |
|--|---|--|---|
| AUSTRALIAN PSI® 53.7 ↓ 1.5 POINTS (seasonally adjusted) | RETAIL TRADE & HOSPITALITY 58.8 ↑ 4.1 POINTS (trend) | HEALTH, EDUCATION & COMMUNITY 48.3 ↓ 4.2 POINTS (trend) | PERSONAL, RECREATION & OTHER 51.3 ↑ 2.0 POINTS (trend) |
|--|---|--|---|

Australian PSI® business-oriented services sectors

| | | | |
|--|---|--|--|
| AUSTRALIAN PSI® 53.7 ↑ 0.7 POINTS (trend) | BUSINESS & PROPERTY SERVICES 46.6 ↓ 0.3 POINTS (trend) | LOGISTICS 50.3 ↑ 1.6 POINTS (trend) | FINANCE & INSURANCE 61.3 ↑ 1.5 POINTS (trend) |
|--|---|--|--|

Australian PSI® summary

Business-oriented services sectors: Among the three business-oriented sectors, finance & insurance businesses reported the strongest results in November. Logistics (wholesale trade and transport & storage) recorded broadly stable conditions over the month. Business & property services contracted in November (trend).

Consumer-oriented services sectors: Two of the consumer-oriented sectors expanded in November 2019 (trend). Retail trade & hospitality experienced robust growth. 'Personal, recreation and other' services lifted to report mild expansion over the month, 'health, education & community' services dropped from expansion into contraction (trend).

Services wages and prices: The input price index accelerated in November driven by the lower trading range of the Australian dollar. The average wage price index moderated following three months of more rapid increases. The selling prices index picked up and reported positive results for the first time in 2019 after contracting since December 2018.

Services activity: Three activity indices expanded, one was stable and one contracted in the Australian PSI® in November. New orders led the positive results rising solidly over the month, employment picked up and sales rose from contraction in October to expansion in November. Deliveries were broadly stable and inventories continued to be run down, contracting at a faster pace than October.

Capacity utilisation in the Australian PSI® rose by half a percentage point to 80.9% of available capacity in November 2019 - the highest level since May this year. Capacity utilisation in the Australian PSI® has been at elevated levels over the past two years (79.8% on average) compared to the long-term average for this series (76.4%).

Services highlights: New orders improved to deliver a robust result in November, while sales and employment moderated but remained firmly positive. A combination of three major events for online and store-based retailers has brought sales and new orders historically seen in December forward to include several weeks in November. The lower trading range of the Australian dollar was noted by some respondents as having a positive effect on activity as were localised pockets of robust growth.

Services concerns: Following three months of positive and improving results, November saw conditions ease slightly. Some respondents noted lower demand from broader segments of the construction industry. Ongoing concerns around global trade remain an inhibitor for some businesses. Some businesses outside of retail and hospitality who expected to see a pickup in activity as they historically do for this month reported that it had not eventuated in November.

| Australian PSI® key numbers | Index this month | Change from last month | Long- term average | | Index this month | Change from last month | Long- term average |
|--------------------------------|------------------------|------------------------------|--------------------------|-----------------------------------|------------------------|------------------------------|--------------------------|
| <i>Seasonally adjusted</i> | | | | <i>trend</i> | | | |
| Australian PSI® | 53.7 | -1.5 | 50.4 | Australian PSI® | 53.7 | 0.7 | 50.2 |
| <i>Activity indexes</i> | | | | <i>Business-oriented services</i> | | | |
| Sales | 52.4 | -5.5 | 50.7 | Business & property | 46.6 | -0.3 | 51.0 |
| Employment | 54.4 | -1.6 | 50.5 | Logistics | 50.3 | 1.6 | 46.9 |
| New Orders | 58.5 | 4.2 | 51.0 | Finance & insurance | 61.3 | 1.5 | 53.1 |
| Supplier deliveries | 50.7 | -4.3 | 49.2 | | | | |
| Finished stocks | 47.5 | -1.3 | 49.3 | <i>Consumer-oriented services</i> | | | |
| Capacity Utilisation (%) | 80.9 | 0.5 | 76.3 | Retail trade & hospitality | 58.8 | 4.1 | 48.1 |
| <i>Prices and wages</i> | | | | Health & education | 48.3 | -4.2 | 52.2 |
| Input Prices | 63.1 | 4.2 | 64.1 | Recreation, personal & other | 51.3 | 2.0 | 53.7 |
| Selling Prices | 52.3 | 7.1 | 48.6 | | | | |
| Average Wages | 58.7 | -8.0 | 57.4 | | | | |

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

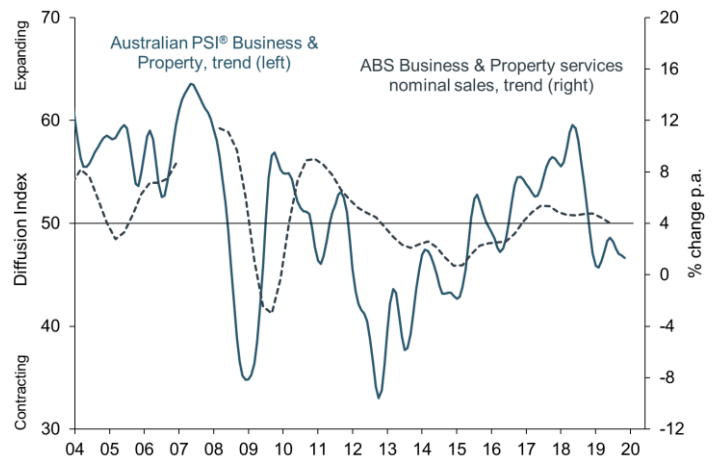
For more detail about the Ai Group Australian PSI® visit: www.aigroup.com.au/policy-and-research/economics/

Australian PSI® business services sectors

Business & property services

- Business & property services include professional services, telecommunications, administrative services, real estate & property services.
- This sector produced \$289.7bn in real value-added output in the year to Q2 2019 (equal to 15.6% of GDP) and it employed 2,070,300 people in August 2019 (16% of total employment).
- The index for business & property services fell by 0.3 points to 46.6 points in November (trend), indicating contractionary conditions and at a slightly worse pace.
- Some respondents continued to note slower demand from the house and apartment constructors and a softening in demand from some industrial sectors.

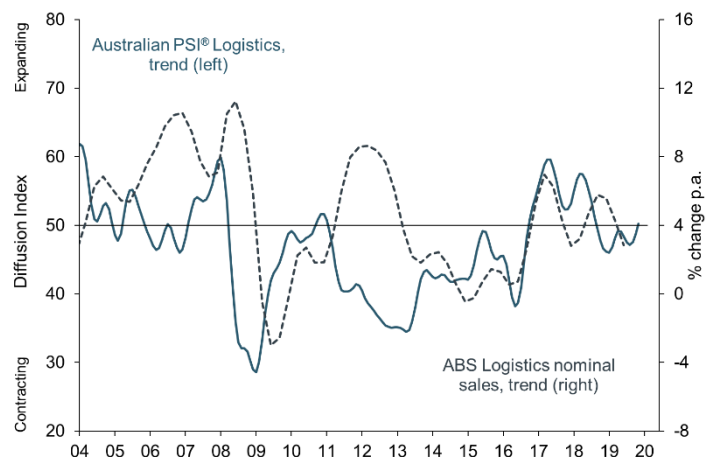
Business & property services



Logistics

- Logistics includes wholesale trade, transport & storage. It produced \$154.7bn in real value-added output in the year to Q2 2019 (equal to 8.4% of GDP). It employed 444,600 people in August 2019 (8% of total employment).
- The logistics index improved by 1.6 points to 50.3 points in November (trend). This is the first month of stable conditions following a year of contractionary results.
- Increased costs, increased international competition and lower demand from some sectors were noted as a drag on the sector, while the lower AUD and commodity volumes had a positive effect.

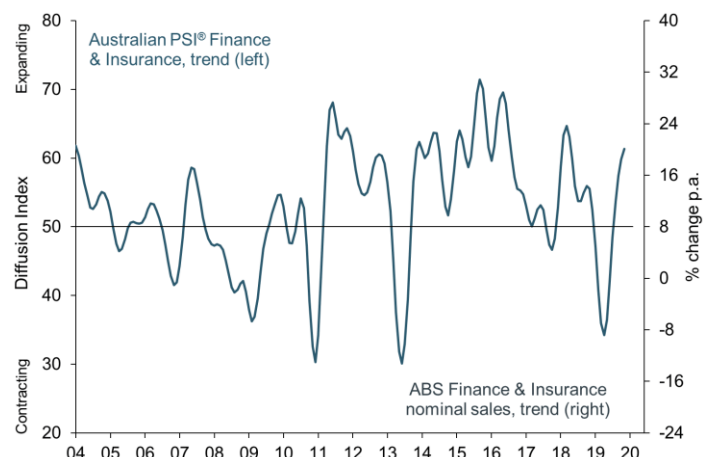
Logistics



Finance & Insurance

- Finance & insurance services produced \$162.2bn in real value-added output in the year to Q2 2019 (equal to 8.8% of GDP).
- This sector employed 444,600 people in August 2019 (3% of total employment).
- The finance & insurance sector's index rose by 1.5 points to 61.3 points (trend) in November. This marked four months of positive and improving growth.
- Participants from this sector improved sales and new orders in November.

Finance & Insurance

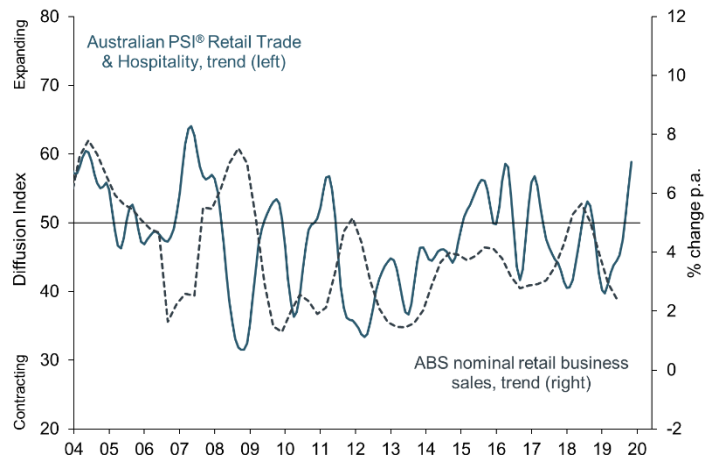


Australian PSI® consumer services sectors

Retail trade & Hospitality

- Retail and hospitality produced \$121.7bn in real value-added output in the year to Q2 2019 (equal to 7% of gross domestic product).
- It employed 2,203,700 people in August 2019 (17% of total employment) with the majority of retail & hospitality workers part-time (under 35 hours per week).
- The index for the retail trade & hospitality sector continued to rise, increasing 4.1 points to 58.8 points in November (trend).
- All indicators rose in the month with sales, employment and new orders all strong. The data appears to show the cumulative affect of online and in-store sales events across November.

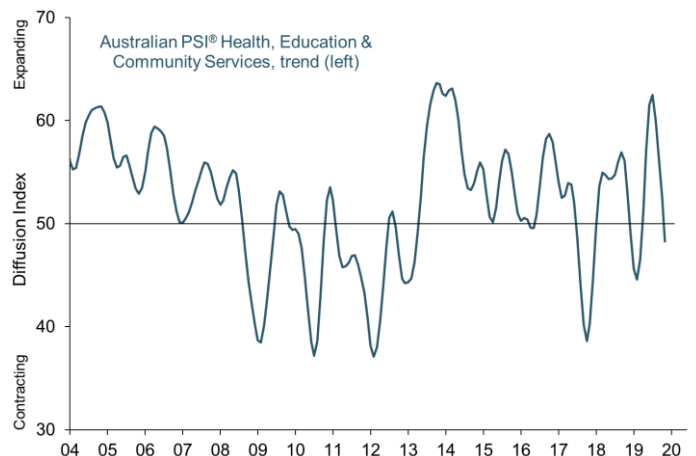
Retail trade & Hospitality



Health, education & community services

- Health, education & community services produced \$222.5bn in real value-added output in the year to Q2 2019 (12% of gross domestic product).
- This industry employed 2,820,300 people in August 2019 (22% 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 contracted slightly in November falling 4.2 points to 48.3 points (trend).
- Sales and new orders declined over the month while employment rose. This sector continues to operate at high levels of capacity.

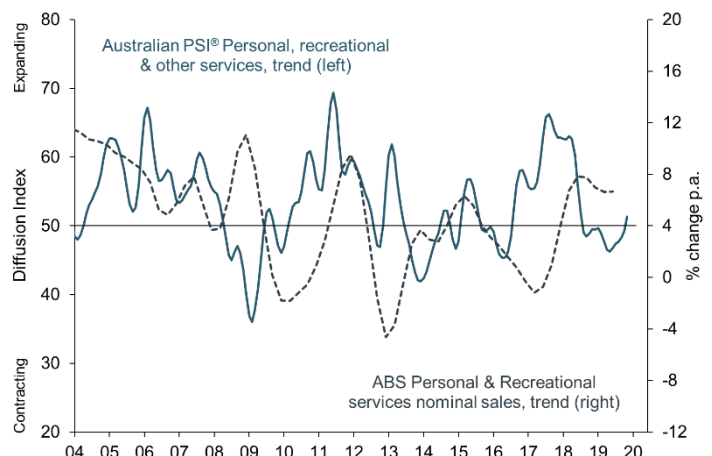
Health, education & community services



Recreational, personal & other services

- Recreational, personal & other services produced \$48.7bn in real value-added output in the year to Q2 2019 (equal to 3% of gross domestic product).
- It employed 755,900 people in August 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' continued to improve rising by 2.0 points to 51.3 points in November (trend).
- Warmer weather conditions were noted as a positive factor for the sector this month.

Recreational, personal & other services

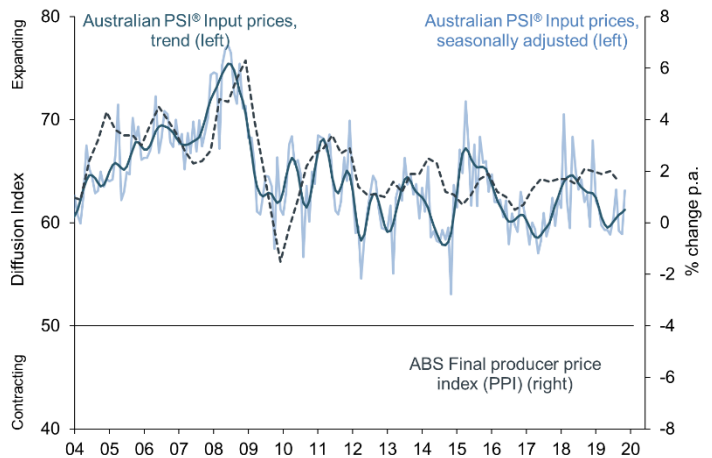


Australian PSI® prices and wages

Input prices

- The ABS final producer price index (PPI) rose by 0.4% q/q and 1.6% y/y in Q3 of 2019.
- The input price index rose by 4.2 points to 63.1 points (seasonally adjusted), indicating an acceleration in input pricing pressures.
- Price increases from imported inputs as a result of the lower trading range of the Australian dollar are evident for businesses using imported goods and services.
- Five sectors reported increasing input costs and one was stable.

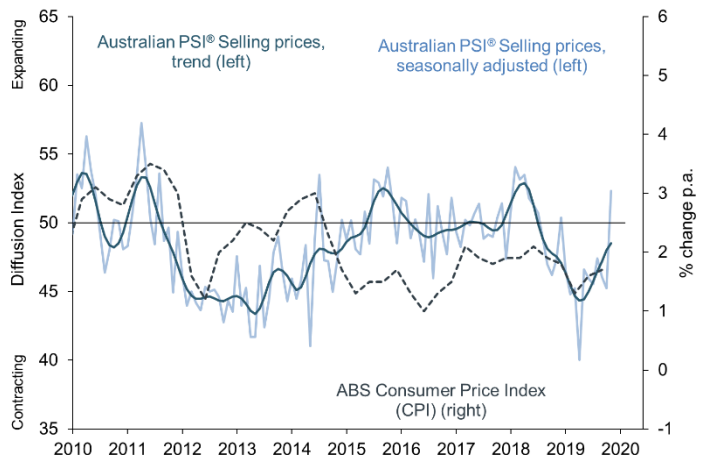
Input prices



Selling prices

- The ABS consumer price index (CPI) rose 0.5% in Q3 of 2019 and was up by 1.7% over the year to Q3.
- Selling prices improved in November with the index rising by 7.1 points to 52.3 points (seasonally adjusted).
- This is the first month of increases in selling prices in the Australian PSI® following 15 months of contraction or flat results.
- Selling prices increased in three sectors, two were stable and one contracted.
- The latest ABS data reflected very subdued consumer price increases, falling from 0.6% q/q in the June quarter to 0.5% q/q in the September quarter.

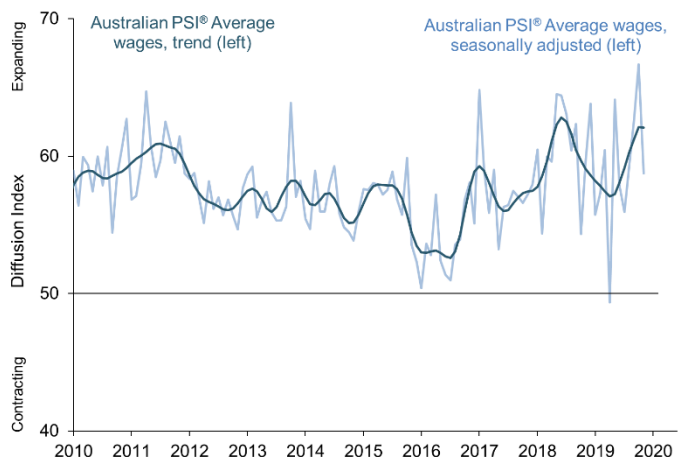
Selling prices



Average wages

- The ABS private sector wage index rose by 0.5% q/q in Q3 of 2019 and 2.2% over the year to Q3.
- The average wages index fell by 8.0 points to 58.7 points in November, indicating a moderation in wage pressures (seasonally adjusted).
- In trend terms, the average wage index is at similar levels to the 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, before plateauing across October and November.

Average wages

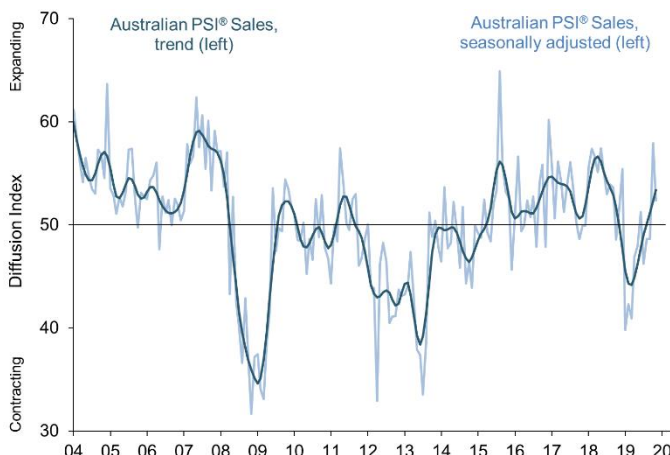


Australian PSI® activity

Sales

- The services sectors that are included in the Australian PSI® produced \$999.6bn in real value-added output in the year to Q2 2019 (equal to 54.0% of total gross value-added output).
- Sales growth moderated in November with the index falling 5.5 points to 52.4 points (seasonally adjusted).
- Sales growth was strong in three sectors in the Australian PSI®, stable in two and contracted in one.
- Consumer-oriented sectors noted some discretionary spending which historically has taken place in December has been brought forward to November.

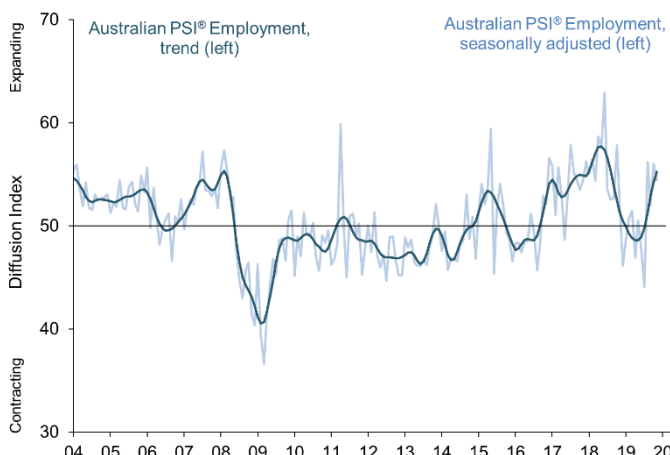
Sales



Employment

- The services sectors that are included in the Australian PSI® employed 9,374,000 people in August 2019 (72% of total Australian employment, including employees in the public and private sectors).
- The employment index in the Australian PSI® dropped by 1.6 points to 54.4 points in November (seasonally adjusted).
- This marks four months of expansion following very patchy months in the first half of the year.
- Employment grew in three sectors and was mostly stable across the other three sectors in November.

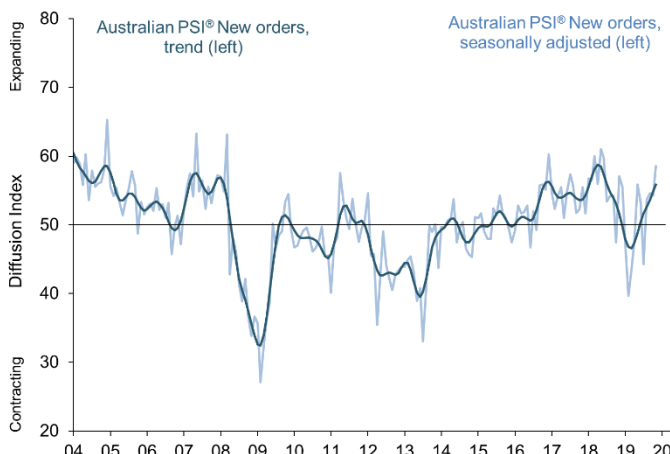
Employment



New orders

- The new orders index reported solid growth rising by 4.2 points to 58.5 points in November (seasonally adjusted).
- New orders rose in four of the six sectors in the Australian PSI (results above 50 points), was stable in one and contracted in one.
- Respondents noted an increase in new orders from new customers, orders expected later being brought forward and an increase in international demand due to the lower trading range of the Australian dollar.

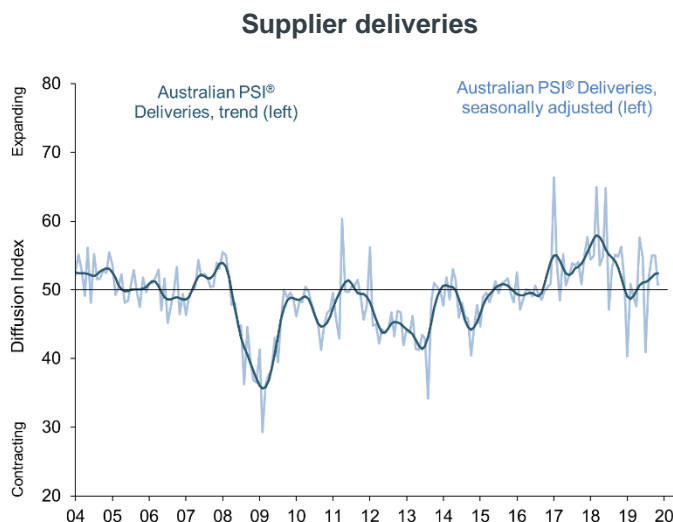
New orders



Australian PSI® activity

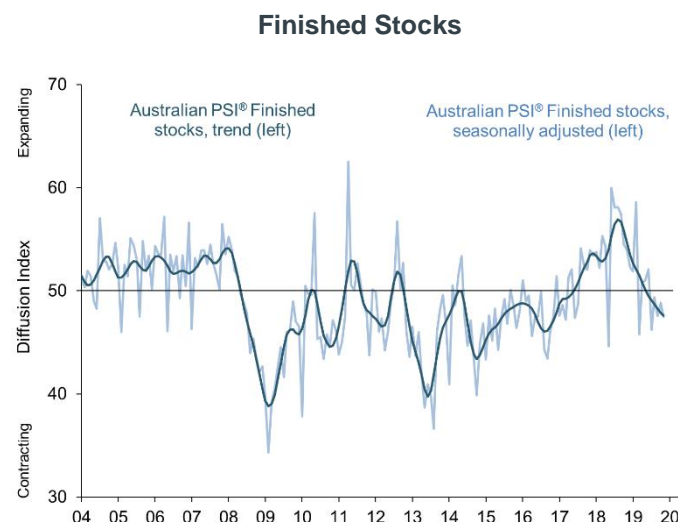
Supplier deliveries

- The supplier deliveries index fell by 4.3 points to 50.7 points in November (seasonally adjusted), indicating broadly stable rates of deliveries.
- This deliveries index has been mixed over the past year, with growth alternating with contraction from month to month. Abstracting from this volatility, this index appeared to be trending higher through Q3 of 2019.



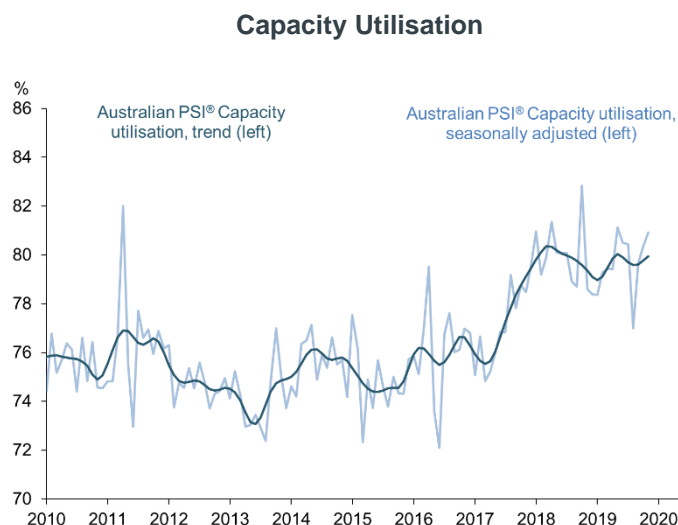
Finished Stocks

- The index for finished stocks (inventories) fell by 1.3 points to 47.5 points in November (seasonally adjusted), marking five months of contraction.
- This index has been trending lower since a recent peak in July 2018.
- Finished stock indexes indicated an increase in inventory for two sectors in November, but they were stable or declined across the other four sectors in the Australian PSI®



Capacity Utilisation

- Capacity utilisation across the services sectors rose by 0.5 percentage points to 80.9% of available capacity being used in November.
- Business sectors represented in this report have been operating at a higher level of capacity on average throughout 2018 and 2019 (79.8% to date) than the long-term average for this indicator (76.4%).
- Across the services sectors, finance & insurance and 'health, education & community services' are operating at very high levels of capacity utilisation. Retail trade & hospitality is facing 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 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/>.

© The Australian Industry Group, 2019. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part to be reproduced by any process or means without the prior written permission of The Australian Industry Group.

Disclaimer: The Australian Industry Group provides information services to its members and others, including economic policy and information services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.