

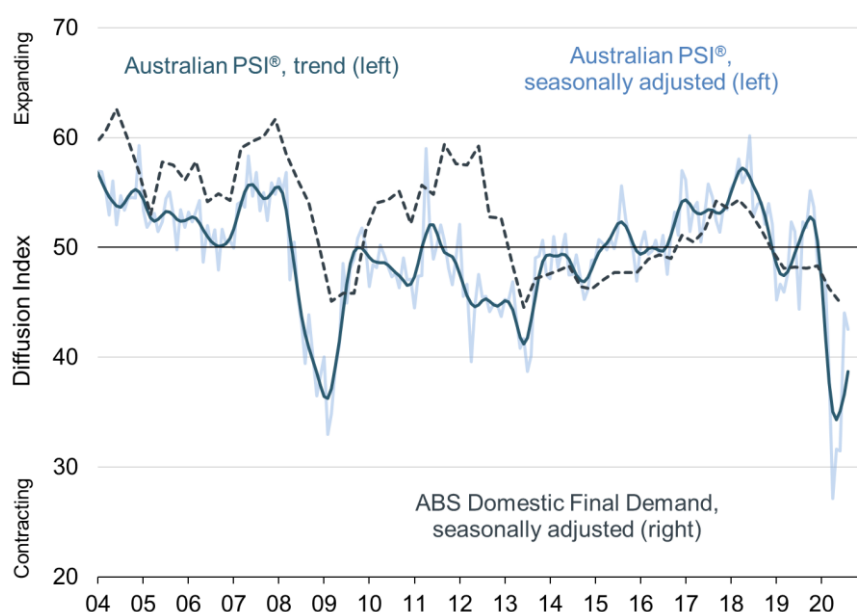
Melbourne lockdown contributes to services decline in August

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell by 1.5 points to 42.5 points in August 2020 (seasonally adjusted), indicating a further contraction in activity and at a faster pace than in July. Results below 50 points indicate contraction in the Australian PSI® with lower numbers indicating a stronger pace of decline.

The Australian PSI® continued to indicate contraction in all sectors in August (trend). The introduction of stage 4 restrictions in the greater Melbourne area following some optimism in July weighed heavily on business activity in Victoria and the impact was felt across other states. All indicators were firmly negative for August and employment decreased significantly from the previous month.

Lower customer demand, increased activity restrictions and uncertainty all contributed to the deterioration in services activity in August. Consumer sales have been impacted by business closures and reduced operating capacity, tightening income and falling employment. Some business-oriented respondents reported that uncertainty regarding timing for conditions to ease in Melbourne, coupled with concern that they could be introduced in other locations was delaying investment decisions and dampening demand.

Australian PSI® (seasonally adjusted and trend)



AUGUST 2020

MEDIA CONTACT

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Australian PSI® ▼ 1.5 points (seasonally adjusted)	42.5
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Australian PSI® ▲ 2.1 points (trend)	38.7
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Business & property services ▲ 0.3 points (trend)	34.8
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Logistics ▲ 3.4 points (trend)	43.5
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Finance & insurance ▲ 3.7 points (trend)	38.2
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Retail trade & hospitality ▲ 1.5 points (trend)	42.4
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Health & community ▲ 0.3 points (trend)	36.2
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Personal, recreation & other services ▲ 2.6 points (trend)	40.3
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Business-oriented services sectors: All three of the business-oriented sectors included in the Australian PSI® contracted in August (trend). The index for the business & property sector reflected similar results to July, while the contraction in the index for logistics (wholesale trade, transport & storage businesses) eased slightly following on from some optimism in July. The finance & insurance sector improved somewhat from the very low results seen in April, May and June (trend). Lower index values indicate a faster rate of contraction.

Consumer-oriented services sectors: In trend terms, all three of the consumer-oriented sectors contracted in August. The 'health & education and community' index recorded its third lowest month. The contraction in 'personal, recreational and other services' index eased from recent lows. The decline in the retail and hospitality continued to ease as restrictions on activity were rolled back across Australia, except for Victoria, and online sales increased for some respondents.

Services prices and wages: The input price index rose slightly in August as a result of increased competition for inputs, continued disruption of some supply chains and improved demand in some locations. The average wage price index continued to contract (results under 50 points) and the rate of contraction increased. Selling prices fell at a slower rate as fewer businesses reported deflationary pressures in August in the Australian PSI® (seasonally adjusted).

Services activity, orders and employment: All of the activity indices in the Australian PSI® contracted in August (seasonally adjusted). The rate of contraction for employment increased significantly. New orders and supplier deliveries contracted slightly more than in July. The rate of decline in inventory levels eased and sales reported contraction at almost the same rate as July.

Capacity utilisation fell by 0.6 percentage points to 74.3% of available capacity being used in August. This index has picked up compared to the historical lows reported in the June quarter but remains well below results of the past two years.

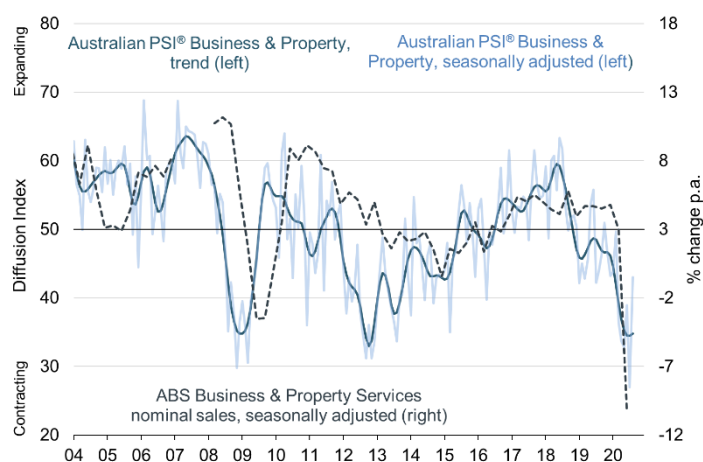
Services highlights: Government financial stimulus including construction sector incentives were nominated by respondents as having a positive impact on activity. Easing activity restriction across some states led to an improvement in customer demand. Some business-oriented respondents reported ongoing steady demand particularly for technology and communication services. There was an increase in sales through online channels reported as well as an increase in orders from locations other than Victoria.

Services concerns: Ongoing lower demand due to the COVID-19 global pandemic and the introduction of stage 4 restrictions in greater Melbourne were the the most frequently reported factors affecting services businesses in August. Customers were wary of the potential for increased activity restrictions in areas other than Victoria, and a lack of certainty generally continued to delay orders and investment decisions. Some respondents noted that there are ongoing limitations accessing customer sites reducing their ability to undertake servicing jobs and delaying maintenance projects.

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®	42.5	-1.5	49.9	Australian PSI®	38.7	2.1	49.7
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	43.3	-0.1	50.2	Business & property	34.8	0.3	50.4
Employment	39.4	-7.9	50.1	Logistics	43.5	3.4	46.7
New Orders	45.2	-1.7	50.5	Finance & insurance	38.2	3.7	52.6
Supplier deliveries	44.7	7.4	48.8				
Finished stocks	38.4	-1.6	48.9	<i>Consumer-oriented services</i>			
Capacity Utilisation (%)	74.3	-0.6	76.2	Retail trade & hospitality	42.4	1.5	47.7
<i>Prices and wages</i>				Health & education	36.2	0.3	51.7
Input Prices	55.5	3.0	63.9	Personal, recreational & other	40.3	2.6	53.3
Selling Prices	45.4	5.1	48.3				
Average Wages	43.4	-2.4	56.7				
Results above 50 points indicate expansion. All indexes for sub-sectors in the Australia PSI® are reported in trend terms (Henderson 13-month filter).							

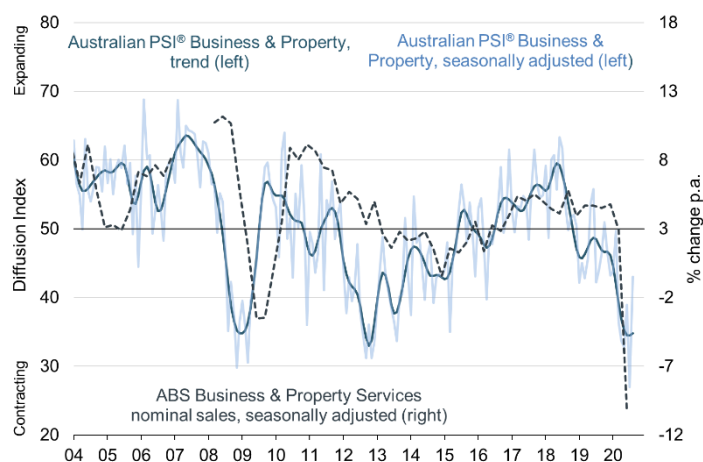
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$295.9bn in real value-added output in the year to Q2 2020 (equal to 15.7% of GDP).
- Business & property services employed 1,902,300 people in May 2020 (16% of total employment).
- The index for business & property services improved by 0.3 points to 34.8 points in August (trend).
- Some respondents noted ongoing steady demand for ICT services, and that government stimulus maintained sales levels in August. Many reported lower demand, due to uncertainty and investment decisions being delayed.



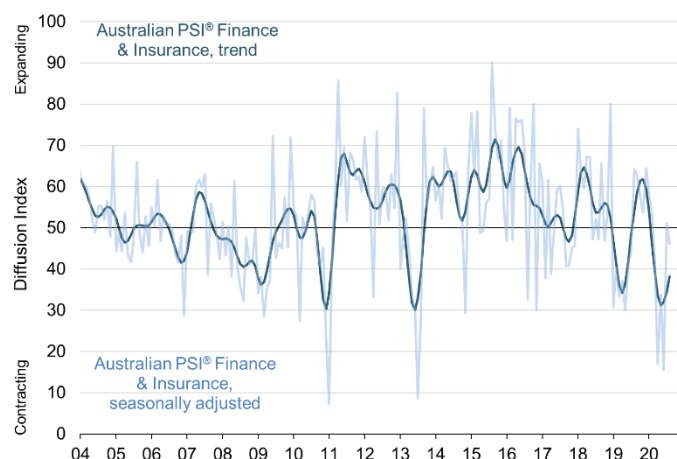
Logistics

- Logistics includes wholesale trade, transport & storage services. It produced \$150.9bn in real value-added output in the year to Q2 2020 (equal to 8.0% of GDP).
- Logistics employed 973,600 people in May 2020 (8% of total employment).
- The logistics index lifted slightly rising by 3.4 points to 43.5 points in August (trend).
- Some respondents reported lower sales to Victorian customers and those supplying to the retail and hospitality sectors were particularly affected. Positive stories included resumption of orders to overseas customers that had previously paused and increased sales through online sites.



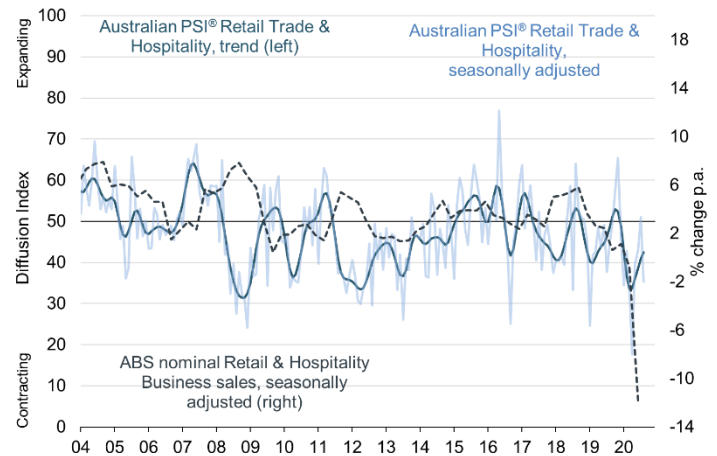
Finance & insurance

- Finance & insurance services (including banking, finance, insurance and superannuation services) produced \$168.1bn in real value-added output in the year to Q2 2020 (equal to 8.9% of GDP).
- This sector employed 486,300 people in May 2020 (4% of total employment).
- The finance & insurance sector's index rose by 3.7 points to 38.2 points in August (trend).
- Improving sales in states other than Victoria and strong localised pockets of demand was not enough to offset the uncertainty dampening demand for products and services from this sector.



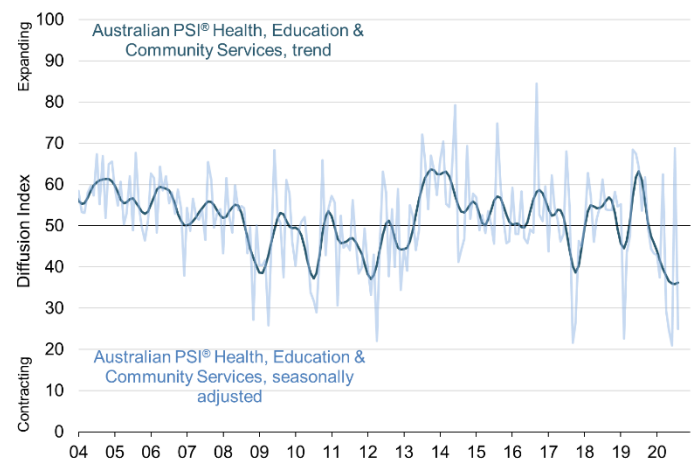
Retail trade & hospitality

- The retail and hospitality sector (including retail shops, restaurants, cafes, take-aways and hotels) produced \$116.0bn in real value-added output in the year to Q2 2020 (equal to 6.2% of gross domestic product).
- It employed 1,835,000 people in May 2020 (15% 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 lifted slightly by 1.5 points to 42.4 points in August (trend).
- Some retailers selling locally produced stock benefitted from international supply chains being disrupted.
- While still firmly negative, easing restrictions resulted in increased trade for retailers and hospitality businesses in locations other than Victoria; some businesses reported an increase in online sales.



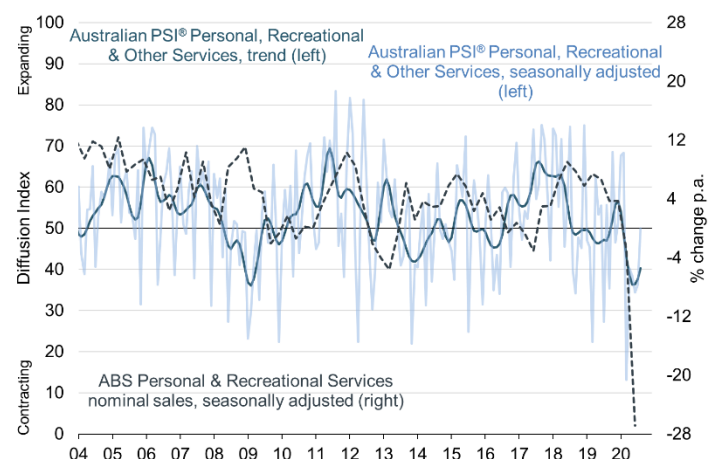
Health, education & community services

- Health, education & community services produced \$234.4bn in real value-added output in the year to Q2 2020 (12.5% of gross domestic product).
- This industry employed 2,765,100 people in May 2020 (23% 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 remained negative but eased slightly lifting 0.3 points to 36.2 points in August (trend)
- The increase in activity restrictions in Victoria weighed particularly heavily on the sector in August.

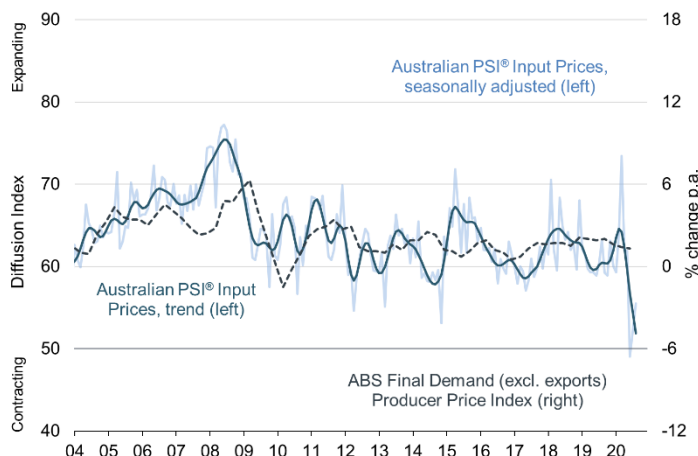


Personal, recreational & other services

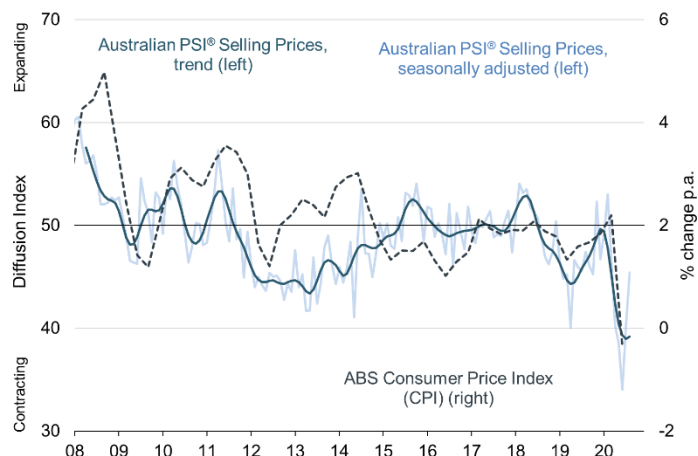
- Personal, recreational, & other services produced \$47.4bn in real value-added output in the year to Q2 2020 (equal to 2.5% of gross domestic product).
- This sector employed 596,200 people in May 2020 (5% of total employment). 49% of workers in recreational services and 32% in personal services are part-time.
- The index for 'recreational, personal & other' services eased by 2.6 points to 40.6 points in August (trend).
- Easing restrictions in some locations and government stimulus supported some personal services. Others reported lower discretionary spending due to reduced employment, uncertainty and trading restrictions.



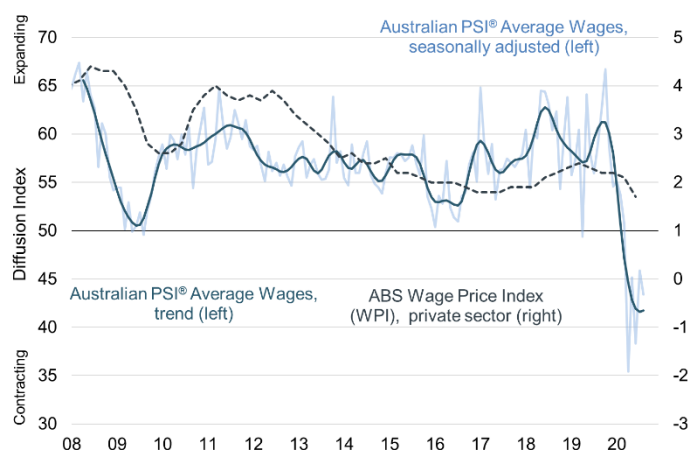
Input prices



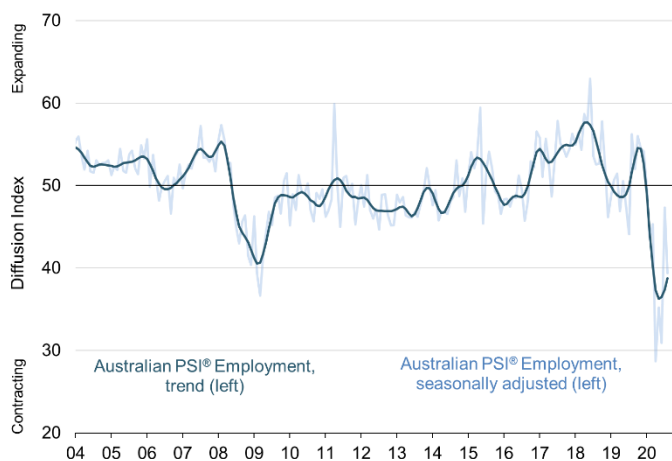
Selling prices



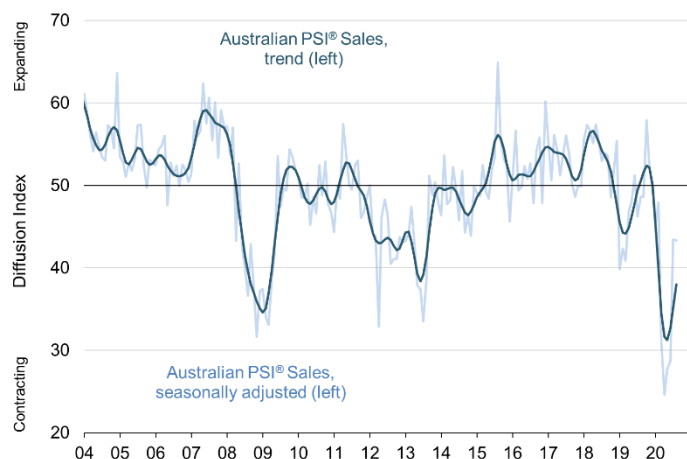
Average wages



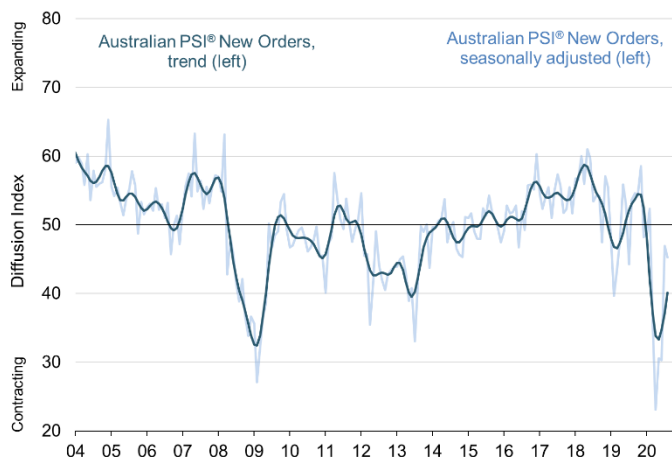
Employment



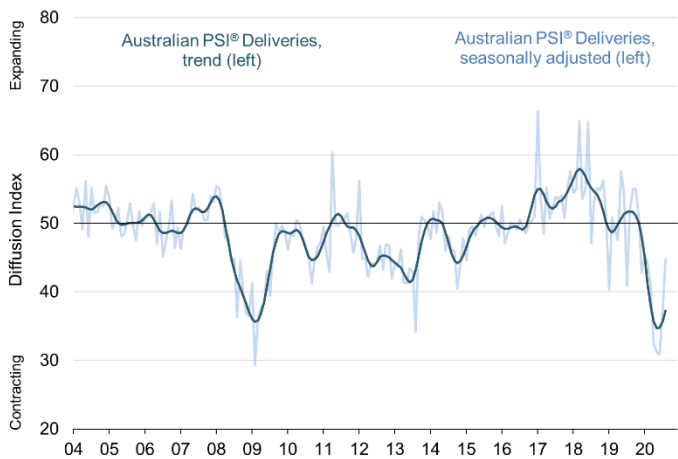
Sales



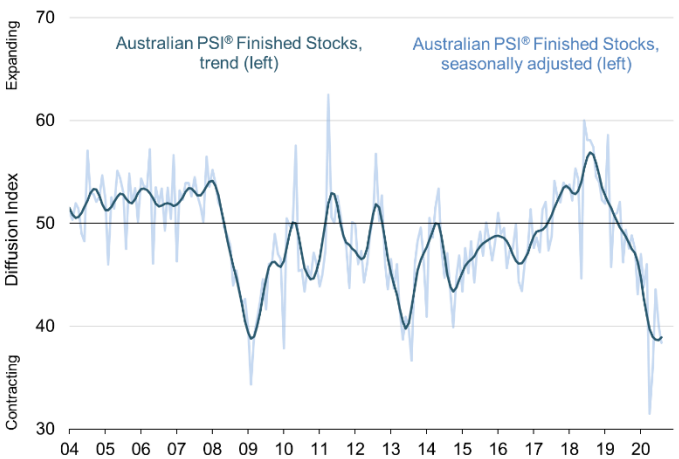
New orders



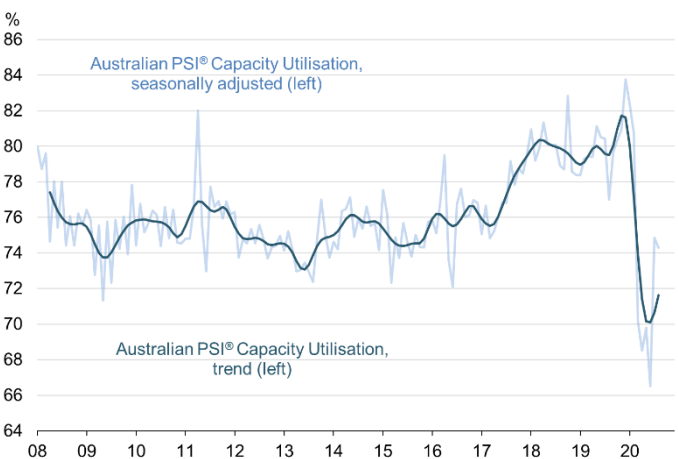
Supplier deliveries



Finished stocks (inventories)



Capacity utilisation



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 onselling, 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 sales, 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>.

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