

Services deflate further in September

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell by 6.3 points to 36.2 points in September 2020 (seasonally adjusted), indicating a further reduction in activity and at a faster pace than in August. Results below 50 points indicate contraction in the Australian PSI® with lower numbers indicating a stronger decline.

The Australian PSI® continued to indicate contraction in all sectors for which results were available in September (trend). The muted optimism seen in July diminished across August and September, as the depth and longevity of activity restrictions and border closures continued to weigh on demand nationally. All indicators were firmly negative in September, with the indices for sales, new orders and supplier deliveries decreasing significantly from the previous month.

The stage four activity restrictions in Melbourne were frequently mentioned by survey respondents as having a strong constraining effect on demand. Business closures, uncertainty, lack of opportunity and difficulty accessing finance also weighed heavily on activity for some respondents. Positive pockets of trade were driven by ongoing strength in goods for home-based activities including home improvement, entertainment and health-related products. Some businesses in locations with no reports of COVID-19 noted improving optimism among their local customers. Others said that demand is returning from their international customers.

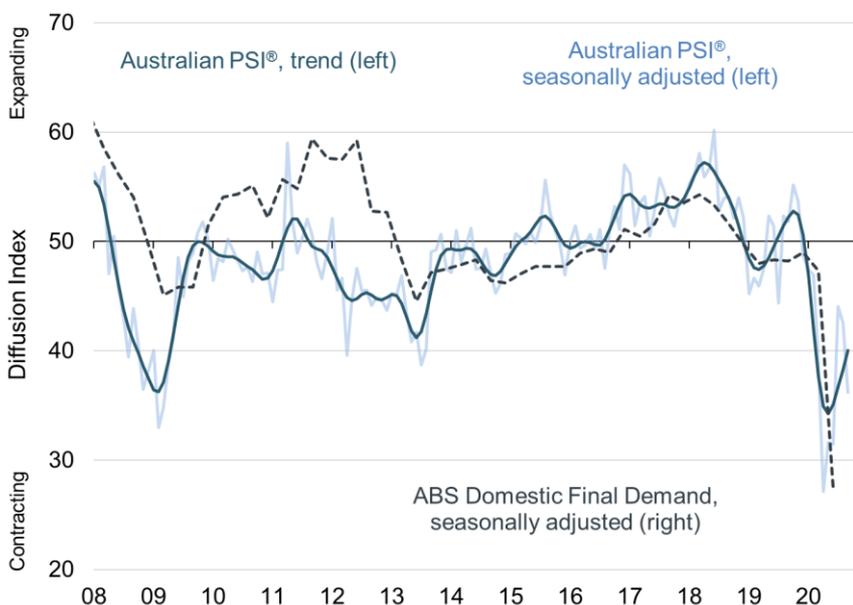
SEPTEMBER 2020

MEDIA CONTACT

Tony Melville
Australian Industry Group
Tel: 0419 190 347

Australian PSI® ▼ 6.3 points (seasonally adjusted)	36.2
Australian PSI® ▲ 1.7 points (trend)	40.0
Business & property services ▲ 2.1 points (trend)	39.1
Logistics ▲ 2.5 points (trend)	45.9
Finance & insurance	na*
Retail trade & hospitality ▲ 1.2 points (trend)	43.0
Health & community	na*
Personal, recreation & other services ▲ 5.8 points (trend)	50.6

Australian PSI® (seasonally adjusted and trend)



Business-oriented services sectors: The business-oriented sectors for which results were available in this month's Australian PSI® contracted again in September, but at a slowing pace (trend). The indices for business & property and logistics indicated a slower pace of contraction than in recent months, but remained firmly negative. Respondents said the activity restrictions in Victoria are inhibiting demand across the country. Businesses who had seen sustained sales and orders from other businesses earlier in the pandemic reported that demand is starting to flag and activity is waning.

Consumer-oriented services sectors: The 'retail & hospitality' sector contracted and 'personal, recreational and other services' was broadly stable in September (trend). The decline in retail & hospitality services (including cafes, restaurants and accommodation) continued to ease, as activity restrictions were rolled back in states other than Victoria. Retail demand for home improvement and home entertainment goods rose and online sales increased for some respondents. Restrictions for hospitality businesses eased and activity improved in September in most locations other than Victoria.

Services prices and wages: The input price index rose in September. Prices continue to pick up speed after a record low for this index in July 2020. The average wage price index turned positive in September, following an unprecedented five months in contraction. Selling prices fell at a similar rate to August, suggesting businesses are still facing deflationary pressures, despite demand improvements in some locations (seasonally adjusted).

Services activity, orders, employment and deliveries: All of the activity indices in the Australian PSI® contracted in September (seasonally adjusted). The rate of contraction for employment eased, but the indices for sales, new orders and supplier deliveries deteriorated strongly over the month, reflecting some of the largest falls in monthly activity in the Australian PSI®. The rate of decline in inventory levels eased. Participants reported continuing disruptions to supply chains.

Capacity utilisation fell by 2.0 percentage points to 72.3% of available capacity being used in September. Despite a pickup in July this index remains well below results of the past two years in seasonally adjusted and trend terms.

Services highlights: Discretionary spending was directed to home renovations, interior improvements and home-based entertainment bolstered in part by government incentives for construction. Easing restrictions across some states led to an improvement in activity. Agricultural dependent localised economies noted steady demand. Online sales were strong for some businesses, while others have noted an optimism from customers in locations where there are no confirmed active cases of COVID-19. There are some reports of increased demand from overseas customers after a lull the past few months.

Services concerns: Strict activity restrictions and border closures continue to weigh on demand across the services sectors nationally. Stage four restrictions in Melbourne were maintained throughout September, with total closure or heavily restricted trade for many services sectors. Reduced confidence and heightened uncertainty continue to be evident elsewhere. Businesses who had seen sustained demand earlier in the pandemic are starting to flag. Lack of certainty, lack of opportunities and reduced access to finance are increasingly being reported as concerns for businesses.

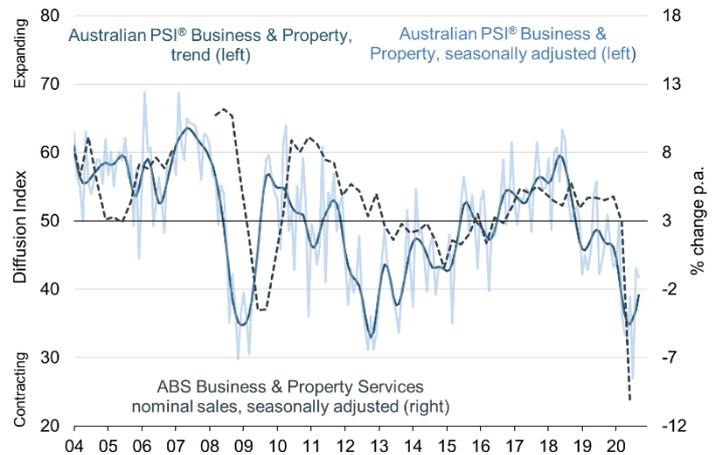
Australian PSI® key numbers	Index this month	Change from last month	Series average	Australian PSI® sectors	Index this month	Change from last month	Series average
<i>Seasonally adjusted</i>				<i>trend</i>			
Australian PSI®	36.2	-6.3	49.9	Australian PSI®	40.0	1.7	49.7
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	28.3	-15.0	50.1	Business & property	39.1	2.1	50.4
Employment	46.7	7.3	50.1	Logistics	45.9	2.5	46.7
New Orders	36.4	-8.8	50.5	Finance & insurance	na*	na*	52.4
Supplier deliveries	28.5	-16.2	48.7	<i>Consumer-oriented services</i>			
Finished stocks	40.3	1.9	48.9	Retail trade & hospitality	43.0	1.2	47.6
Capacity Utilisation (%)	72.3	-2.0	76.1	Health & education	na*	na*	51.5
<i>Prices and wages</i>				Personal, recreational & other	50.6	5.8	53.3
Input Prices	59.5	4.0	63.9				
Selling Prices	45.2	-0.2	48.3				
Average Wages	52.5	9.1	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).

* Results are not available for this sector in this month due to unusually low survey response numbers. All sectors are included in the total results.

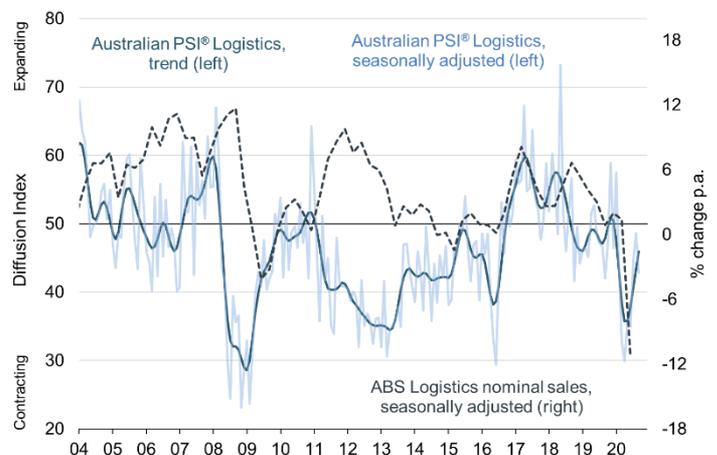
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$295.8bn in real value-added output in the year to Q2 2020 (equal to 15.7% of GDP, ABS data).
- Business & property services employed 1,931,000 people in August 2020 (15.4% of total employment).
- The index for business & property services improved by 2.1 points to 39.1 points in September (trend).
- Businesses supplying to agriculture noted that there had been fewer effects for those customers and local demand had been steady. Real estate and other property related services noted a severe downturn in Victoria due to heavily restricted conditions for the industry.



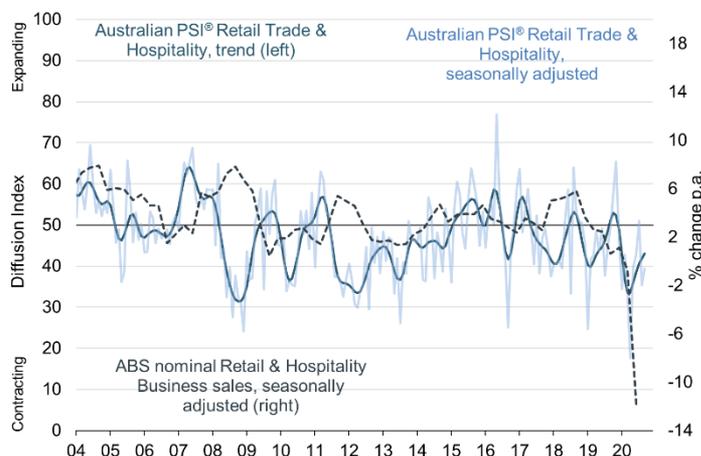
Logistics

- Logistics includes wholesale trade, transport and storage services. It produced \$150.9bn in real value-added output in the year to Q2 2020 (equal to 8.0% of GDP, ABS data).
- Logistics employed 1,004,800 people in August 2020 (8% of total employment).
- The logistics index lifted slightly by 2.5 points to 45.9 points in September (trend).
- Logistics businesses nationally continue to be affected by the ongoing ‘stage four’ activity restrictions in Melbourne, which is a central hub for many wholesaling, freight and logistics operations.
- There is some indication that overseas customers of wholesalers and exporters are beginning to return, after a long pause in orders.
- Wholesale suppliers of home improvement products noted an increase in demand nationally, due to the increased focus on home-based activities.



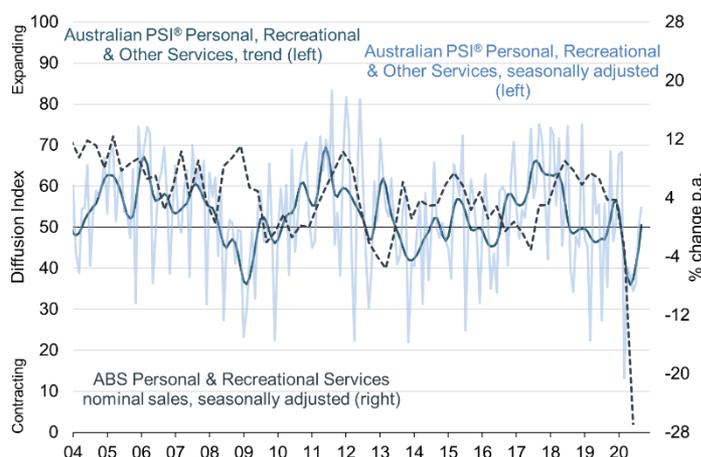
Retail trade & hospitality

- The retail and hospitality sector (including retail shops, restaurants, cafes, take-aways, hotels and accommodation providers) produced \$116.0bn in real value-added output in the year to Q2 2020 (equal to 6.2% of GDP, ABS data).
- It employed 2,017,400 people in August 2020 (16% 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 1.2 points to 43.0 points in September (trend).
- Some respondents reported increased demand for retail goods for home-based activities including home renovation products, furnishings and entertainment. This is replacing other discretionary spending.
- While still firmly negative, easing restrictions resulted in increased trade for retailers and hospitality businesses in locations other than Melbourne. Some businesses also reported an increase in online sales. Ongoing 'stage four' restrictions continue to greatly constrain trade in Melbourne with some businesses closing for the duration.

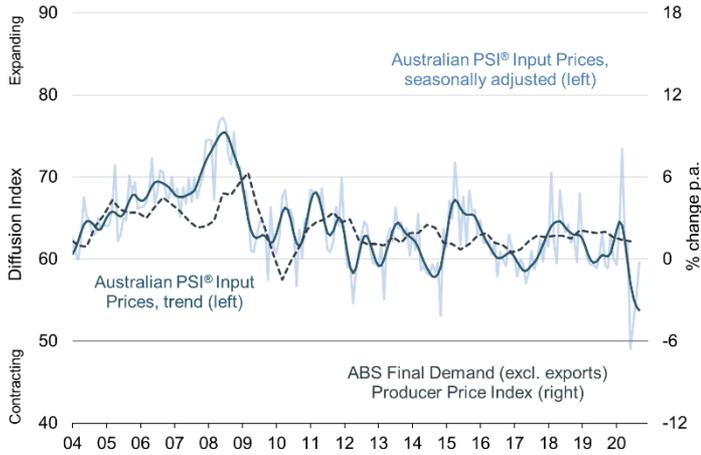


Personal, recreational & other services

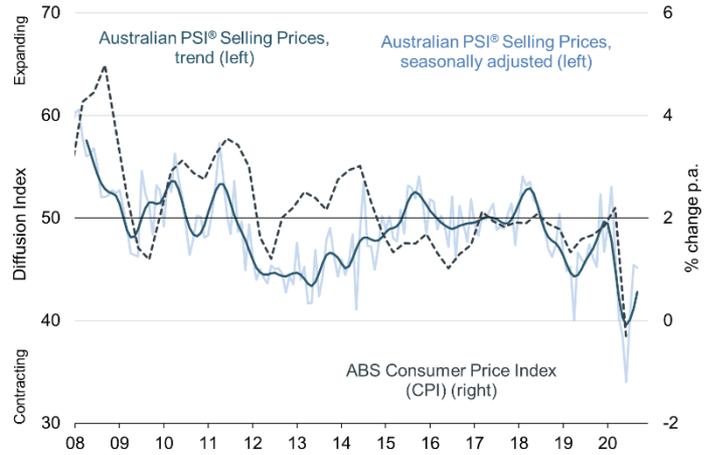
- Personal, recreational, & other services produced \$47.4bn in real value-added output in the year to Q2 2020 (equal to 2.5% of GDP, ABS data).
- This sector employed 651,200 people in August 2020 (5.2% of total employment).
- The index for 'recreational, personal & other' services rose by 5.8 points to 50.6 points in September (trend), indicating broadly stable conditions nationally.
- Participants reported that easing activity restrictions in some locations, combined with government stimulus payments, supported demand for personal and recreational services in September.
- Some regional businesses reported good local demand due to a strong agricultural season.
- Lack of discretionary spending, restrictions in trade and ongoing uncertainty had a dampening effect in Melbourne and to a lesser extent, regional Victoria.



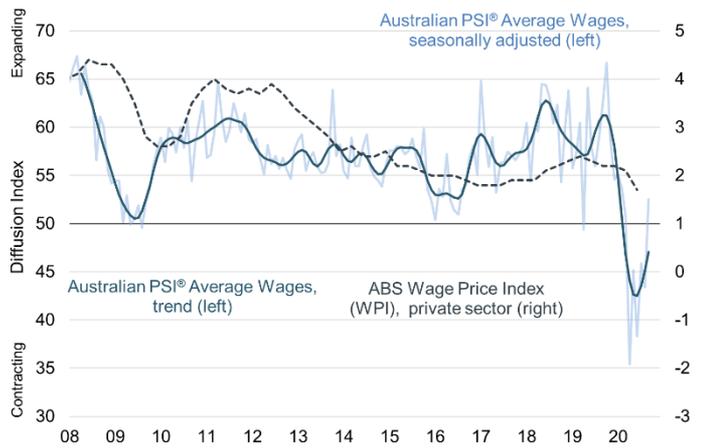
Input prices



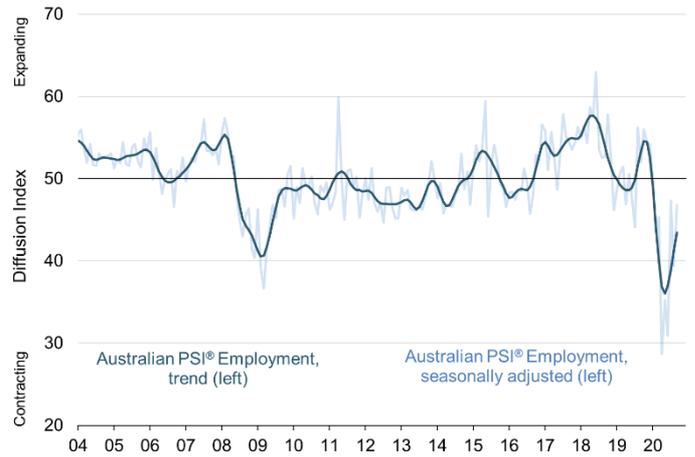
Selling prices



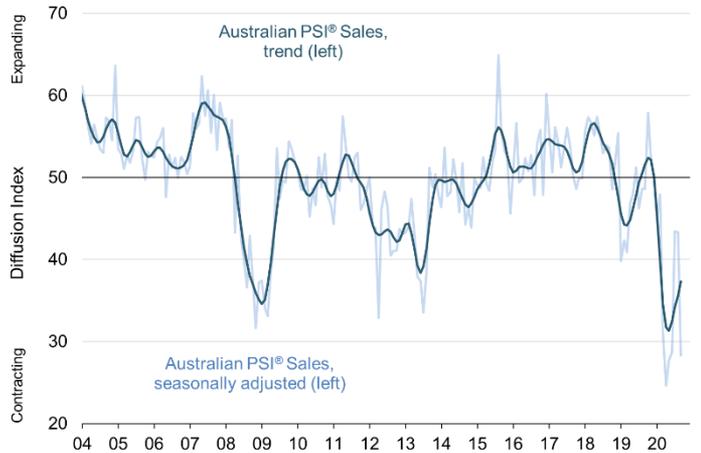
Average wages



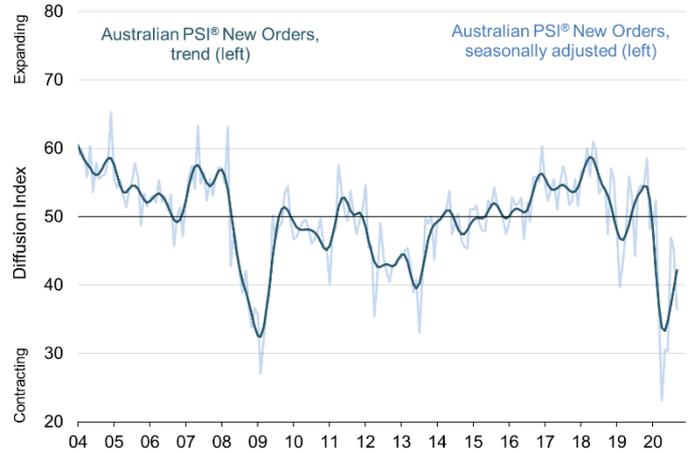
Employment



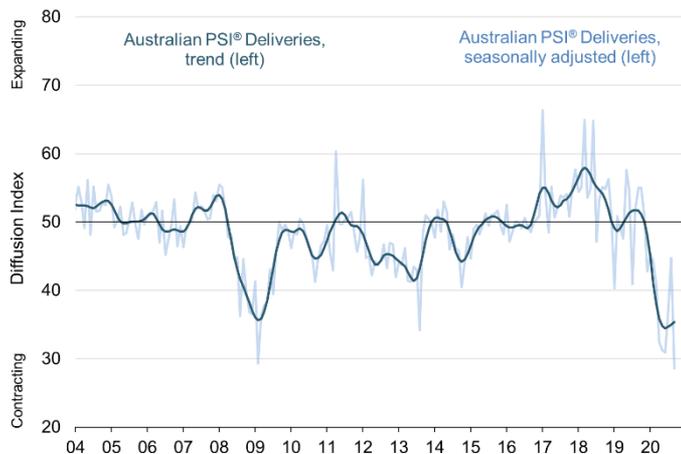
Sales



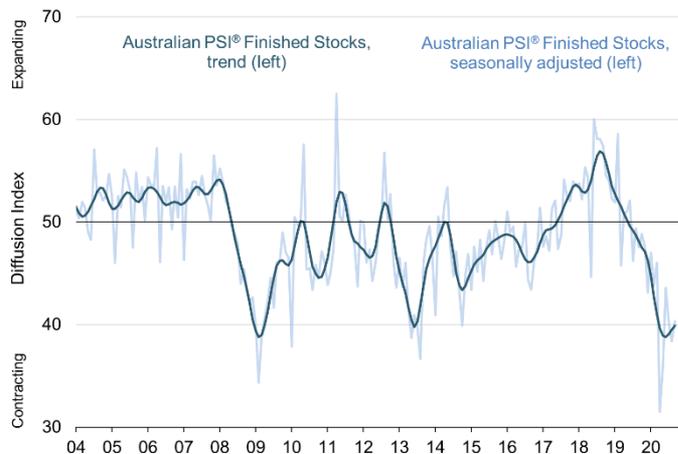
New orders



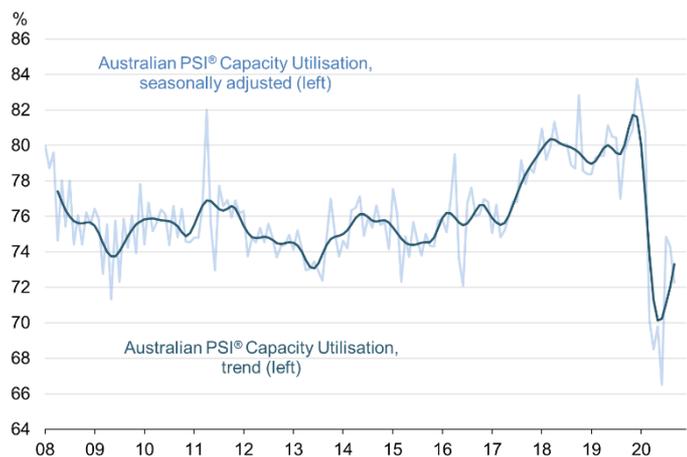
Supplier deliveries



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 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 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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