

# Stronger sales and new orders for the services sectors in March

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose by 2.9 points to 58.7 points (seasonally adjusted) in March 2021 indicating a stronger pace of recovery following the COVID-19 recession of 2020. This was the highest monthly result in the **Australian PSI®** since June 2018. Results above 50 points indicate expansion in the **Australian PSI®**, with higher numbers indicating a stronger expansion.

All five of the services sectors available in the **Australian PSI®** in March indicated strong rates of recovery, with monthly results well above 50 points (seasonally adjusted). Four activity indicators - sales, new orders, stocks and deliveries - showed robust recovery in the month but the employment index indicated stable or mildly decreasing employment in March.

Participants this month said that concerns about further freight delays and potential supply disruptions are causing some business customers to bring forward their orders and/or to build up their inventories. Demand is strong for businesses selling into the construction sector which is benefiting from strong local consumer spending on home-based goods and services and home improvements. This is benefiting sectors including property services, transport, logistics, wholesalers and retailers of homewares and hardware.

March 2021

## MEDIA CONTACT

Tony Melville  
Australian Industry Group  
Tel: 0419 190 347

<b>Australian PSI®</b> ▲ 2.9 points (seasonally adjusted)	<b>58.7</b>
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<b>Australian PSI®</b> ▲ 1.5 points (trend)	<b>58.5</b>
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<b>Business &amp; property services</b> ▲ 10.7 points (seasonally adjusted)	<b>55.0</b>
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<b>Logistics</b> ▲ 8.3 points (seasonally adjusted)	<b>69.4</b>
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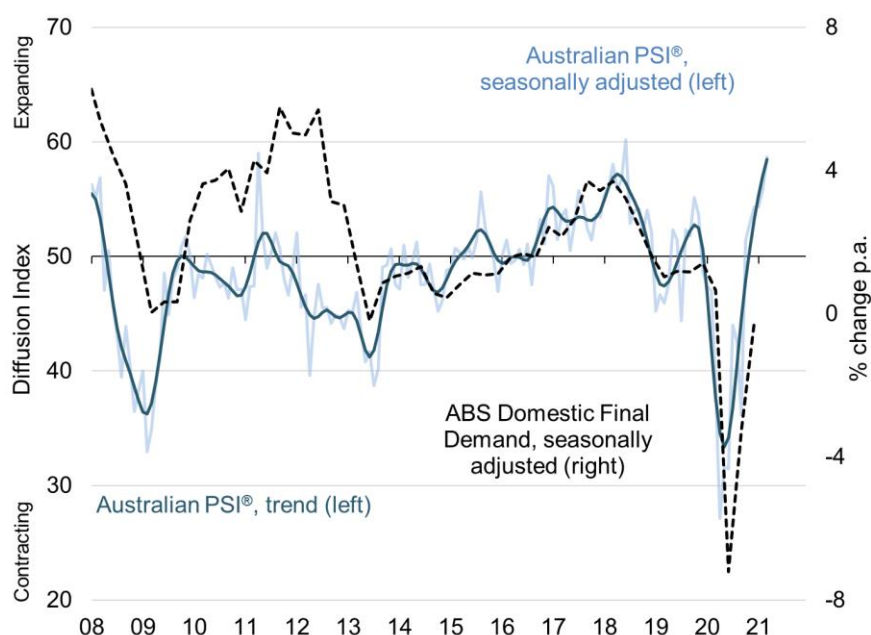
<b>Finance &amp; insurance</b>	<b>n.a.</b>
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<b>Retail trade &amp; hospitality</b> ▲ 0.4 points (seasonally adjusted)	<b>54.4</b>
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<b>Health &amp; community</b> ▼ 5.0 points (seasonally adjusted)	<b>61.3</b>
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<b>Personal, recreation &amp; other services</b> ▲ 1.2 points (seasonally adjusted)	<b>55.0</b>
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**Australian PSI® and ABS domestic final demand**



**Business-oriented services sectors:** The business oriented sectors in the **Australian PSI®** expanded in March. Logistics improved further in the month (seasonally adjusted), as strong demand and easing restrictions continued to boost activity for wholesale, freight transport and related services. Property and business services reported improved conditions, on average, due to a surge in demand. Government stimulus for construction continued to boost demand for business and property services that supply or support residential construction (e.g. accounting, legal, design and real estate). Higher commodity prices and a recovery in local manufacturing activity benefited logistics and ‘businesses services’ respondents.

**Consumer-oriented services sectors:** All three consumer sectors continued to recover in March (seasonally adjusted). Delayed spending in previous months, easing restrictions and improved confidence lifted demand in the consumer sectors. Stimulus to the construction sector, an improved outlook and low interest rates benefited businesses focused on home-based goods and services. Some respondents noted that consumers seem to be redirecting savings and funds that would otherwise have been spent on holidays and travel into home improvements.

**Services prices and wages:** The input price index rose further in March (seasonally adjusted). This marked nine months of input price increases following a record low for this index in June 2020. The average wage index also rose in March, indicating stronger wage pressures after a record low for this index in 2020. The selling price index rose to its highest result since January 2008. This suggests more businesses are passing on higher input costs, after a year of subdued prices.

**Services activity, orders, employment and deliveries:** The activity indices for sales, new orders, deliveries and inventories recorded a robust rate of growth in March (seasonally adjusted), but the employment index indicated a mild decline from the previous month. With the exception of the employment index, these were the best conditions (i.e., the highest activity index results) reported by businesses in the **Australian PSI®** since June 2018.

**Capacity utilisation** rose by 2.2 percentage points to 82.4% of available capacity being utilised across the services sectors in March 2021. This is the highest proportion of capacity in use since January 2020, and is above the long-term average rate of capacity utilisation in the **Australian PSI®**. This suggests that employment and/or investment will need to expand further, in order to facilitate further growth in activity and output during the remainder of 2021.

**Services highlights:** Businesses reported improved conditions and sales to household customers in March, as easing restrictions combined with a large degree of pent-up demand. Many participants said their activity levels in March were on par with their typical pre-pandemic levels of demand. Respondents selling services into business sectors (e.g. wholesale trade and logistics) reported that their customers are constructively increasing their inventory levels as a buffer to future supply disruptions and to lock in product pricing and freight costs, due to fears they may be disrupted or delayed again.

**Services concerns:** Businesses continue to report widespread concerns about high freight charges, availability of transport and the availability of stock in March. Some respondents reported building stock levels to hedge against future shortages, while others are deliveing finished stocks to customers as soon as possible in order to avoid freight delays or price rises. International and interstate travel restrictions continue to dampen demand for tourism and accommodation services.

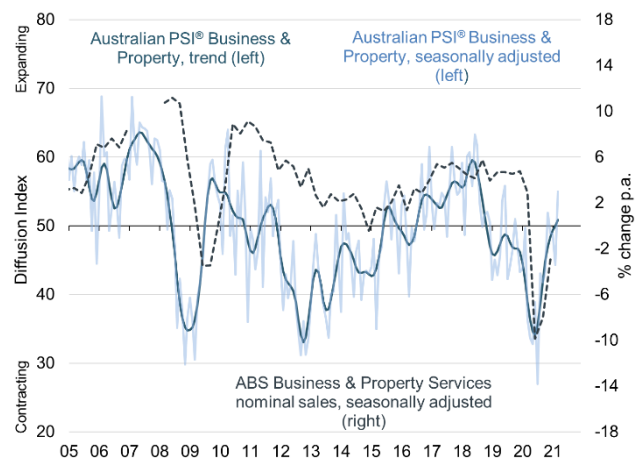
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	12-month average	Australian PSI® sectors	Index this month	Change from last month	12-month average
<b>Australian PSI® (s.a.)</b>	<b>58.7</b>	2.9	<b>50.0</b>	<b>Australian PSI® (trend)</b>	<b>58.7</b>	<b>2.9</b>	<b>50.0</b>
<i>Activity indexes seasonally adjusted</i>				<i>Business-oriented services Seasonally adjusted</i>			
Sales	63.7	-2.0	50.3	Business & property	55.0	10.7	50.7
Employment	49.0	6.3	50.2	Logistics	69.4	8.3	47.2
New Orders	67.5	9.1	50.6	Finance & insurance	na	na	52.8
Supplier deliveries	54.8	-2.5	48.8	<i>Consumer-oriented services Seasonally adjusted</i>			
Finished stocks	54.2	-0.8	48.9	Retail trade & hospitality	54.4	0.4	47.9
Capacity Utilisation (%)	82.4	2.2	76.2	Health & education	61.3	-5.0	51.8
<i>Prices and wages</i>				Personal, recreational & other services	55.0	1.2	53.4
Input Prices	64.7	0.3	63.8				
Selling Prices	57.9	1.7	48.4				
Average Wages	61.0	2.7	56.8				

Results above 50 points indicate expansion. Trend indexes in the Australia PSI® are calculated with a Henderson 13-month filter formula.

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

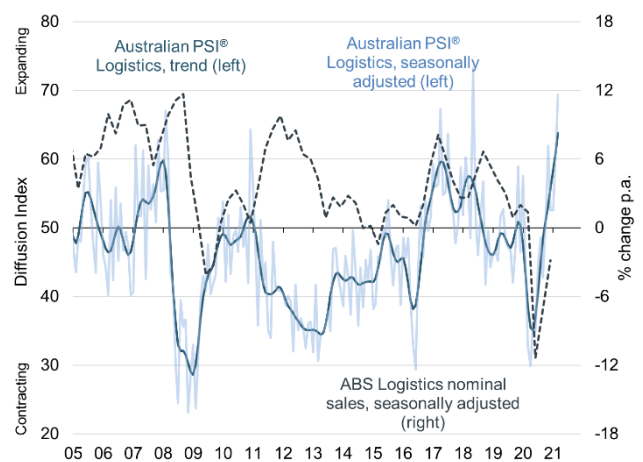
### Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$290.6bn in real value-added output in the year to Q4 2020 (equal to 15.1% of GDP, ABS data).
- Business & property services employed 2,029,400 people in February 2021 (15.6% of total employment).
- The index for business & property services rose by 10.7 points to 55.0 points in March 2021, indicating a strong improvement in conditions and a more solid recovery in March after contracting in February.
- Government support for residential construction (HomeBuilder), low interest rates and redirected household spending continued to support demand for residential property and related services in March.



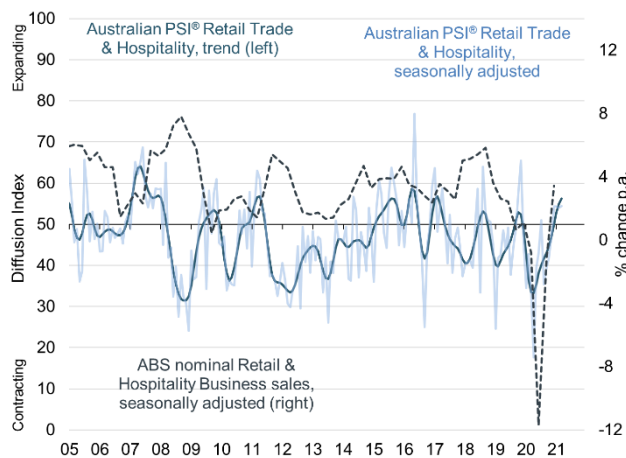
### Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$147.6bn in real value-added output in the year to Q4 2020 (equal to 7.7% of GDP, ABS data).
- Logistics employed 1,064,800 people in February 2021 (8.2% of total employment).
- The logistics index improved by 8.3 points to 69.4 points in March (seasonally adjusted) the highest result since May 2018. This indicates a very strong pace of recovery.
- Some businesses said their customers are increasing stock levels as sales and new orders improve and to prevent future shortages if supplies are disrupted again.
- Recovery in local manufacturing activity is also leading to higher activity within the logistics sector. Logistics businesses said their manufacturing customers are booking delivery services and delivering finished stock earlier than previously, in order to secure freight availability and to lock in freight prices.



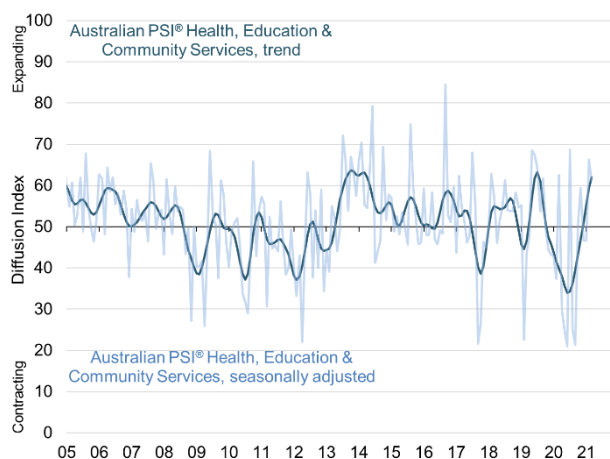
### Retail trade & hospitality services

- The retail & hospitality sector (including shops, restaurants, cafes, take-aways, hotels & accommodation) produced \$116.7bn in real value-added output in the year to Q4 2020 (equal to 6.1% of GDP, ABS).
- It employed 2,173,000 people in February 2021 (16.7% of total employment). Most retail & hospitality workers are part-time (under 35 hours per week).
- The index for the retail trade & hospitality sector improved by 0.4 points to 54.4 points in March (seasonally adjusted), indicating that recovery in activity is continuing at a similar pace to the past three months.
- While conditions on average were positive for the sector, accommodation & travel businesses report ongoing low demand due to travel restrictions, particularly in city centres. Retailers of household goods report improving supplies of new stock and increased household spending.



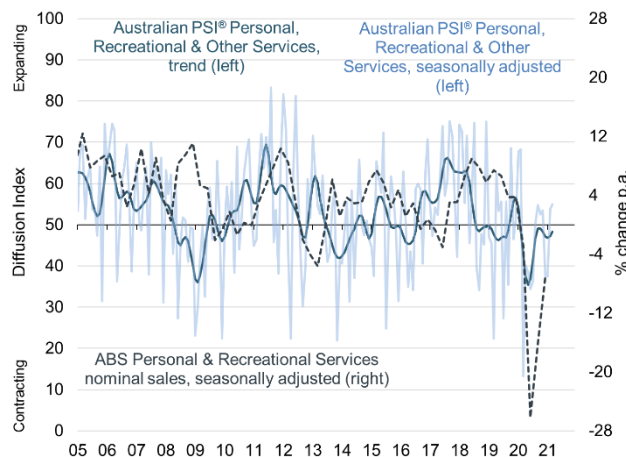
### Health, education & community services

- Health, education & community services produced \$239.3bn in real value-added output in the year to Q4 2020 (12.4% of GDP, ABS).
- This group of industries employed 2,899,300 people in February 2021 (22.3% 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 moderated by five points to 61.3 in March following a very strong month in February. This sector continues to meet pent-up demand, but the cost and availability of inputs are a concern for some respondents.

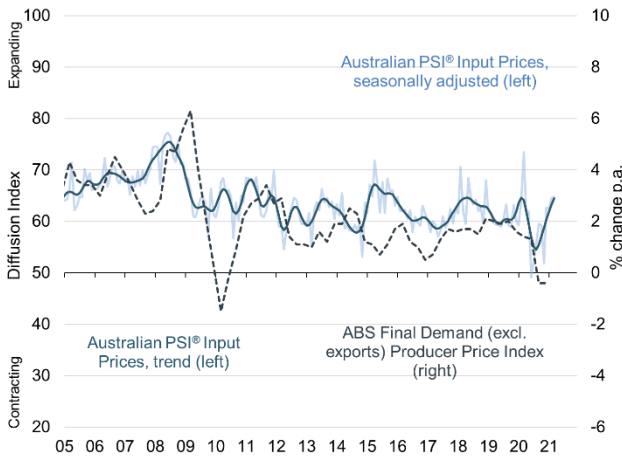


### Personal, recreational & other services

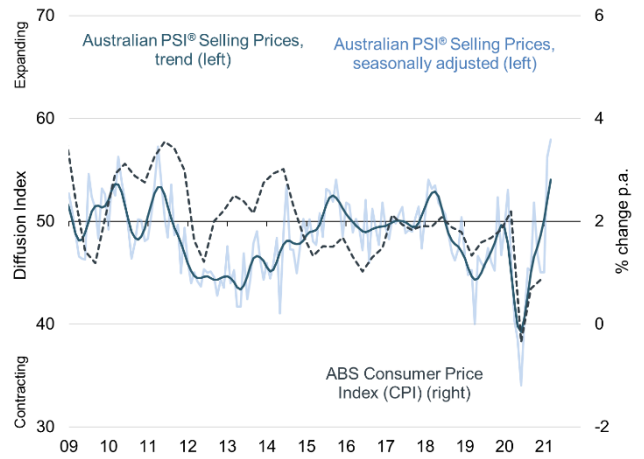
- Personal, recreational, & other services produced \$44.4bn in real value-added output in the year to Q4 2020 (equal to 2.3% of GDP, ABS data).
- This sector employed 747,800 people in February 2021 (5.7% of total employment).
- The index for 'recreational, personal & other' services rose by 1.2 points to 55.0 points (seasonally adjusted) indicating a slight improvement in conditions in March.
- Respondents reported demand in March was similar to pre-pandemic levels. Businesses benefited from easing restrictions, government stimulus and earlier, larger orders (e.g. earlier holiday and entertainment bookings).



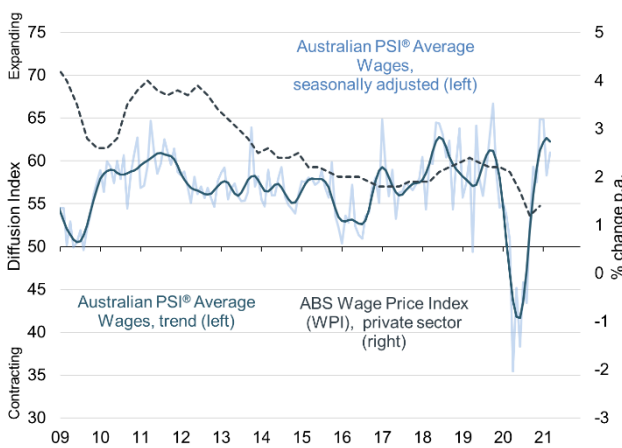
**Input prices**



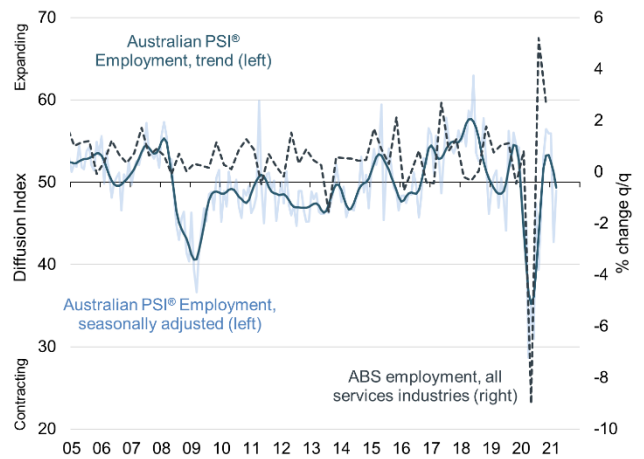
**Selling prices**



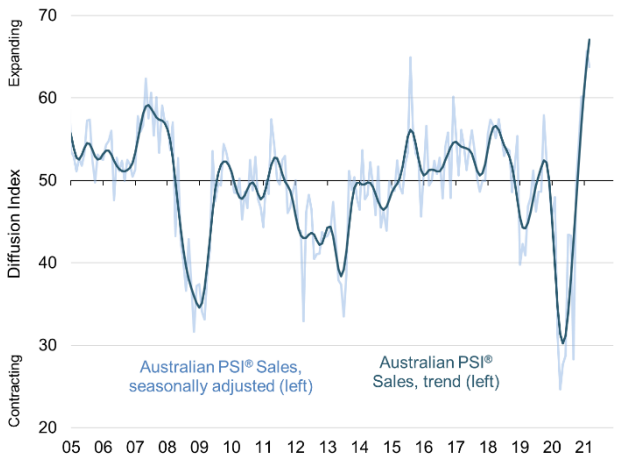
**Average wages**



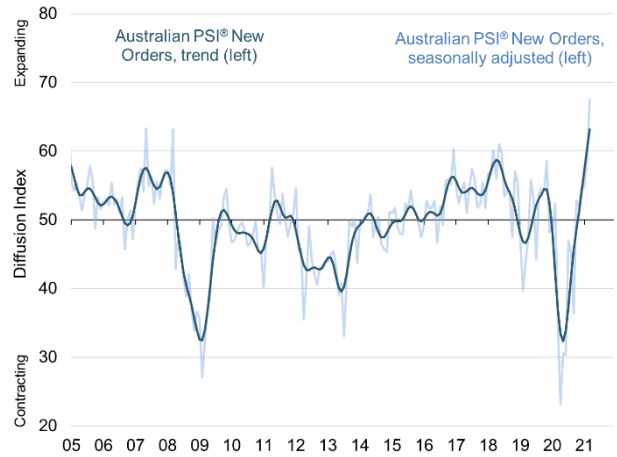
**Employment**



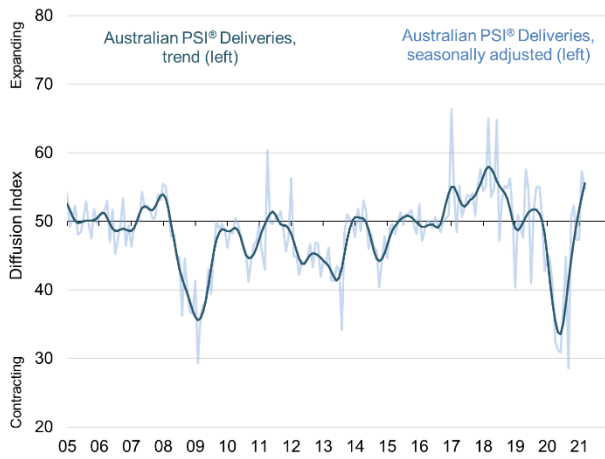
**Sales**



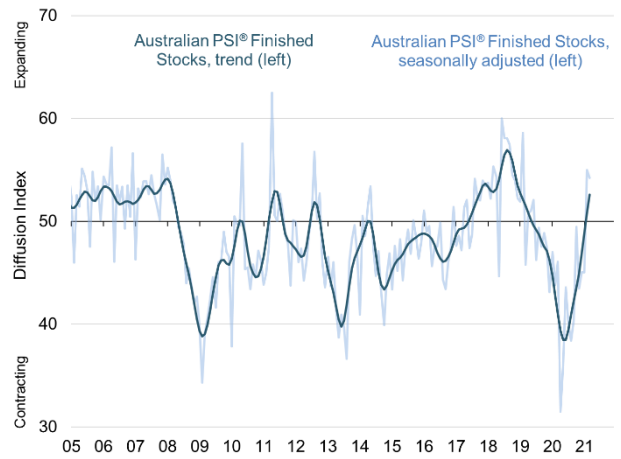
**New orders**



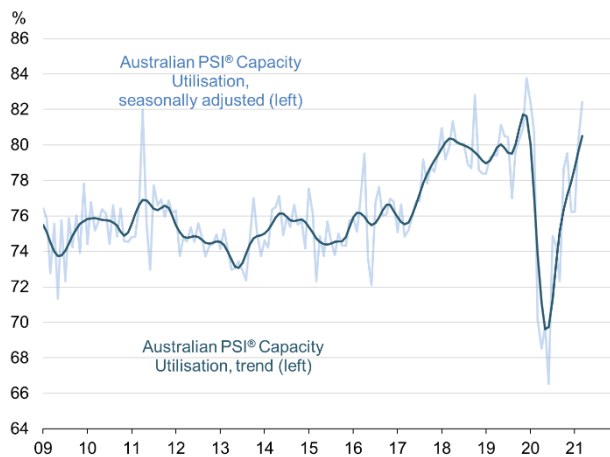
### Supplier deliveries



### Finished stocks (inventories)



### Capacity utilisation



## 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 match ABS data that use the same codes. The 6 sectors in the Australian PSI® are:

1. **Business, Property, Information & Telecommunications services** - Divisions J, L, M and N - includes businesses 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 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 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 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 engaged in the provision and support of education and training, human health care, welfare and social assistance services.
6. **Arts, Recreation, Personal & Other Services** - Divisions R and S - includes businesses 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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