

AUSTRALIAN Performance of Services Index

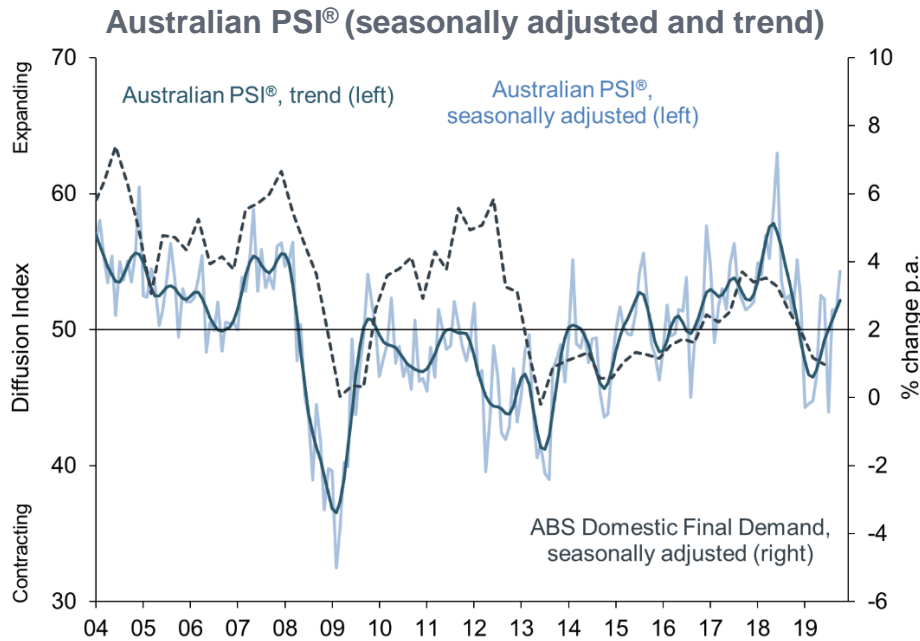


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Services sector improves in October

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose by 2.7 points to 54.2 points in October 2019 (seasonally adjusted). This marked three months of positive conditions following a weaker period in the middle of the year. Trading conditions improved for some businesses due to improved business and consumer spending. Results above 50 points indicate expansion in the Australian PSI®, with higher numbers indicating stronger rates of growth.

The Australian PSI® indicated expansion in six of the eight services sectors in October (trend). Among the business-oriented sectors, finance & insurance and transport & storage reported positive conditions. All of the consumer-oriented segments reported more positive conditions in October. Four activity indicators in the Australian PSI® were positive and indicating expansion in October. Sales, new orders, employment and deliveries all rose over the month, but inventories declined.



Australian PSI® consumer-oriented services sectors

AUSTRALIAN PSI® 54.2 ↑ 2.7 POINTS (seasonally adjusted)	RETAIL TRADE 52.4 ↑ 1.7 POINTS (trend)	HOSPITALITY 56.9 ↑ 0.8 POINTS (trend)	HEALTH, EDUCATION & COMMUNITY 58.0 ↓ 1.0 POINTS (trend)	PERSONAL, RECREATION & OTHER 54.0 ↑ 0.9 POINTS (trend)
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Australian PSI® business-oriented services sectors

AUSTRALIAN PSI® 52.2 ↑ 0.7 POINTS (trend)	BUSINESS & PROPERTY SERVICES 46.6 ↓ 0.4 POINTS (trend)	WHOLESALE TRADE 38.7 ↓ 3.6 POINTS (trend)	FINANCE & INSURANCE 63.8 ↑ 3.4 POINTS (trend)	TRANSPORT & STORAGE 52.0 ↑ 1.8 POINTS (trend)
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Australian PSI® summary

Business-oriented services sectors: Among the four business-oriented sectors, finance & insurance businesses reported the strongest results in October. Transport & storage recorded its first positive month in over a year. Business & property services contracted slightly over the month. Wholesale trade businesses reported a stronger contraction (trend).

Consumer-oriented services sectors: All four consumer-oriented sectors reported positive conditions in October 2019 (results over 50 points, trend). The large 'health, education & community services' sector reported the strongest results. 'Accommodation, cafes & restaurants' continued to expand and 'personal, recreational & other services' reported robust growth. Retail trade reported a solid month of growth for the first time since October 2018.

Services wages and prices: The input price index moderated in October but remains solidly positive, indicating only a slight deceleration in input price pressures. The average wage price index rose and accelerated for the third month in a row. The selling prices index continued to track below 50 points. It has been negative throughout 2019 and the rate of contraction increased in October compared to August and September.

Services activity: Four activity indexes expanded and one contracted in the Australian PSI® in October. Sales growth picked up significantly and new orders were stronger than in the September. Employment also lifted. Deliveries slowed from September but remained positive. Inventories contracted over the month, at much the same pace as September.

Capacity utilisation in the Australian PSI® rose by 1.1 percentage points to 80.3% of available capacity in October 2019, the highest level since June 2018. Capacity utilisation in the Australian PSI® has been at elevated levels over the past two years (79.3% on average) and remain higher than the long-term average for this series (76.1%).

Services highlights: Following two months of mildly positive results, October saw a substantial pickup in business conditions, and particularly sales, for services businesses. Some respondents reported strong demand from new customers and good domestic and international demand. Increased discretionary spending was evident across the consumer sectors.

Services concerns: Some respondents noted lower demand from the construction industry in October. Ongoing concerns about global trade and international demand were reported as an inhibitor for some businesses. A lack of confidence is also reported to be inhibiting major spending, with business customers focussed on maintenance rather than new investments.

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®	54.2	2.7	49.4	Australian PSI®	52.2	0.7	49.1
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	56.1	7.5	47.6	Business & property	46.6	-0.4	49.6
Employment	54.7	4.2	49.8	Finance & insurance	63.8	3.4	52.5
New Orders	55.0	0.4	50.3	Wholesale trade	38.7	-3.6	47.5
Supplier deliveries	53.6	-1.9	50.2	Transport & storage	52.0	1.8	46.0
Finished stocks	47.1	-0.6	50.0	Communications	N/A	N/A	44.4
Capacity Utilisation (%)	80.3	1.1	78.6	<i>Consumer-oriented services</i>			
<i>Prices and wages</i>				Retail trade	52.4	1.7	45.4
Input Prices	59.3	-0.8	60.6	Hospitality	56.9	0.8	53.7
Selling Prices	44.5	-1.5	46.1	Health & education	58.0	-1.0	54.0
Average Wages	65.1	1.8	58.5	Recreation & other services	54.0	0.9	50.5

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

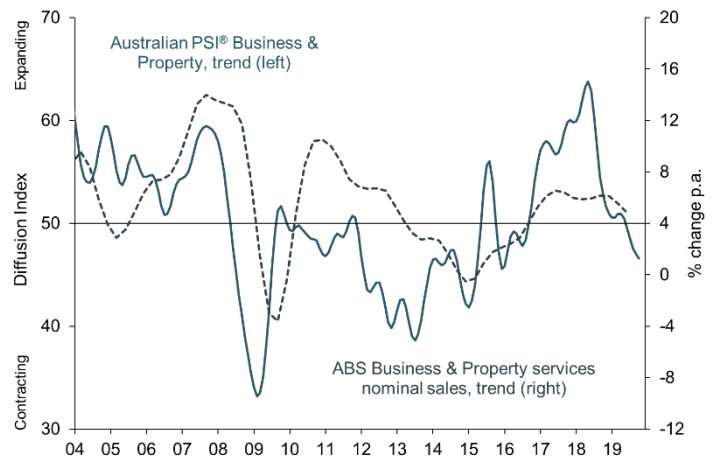
For more detail about the Ai Group Australian PSI® visit: www.aigroup.com.au/policy-and-research/economics/

Australian PSI[®] business services sectors

Business & property services

- Business & property services include professional services, administrative services, real estate and property services.
- This sector produced \$243.3bn in real value-added output in the year to Q2 2019 (equal to 13% of GDP) and it employed 1,858,800 people in August 2019 (14% of total employment).
- The index for business & property services fell by 0.4 points to 46.6 points (trend) in October, indicating contractionary conditions and at a slightly worse pace.
- Respondents noted slower demand from the construction sector and lack of confidence from business customers. They said the slow global outlook is inhibiting demand.

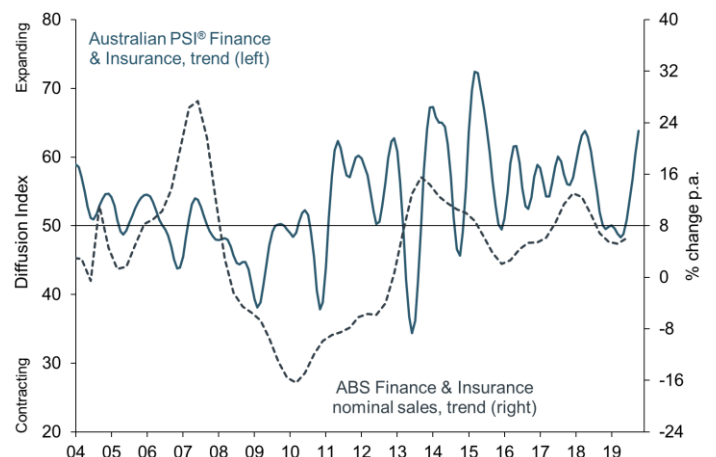
Business & property services



Finance & insurance

- Finance & insurance services produced \$162.2bn in real value-added output in the year to Q2 2019 (equal to 9% of GDP).
- This sector employed 444,600 people in August 2019 (3% of total employment).
- *The finance & insurance sector's index rose by 3.4 points to 63.8 points (trend) in October. This marked five months of positive and improving growth.* Participants from this sector noted improved business spending, new customers and markets as well as improved confidence from retail customers in October.

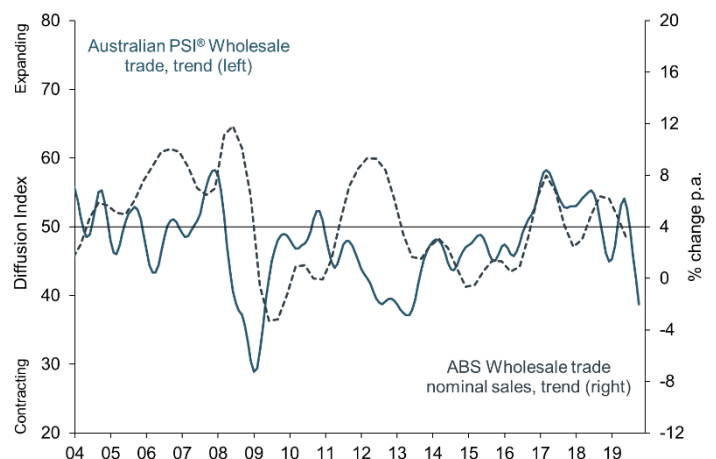
Finance & insurance



Wholesale trade

- Wholesale trade produced \$71.0bn in real value-added output in the year to Q2 2019 (equal to 4% of GDP).
- It employed 411,000 people in August 2019 (3% of total employment).
- The wholesale trade index deteriorated by 3.6 points to 38.7 points in October (trend). This is the fourth month of contractionary and declining results.
- The negative conditions reported by wholesale trade participants are in contrast to the improvements noted by those in retail trade and transport. Wholesale trade might pick up in coming months, in line with the other sectors that are involved in the distribution of consumer goods.

Wholesale trade

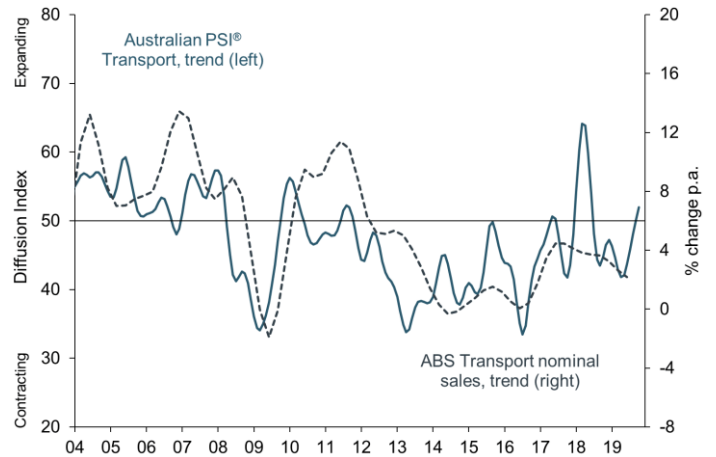


Australian PSI® business services sectors

Transport & storage services

- Transport & storage services produced \$83.7bn in real value-added output in the year to Q2 2019 (equal to 5% of GDP).
- This sector employed 668,200 people in August 2019 (5% of total employment).
- The index for transport & storage rose by 1.8 points to 52.0 points in October (trend).
- This was the first month of expansion following stability in September and 14 months of contraction since mid-2018.
- Respondents noted an increase in demand from new customers and early pre-Christmas orders, which seem to be brought forward from their normal timing.

Transport & storage services

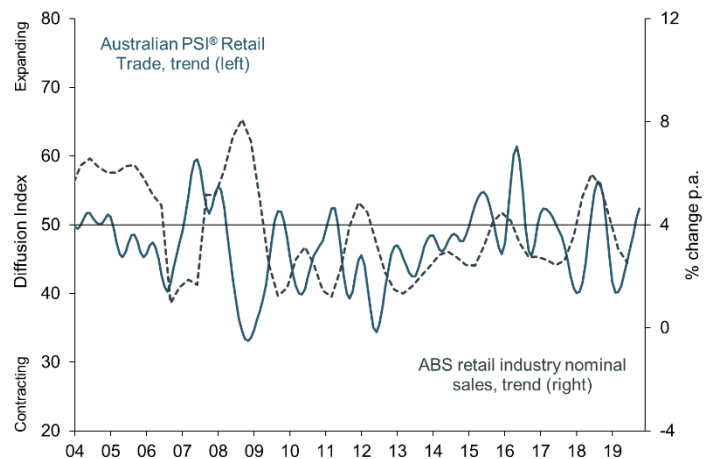


Australian PSI® consumer services sectors

Retail trade

- Retail trade produced \$78.6bn in real value-added output in the year to Q2 2019 (equal to 4% of GDP).
- This sector employed 1,284,000 people in August 2019, (10% of total employment), but 51% of retail workers are part-time (under 35 hours per week).
- The retail trade index rose by 1.7 points to 52.4 points in October. This was the first month of growth following nine months of contraction and one month of stability (trend).
- Sales, new orders and employment all rose in the retail sector in October.
- Retail sector participants reports an increase in new customers and better weather conditions for sales this month. There are tentative signs that lower interest rates and recently paid tax rebates are (very mildly) boosting discretionary local retail spending.

Retail trade

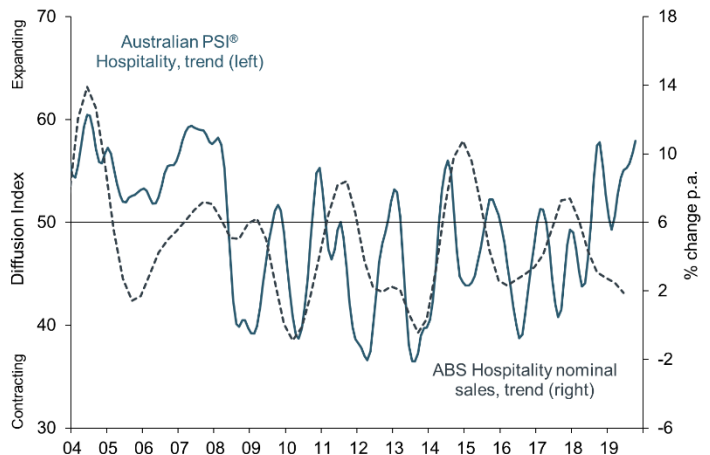


Australian PSI[®] consumer services sectors

Hospitality (accommodation, cafes & restaurants)

- Hospitality includes accommodation, cafes & restaurants. It produced \$43.1bn in real value-added output in the year to Q2 2019 (equal to 2% of GDP).
- The sector employed 919,700 people in August 2019 (7% of total employment) but 62% of hospitality workers are part-time (under 35 hours per week).
- The index for the hospitality sector rose by 0.8 points to 56.9 points in October (trend).
- Sales, new orders and employment improved over the month, however stock levels fell and deliveries were stable.

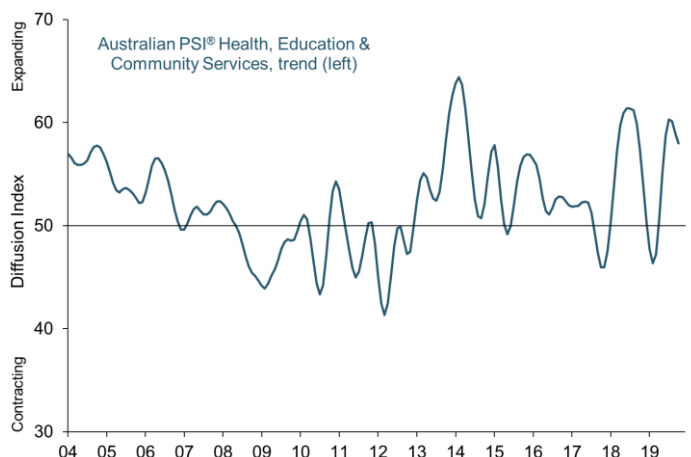
Hospitality (accommodation, cafes & restaurants)



Health, education & community services

- Health, education & community services produced \$222.5bn in real value-added output in the year to Q2 2019 (12% of GDP). These industries employed 2,820,300 people in August 2019 (22% of total employment). 56% of workers in education and 25% in health and welfare are directly employed by the public sector (i.e. by government).
- The index for this sector fell by 1.0 points to 58.0 points in October (trend). Participants continued to report solid conditions in October, despite this slight moderation.
- Sales and new orders were relatively stable in October. This sector continues to operate at high levels of capacity, suggesting that more investment will be needed if it is to expand in response to future growth in local demand.

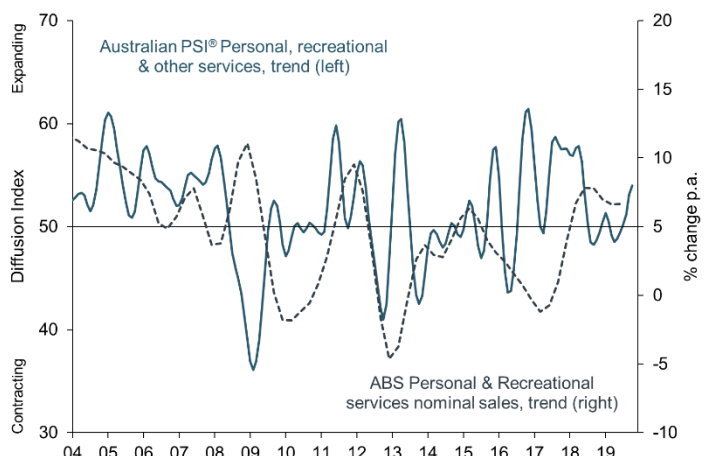
Health, education & community services



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 GDP).
- 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' rose by 0.9 points to 54.0 points in October (trend).
- Sales, new orders and employment improved, but selling prices fell over the month.

Recreational, personal & other services

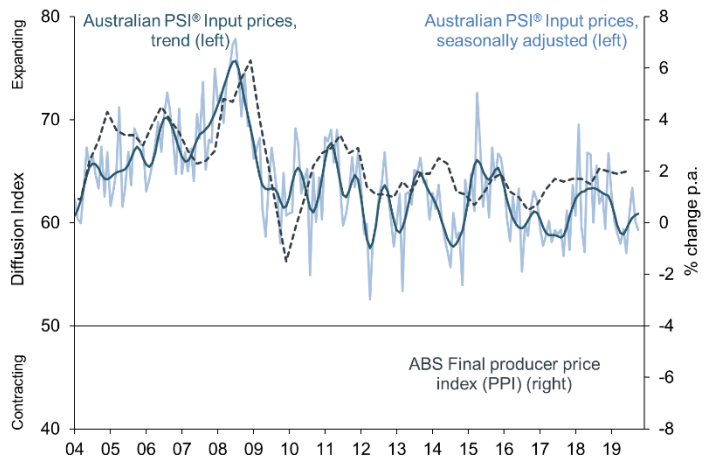


Australian PSI[®] prices and wages

Input prices

- The ABS final producer price index (PPI) rose by 0.4% q/q and 2.0% y/y in Q2 of 2019.
- The input price index fell by 0.8 points to 59.3 points (seasonally adjusted), indicating a very slight moderation in input pricing pressures.
- Three sectors reported input costs were stable across the month but no sectors reported a decline. Input cost increases were largest in the wholesale and retail trade sectors.
- Price increases for imported inputs were evident in October, reflecting the lower trading range of the Australian dollar in 2019.

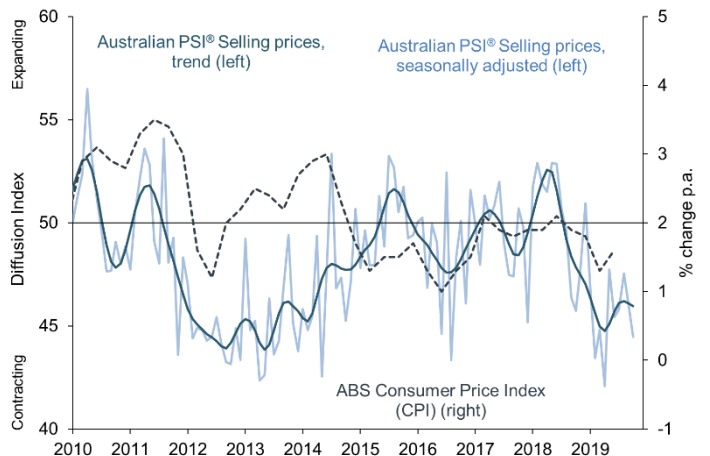
Input prices



Selling prices

- The ABS consumer price index (CPI) rose by 0.5% in Q3 of 2019 and was up by 1.7% over the year to Q3.
- The selling price index fell by 1.5 points to 44.5 points (seasonally adjusted) in October, indicating further deterioration.
- This index in the Australian PSI[®] has been contractionary (below 50 points) for 14 of the past 15 months.
- Downward pressures on prices were reported across most sectors in the Australian PSI in October.

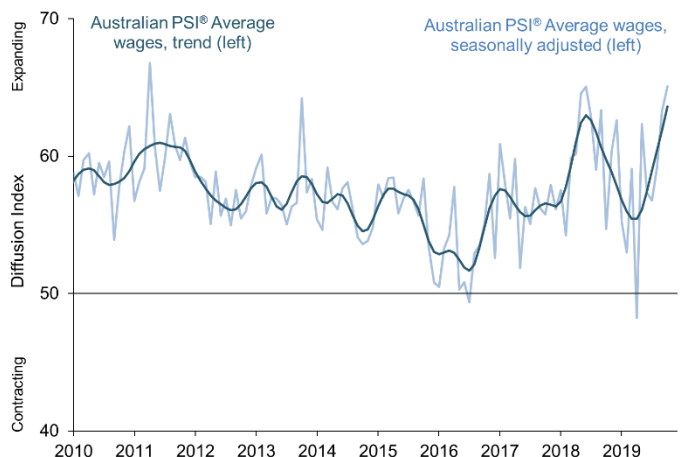
Selling prices



Average wages

- The ABS private sector wage index rose by 0.5% q/q in Q2 of 2019 and 2.3% over the year to Q2.
- The average wages index rose by 1.8 points to 65.1 points in October, this index is well above its long-run average and is now near its recent peak in 2018, indicating that upward wage pressures are becoming more widespread across services businesses (seasonally adjusted).
- This index indicated a lift in wage pressures across six of the eight sectors in the Australian PSI in October. The wage indexes for retail trade and health & education indicated stable wages in October.

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 GDP).
- The sales index rose by 7.5 points to 56.1 points in October (seasonally adjusted). This was the largest single-month increase since April 2019.
- Sales improved in six of the eight sectors in the Australian PSI. Sales indexes indicated declines (below 50 points) in wholesale trade and in health & education.
- Respondents noted higher confidence across business and consumer customers and an increase in new markets. There are tentative signs that lower interest rates and recent tax rebates may be providing a mild boost to local discretionary spending.

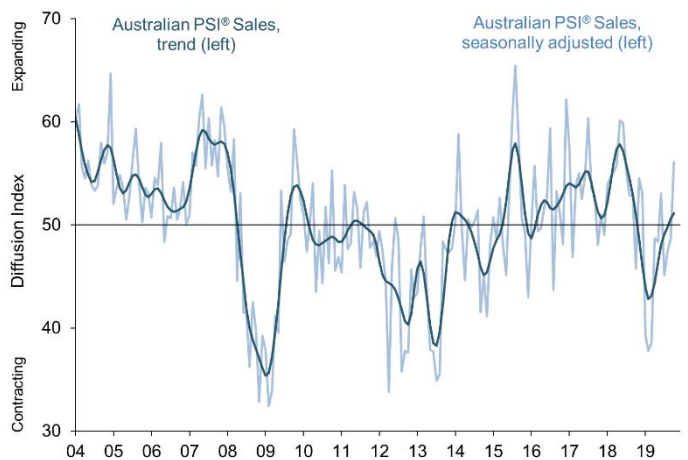
Employment

- 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® rose by 4.2 points to 54.7 points in October (seasonally adjusted). The employment index has been unusually volatile in 2019.
- Employment indices indicated a rise in employment in six of the eight sectors in the Australian PSI in October (results above 50 points) but declines in wholesale trade and health & education.

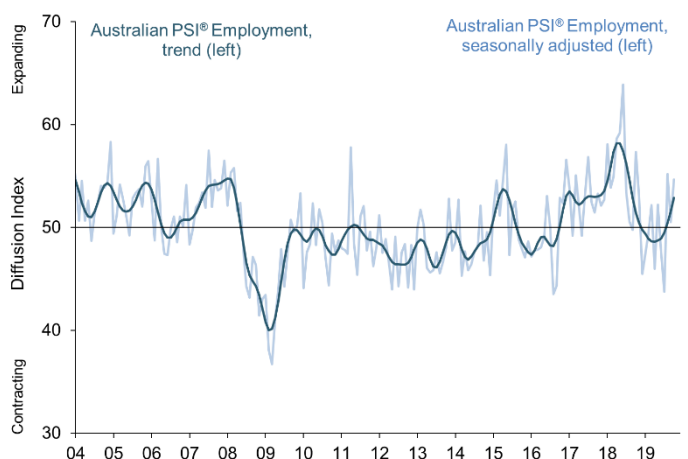
New orders

- The new orders index rose by 0.4 points to 55.0 points in October, a similar result to the previous month (seasonally adjusted).
- New orders indices indicated rises in five of the eight sectors in the Australian PSI (results above 50 points), were stable in two and contracted in one.
- Respondents noted an increase in new orders from new customers as well as orders for later in the year being brought forward.

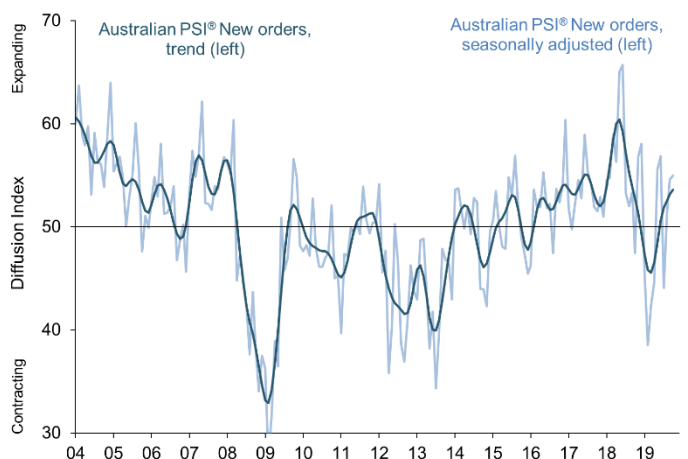
Sales



Employment



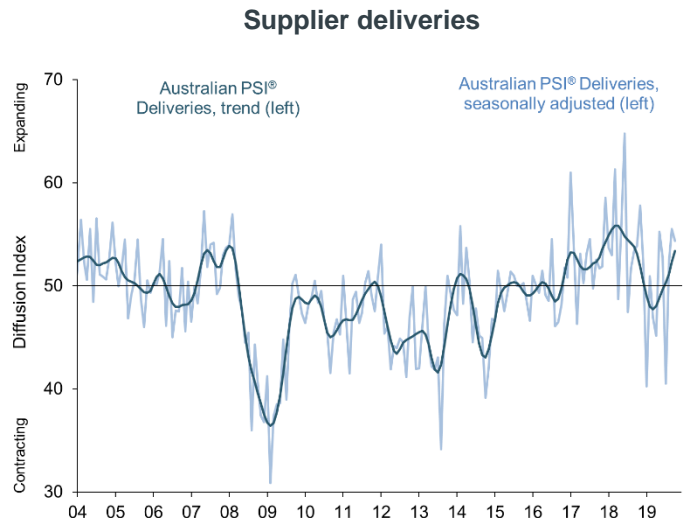
New orders



Australian PSI[®] activity

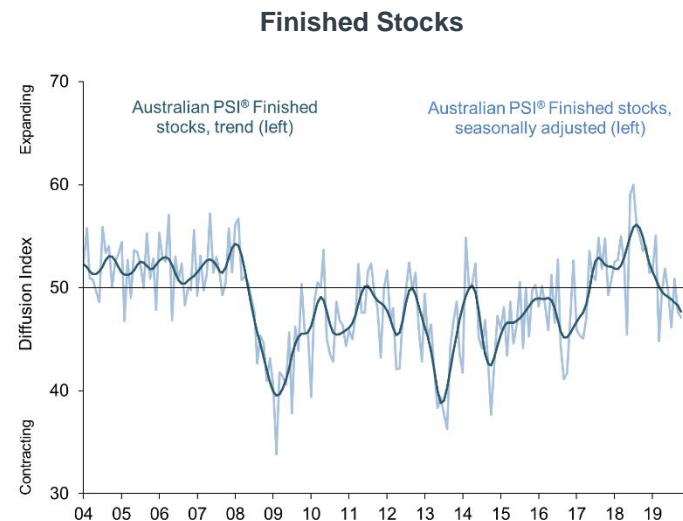
Supplier deliveries

- The supplier deliveries index fell by 1.9 points to 53.6 points in October (seasonally adjusted), indicating positive but decelerating 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.



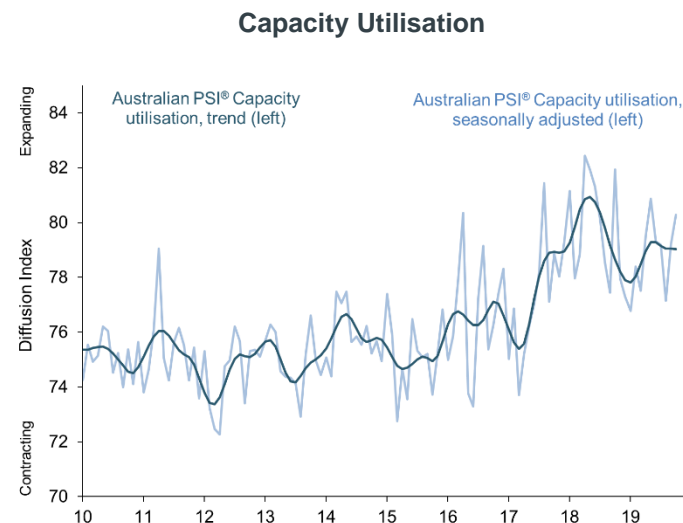
Finished Stocks

- The index for finished stocks (inventories) fell by 0.6 points to 47.1 points in October (seasonally adjusted), indicating mild contraction for a third consecutive month.
- This index has been trending lower since a recent peak in July 2018.
- Finished stock indexes indicated stable or declining inventory levels across seven of the eight sectors in the Australian PSI in October.



Capacity Utilisation

- Capacity utilisation across the services sectors rose by 1.1 percentage points to 80.3% of available capacity being used in October.
- Capacity utilisation has been higher on average over the past two years (79.3% to date) than the long-term average for this indicator (76.2%).
- All sectors reported operating at relatively high levels of capacity in October, with especially elevated levels in the large health and education sector. This suggests stronger investment is likely to be needed by businesses in these sectors in order to meet any further growth in demand in the future.



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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