

Record low for Australian services sectors

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) plunged by 11.6 points to 27.1 points in April 2020 (seasonally adjusted). This was both the largest single monthly fall and the lowest result in the history of the series (commencing in 2003). Australia's services industries continue to struggle through a difficult period of pandemic-related closures and restricted activity.

Results below 50 points indicate contraction in the Australian PSI® with lower numbers indicating a stronger pace of decline.

Activity restrictions in response to the COVID-19 pandemic have decimated large segments of Australia's services industries. The Australian PSI® indicated contraction in all sectors in April (trend). This was the first full month of restrictions on commercial activity including closures or limited trading for many businesses in hospitality, retail, transport, recreation, personal services, education and even community services.

Reduced customer demand was evident for most businesses across the sectors included in the PSI. The few businesses who reported positive results for the month included: those who supply personal protective equipment and other hygiene products; ICT businesses who note increased demand for business services; and those who deliver contracts that were already underway and were not affected by COVID-19 restrictions in April.

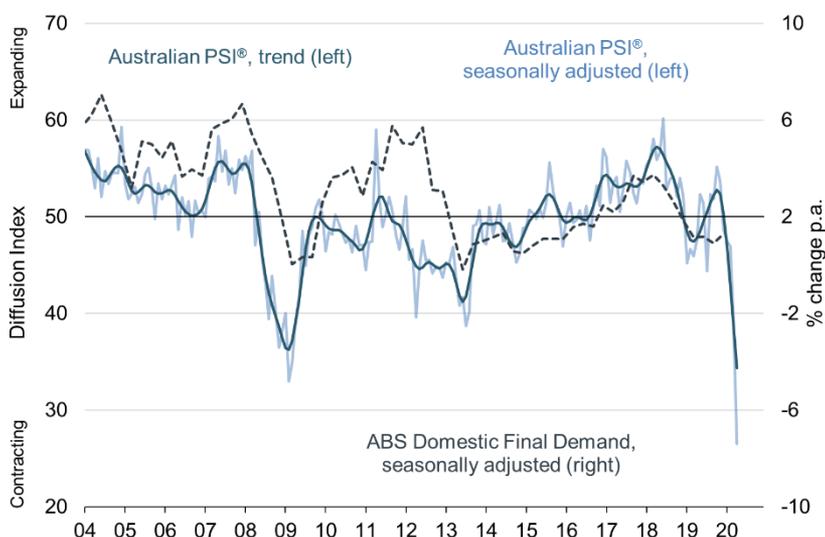
APRIL 2020

MEDIA CONTACT

Tony Melville
Australian Industry Group
Tel: 0419 190 347

Australian PSI® ▼ 11.6 points (seasonally adjusted)	27.1
Australian PSI® ▼ 4.1 points (trend)	34.6
Business & property services ▼ 2.4 points (trend)	37.5
Logistics ▼ 4.7 points (trend)	34.5
Finance & insurance ▼ 6.7 points (trend)	34.3
Retail trade & hospitality ▼ 5.7 points (trend)	25.4
Health & community ▼ 0.3 points (trend)	42.1
Personal, recreation & other ▼ 6.3 points (trend)	38.0

Australian PSI® (seasonally adjusted and trend)



Business-oriented services sectors: All three of the business-oriented sectors included in the Australian PSI® contracted and deteriorated in April (trend). The index for the business & property sector declined to its lowest level since December 2012, while the index for logistics (wholesale trade, transport & storage businesses) declined to its lowest level since April 2013. Finance & insurance was last at this low level in April 2019. Lower indexes indicate a faster rate of contraction.

Consumer-oriented services sectors: All three of the consumer-oriented sectors contracted and deteriorated in April. The deterioration was less severe for 'health, education & community services'; it returned a similar (negative) result to March. The index for 'retail trade & hospitality' fell to its lowest level in the history of the Australian PSI®. 'Personal, recreational and other' services fell to its lowest level since March 2009, immediately after the Global Financial Crisis (trend).

Services wages and prices: The input price index dropped significantly in April after a large jump in March. This reflects the dramatic fall in petrol prices, a partial recovery of the Australian dollar from recent lows, and falling demand for some inputs. The average wage price index fell to its lowest level (by a significant margin) in the history of the Australian PSI®. Selling prices continued to contract in April, with the index falling to its lowest level since April 2019 (seasonally adjusted).

Services activity: All of the activity indexes in the Australian PSI® contracted in April (seasonally adjusted). The sales index plummeted to its lowest monthly result in the history of the Australian PSI®. The new orders index also fell to its lowest level on record. The deterioration in supplier deliveries accelerated. Employment and inventories continued to shrink, with the rate of contraction accelerating for both indices.

Capacity utilisation fell by 1.7 percentage points to 68.5% of available capacity being used in April. This was the lowest monthly result in the history of the Australian PSI®, but a smaller fall than in the previous month. This low level is indicative of the cessation of activity across retail, transport, education, personal and hospitality services. Business closures and falling sales were most prevalent in the consumer-oriented segments but the falls in activity were evident across all sectors.

Services highlights: A small number of services businesses continue to report strong demand for personal protective equipment (PPE), IT services and some types of personal services. Some businesses who provide repair and maintenance services noted an increase in demand from businesses in maintaining machinery and equipment (in order to delay new investment and/or due to delayed replacements), while others reported customers didn't want them to attend on site.

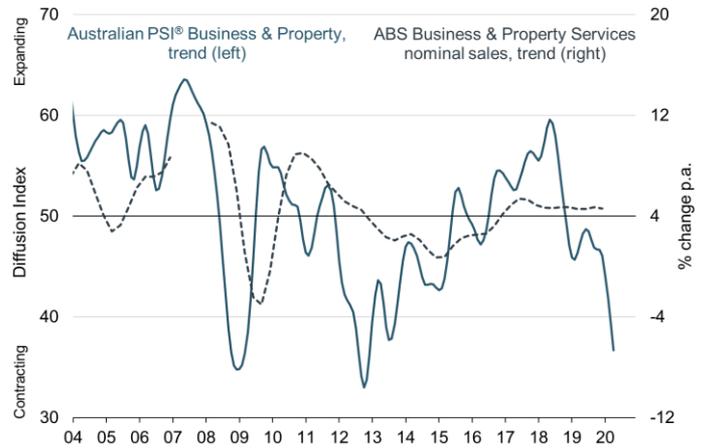
Services concerns: Restrictions associated with the COVID-19 pandemic suppressed business activity across all sectors in the Australian PSI® in April. As restrictions were maintained across the month, businesses reported lower new orders and sales and escalating disruptions to imported and local supplies. Discretionary spending remains lower for non-essential household goods, but some food suppliers reported strong ongoing demand. The COVID-19 crisis comes on top of the fallout from summer's bushfires, widespread drought conditions and longer-term structural changes.

Australian PSI® key numbers	Index this month	Change from last month	Series average		Index this month	Change from last month	Series average
<i>Seasonally adjusted</i>				<i>trend</i>			
Australian PSI®	27.1	-11.6	50.2	Australian PSI®	34.6	-4.1	50.0
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	24.6	-6.6	50.4	Business & property	37.5	-2.4	50.7
Employment	28.7	-16.6	50.3	Logistics	34.5	-4.7	46.8
New Orders	23.1	-12.2	50.8	Finance & insurance	34.3	-6.7	53.0
Supplier deliveries	32.4	-8.3	49.0				
Finished stocks	31.5	-14.6	49.1	<i>Consumer-oriented services</i>			
Capacity Utilisation (%)	68.5	-1.7	76.3	Retail trade & hospitality	25.4	-5.7	47.8
<i>Prices and wages</i>				Health & education	42.1	-0.3	52.0
Input Prices	61.9	-11.5	64.1	Personal, recreational & other	38.0	-6.3	53.6
Selling Prices	40.3	-6.3	48.5				
Average Wages	35.4	-15.3	57.1				

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

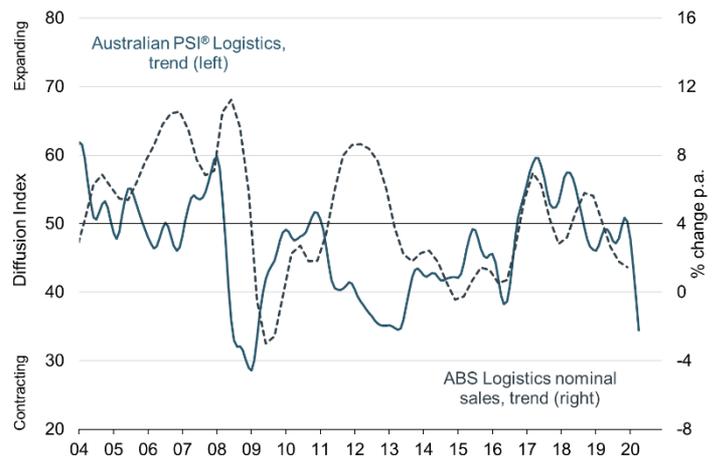
Business and property services

- *Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services.* This sector produced \$302.1bn in real value-added output in the year to Q4 2019 (equal to 15.9% of GDP).
- Business & property services employed 2,038,300 people in February 2020 (16% of total employment).
- The index for business & property services contracted by 2.4 points to 37.5 in April (trend). This was the lowest monthly trend result since December 2012.
- Some businesses noted an increase in demand for business services while others reported enquiries had decreased as businesses focused on internal functions.



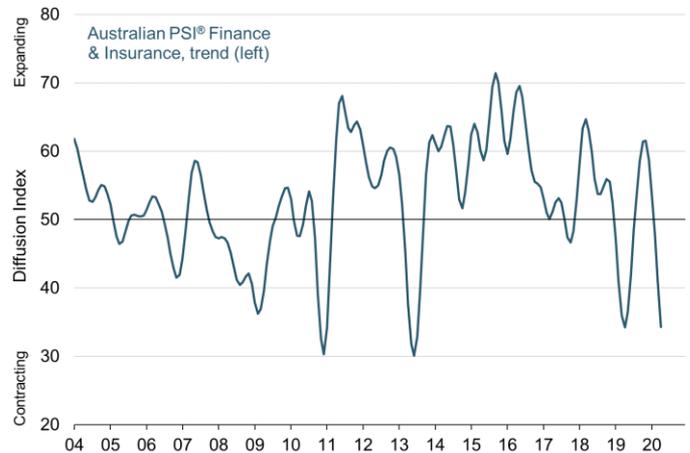
Logistics

- *Logistics includes wholesale trade, transport & storage services.* It produced \$157.3bn in real value-added output in the year to Q4 2019 (equal to 8.3% of GDP).
- Logistics employed 1,041,500 people in February (8% of total employment).
- The logistics index deteriorated by 4.7 points to 34.5 points in April (trend). This is the fourth month of decline and the lowest result for this sector since April 2013.
- Wholesale suppliers of protective personal equipment (PPE) and healthcare equipment reported an increase in demand, as did some food supply businesses.
- Some transport businesses have ceased operations and others noted lower demand. Some reported that their existing contracts are proceeding as usual.



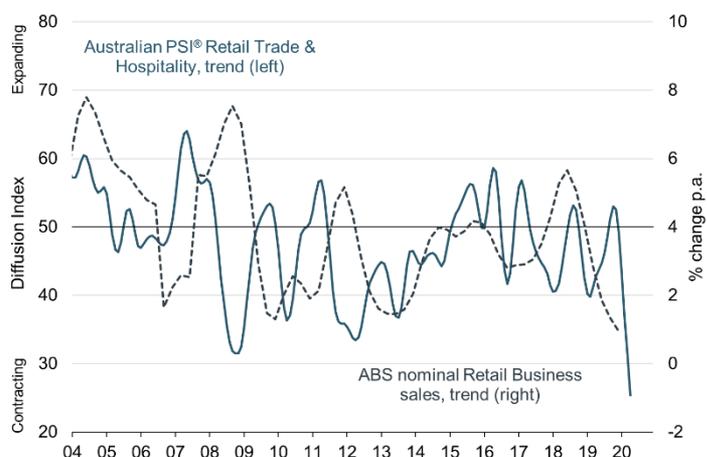
Finance & insurance

- Finance & insurance services (including banking, finance, insurance and superannuation services) produced \$165.7bn in real value-added output in the year to Q4 2019 (equal to 8.7% of GDP).
- This sector employed 466,700 people in February 2020 (4% of total employment).
- The finance & insurance sector's index fell by 6.7 points to 34.3 points in April (trend). This was the lowest result for this sector since April 2019.



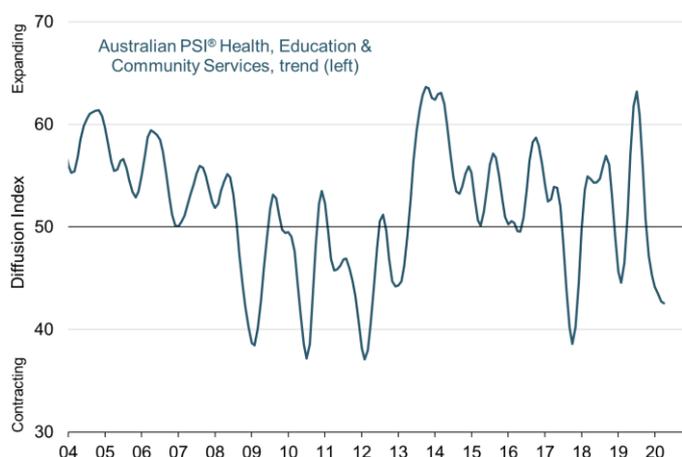
Retail trade & hospitality

- The retail and hospitality sector (including retail shops, restaurants, cafes, take-aways and hotels) produced \$121.5bn in real value-added output in the year to Q4 2019 (equal to 6.4% of gross domestic product).
- It employed 2,195,100 people in February 2020 (17% of total employment). The majority of retail & hospitality workers are part-time (under 35 hours per week).
- The index for the retail trade & hospitality sector fell by 5.7 points to 25.4 points in April. This was the lowest monthly result for this sector in the series' history (trend).
- All indicators for retail and hospitality were strongly negative and deteriorated in April.
- Restrictions in activity and trade have resulted in some businesses closing, while others reported limited trade. Only a handful of food retailers reported higher sales.



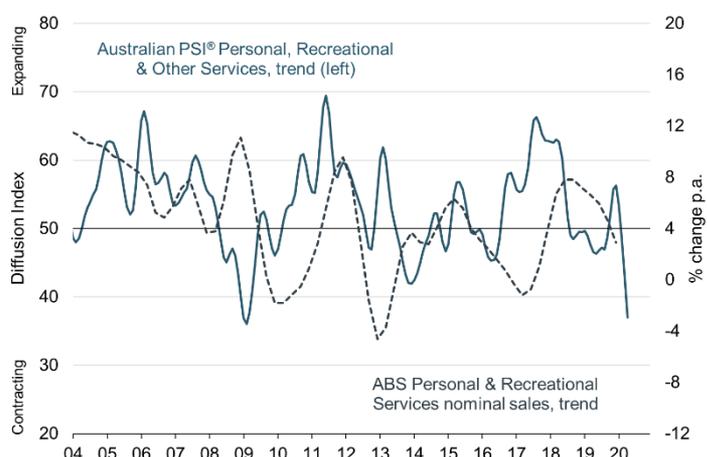
Health, education & community services

- Health, education & community services produced \$232.8bn in real value-added output in the year to Q4 2019 (12.2% of gross domestic product).
- This industry employed 2,914,000 people in February 2020 (22% of total employment). 56% of workers in education and 25% of workers in health and welfare are employed directly by the public sector.
- The index for this sector returned a similar result in April as it had in March. It fell by 0.3 points to 42.1 (trend).
- Some medical and welfare services face increased demand as a result of COVID-19, but education and other community services decreased sharply in April.



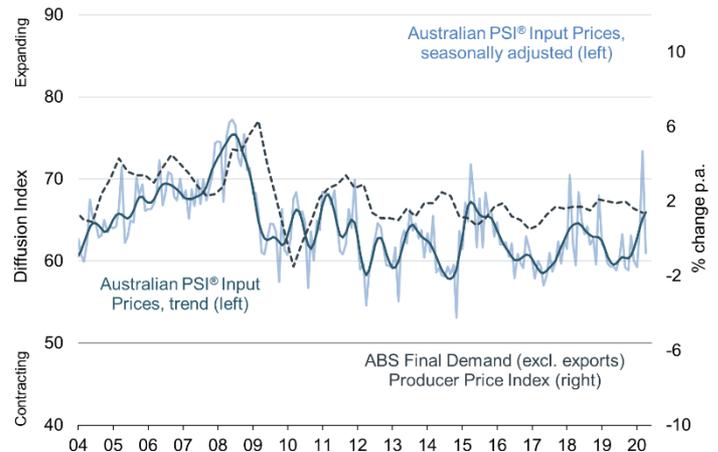
Personal, recreational & other services

- Personal, recreational, & other services produced \$50.7bn in real value-added output in the year to Q4 2019 (equal to 2.7% of gross domestic product).
- This sector employed 739,300 people in February 2020 (6% of total employment). 49% of workers in recreational services and 32% in personal services are part-time.
- The index for 'recreational, personal & other' services dropped by 6.3 points to 38.0 points in April (trend). This was the lowest monthly result for this index since 2009.
- Most indicators were negative for this sector, but some businesses that are assisting people affected by COVID-19 or bushfires reported an increase in demand in April.



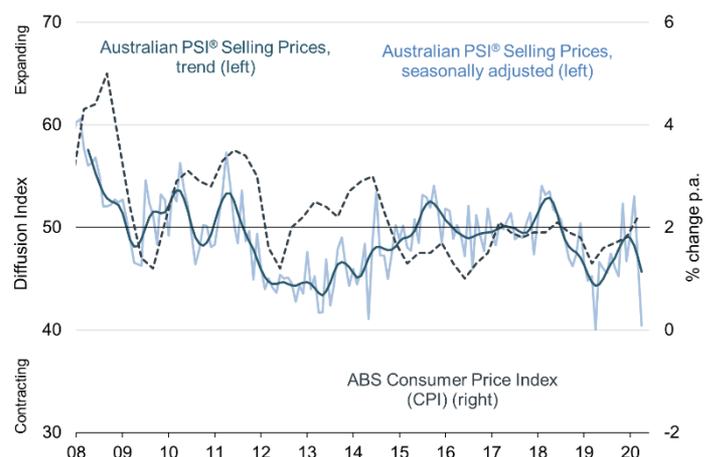
Input prices

- The ABS final producer price index (PPI) rose by 0.3% q/q and 1.4% p.a. in Q1 of 2020. This is weaker than headline consumer inflation (the CPI), which rose by 0.3% q/q and 2.2% p.a. over the same period (see 'selling prices' below).
- The Australian PSI® input price index indicated a deceleration in price rises after a sharp spike higher in March, with the index falling by 11.5 points to 61.9 points in April (seasonally adjusted).
- Following a big lift in prices in March, input prices moderated due to: a fall in petrol prices; a partial recovery of the Australian dollar; and reduced demand.



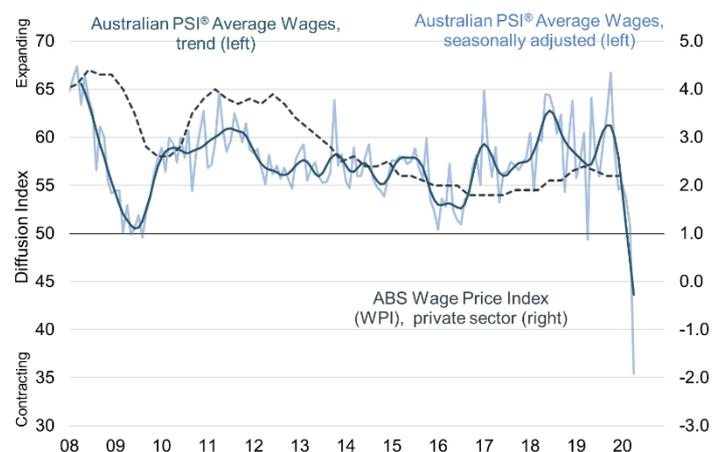
Selling prices

- The ABS headline consumer price index (CPI) accelerated to 0.3% q/q and 2.2% p.a. in Q1 of 2020.
- The selling prices index fell by 6.3 points to 40.3 points in April (seasonally adjusted).
- The selling prices index was this low in April 2019 and was at a similar level in May 2014. It has been below 50 points (and indicating price falls, on average, since 2018).
- Selling prices showed some strength in the 'health, education & community' services sector in April, but were relatively weak in other services sectors.



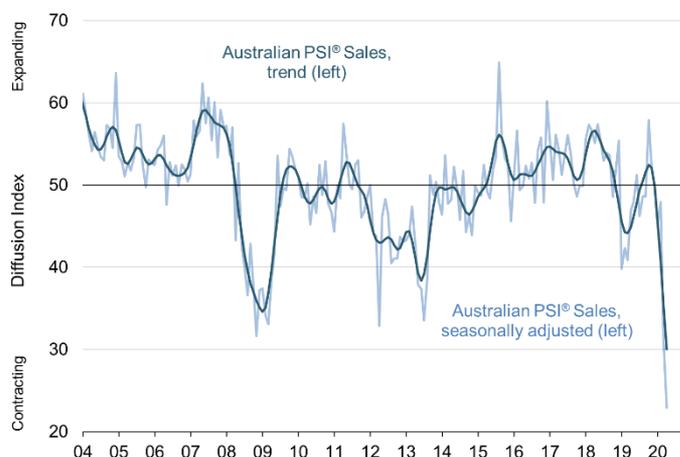
Average wages

- The ABS private sector wage index rose by 0.5% q/q and 2.2% over the year to Q4 of 2019.
- The Australian PSI® average wages index plummeted by 15.3 points to 35.4 points in April. This was the single largest monthly fall and the lowest level recorded in the history of this data series (seasonally adjusted).
- Wages growth appeared to turn negative in all services sectors except 'personal, recreational & other' services.
- The sharp drop in this index in April suggests survey respondents were probably thinking about cuts they have made to their total wages bill (in line with reduced employment) rather than cuts to their 'average wage rates'. This reflects the speed of change and confusion due to COVID-19 across the services sectors.



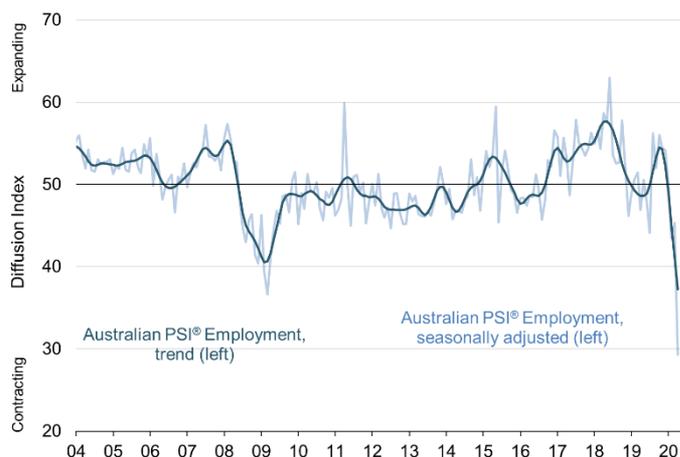
Sales

- The services sectors that are included in the Australian PSI® produced \$1030.2bn in real value-added output in the year to Q4 2019 (equal to 54.1% of total gross value-added output).
- The Australian PSI® sales index fell by 6.6 points to 24.6 points in April (seasonally adjusted). This is the lowest level ever recorded for this index in the Australian PSI®.
- Sales contracted in every services sector included in the Australian PSI® (results below 50 points).
- The COVID-19 pandemic halted or decimated sales in most sectors included in the Australian PSI®. Only a handful of businesses reported an increase in sales. They were suppliers of hygiene products or they had customers who have brought existing orders for goods or services forward, in order to ensure that they have sufficient stock.



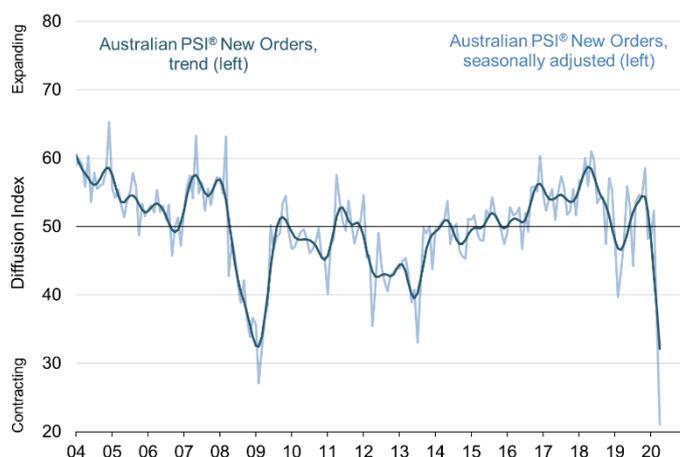
Employment

- The services sectors that are included in the Australian PSI® employed 9.3 million people in February 2020 (72% of total Australian employment, including employees in the public and private sectors).
- The employment index in the Australian PSI® plunged by 16.6 points to 28.7 points in April (seasonally adjusted). This was the largest monthly drop and the lowest level ever recorded for this index in the Australian PSI®.
- Employment contracted across all sectors in the Australian PSI®, with results well below 50 points.
- A handful of businesses reported increased employment in health, education or other essential services.



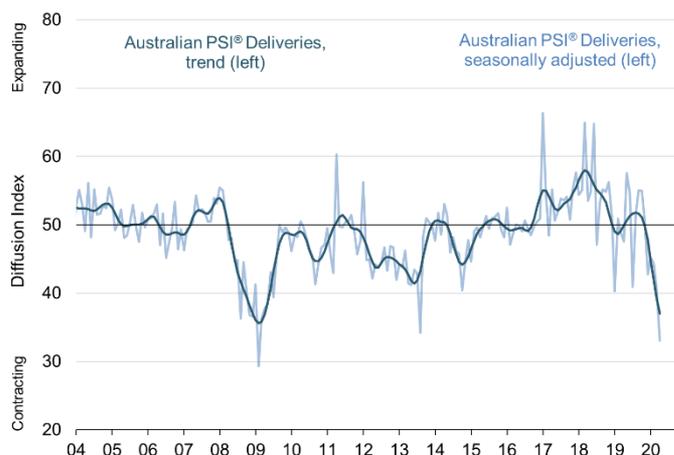
New orders

- New orders plummeted in April, with the index falling by 12.2 points to 23.1 points (seasonally adjusted).
- This is the lowest monthly result recorded in the history of this data series the second-largest monthly fall.
- New orders contracted sharply in every sector.
- A large proportion of respondents noted a drop in orders due to the COVID-19 activity restrictions. A small number of businesses reported an increase in new orders in April. They were health product suppliers, food suppliers and those whose existing customers increased orders in order to ensure future stock levels.



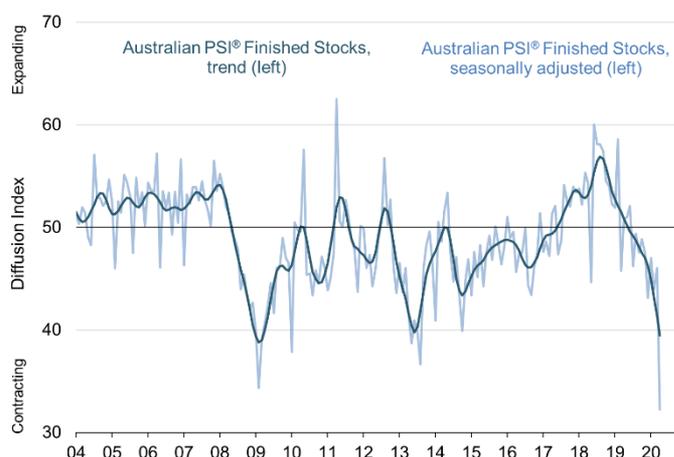
Supplier deliveries

- The Australian PSI® supplier deliveries index deteriorated by 8.3 points to 32.4 points in April (seasonally adjusted), indicating a faster rate of contraction than March.
- This is the lowest level for the supplier deliveries index since February 2009, during the Global Financial Crisis.



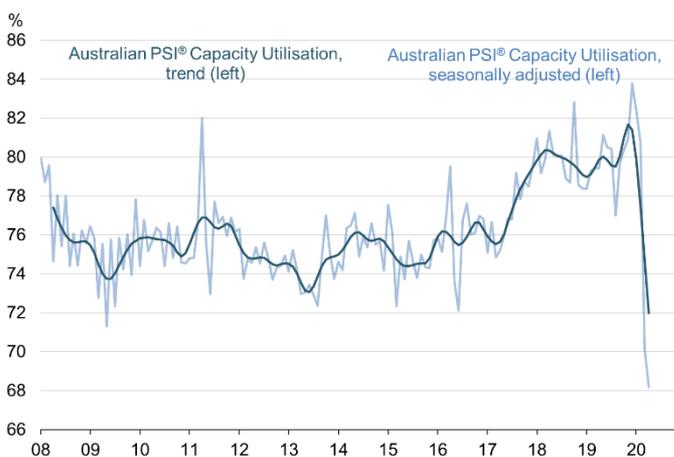
Finished stocks

- The index for finished stocks (inventories) collapsed by 14.6 points to 31.5 points in March (seasonally adjusted).
- This is the largest monthly fall and the lowest result ever recorded for this index in Australian PSI®.
- This index has been under 50 points and trending lower since the middle of 2019, indicating a longer-term reduction in stocks (inventories) was already under way.
- Stock levels were lower across all sectors included in the Australian PSI® except for 'personal, recreational, & other' services.



Capacity utilisation

- Capacity utilisation across the services sectors dropped by 1.7 percentage points to 68.5% of available capacity being used in April.
- This was the lowest capacity utilisation rate recorded in the history of the Australian PSI®.
- The smaller fall this month (compared to March) suggests that much of the decrease in capacity utilisation may have already taken place in March, as businesses reduced activity or ceased operating for the time being.
- Most currently dormant businesses are already planning to reopen in the future, after restrictions are eased. Unfortunately some businesses may cease to operate entirely, thus removing their capacity more permanently from the economy (and from this Australian PSI® survey).



Australian PSI® data definitions

Business services sectors

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 6 sectors in the Australian PSI® are:

1. Business, Property, Information & Telecommunications services - Divisions J, 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; 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.
2. Logistics (Wholesale Trade, Transport & Storage) - Divisions I and F - includes businesses mainly engaged in the purchase and on-selling, the commission-based buying, and/or the commission-based selling of goods, without significant transformation, to businesses; 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.
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.

Consumer services sectors

4. Retail Trade & Hospitality (Accommodation & Food Services) - Divisions G and H - includes businesses mainly engaged in the purchase and on-selling of goods, without significant transformation, to the public. The Retail Trade Division also includes units that purchase and on-sell goods to the public using non-traditional means, including the internet.; businesses providing short-term accommodation for visitors and/or meals, snacks, and beverages for consumption by customers both on and off-site.
5. 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.
6. Arts, Recreation, Personal & 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.



What is the Australian PSI®? The Australian Industry Group Australian Performance of Services Index (Australian PSI®) is a national composite index based on the diffusion indices for production, new orders, deliveries, inventories and employment with varying weights. An Australian PSI® reading above 50 points indicates that the services sector 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 businesses. The Australian PSI® uses the ANZSIC industry classifications for industry 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/resourcecentre/economics>.

© The Australian Industry Group, 2020. 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.