

Services sector recovery delivers strongest result in almost 18 years

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose by 0.2 points to 61.2 points (seasonally adjusted) in May 2021 indicating another strong month of recovery and at a similar pace to April. This was the highest monthly result in the **Australian PSI®** since October 2003. Results above 50 points indicate expansion in the **Australian PSI®**, with higher numbers indicating a stronger expansion.

Four of the five of the services sectors available in the **Australian PSI®** in May indicated expansion and one sector was broadly stable (a result around 50 points, trend). Four of the five activity indicators - sales, new orders, employment and deliveries - showed positive results in the month (results above 50 points, seasonally adjusted).

Participants this month said that business conditions on average continued to improve and that sales, new orders and employment all indicated good levels of future demand. Activity from the construction sector was a key driver of demand for some services segments in May. Some respondents noted increased purchasing commitments from customers who had previously paused their plans. Input shortages, supply chain disruption, staff shortages and ongoing uncertainty continue to be of concern. The data for this report was collected before the latest Victorian lockdown began.

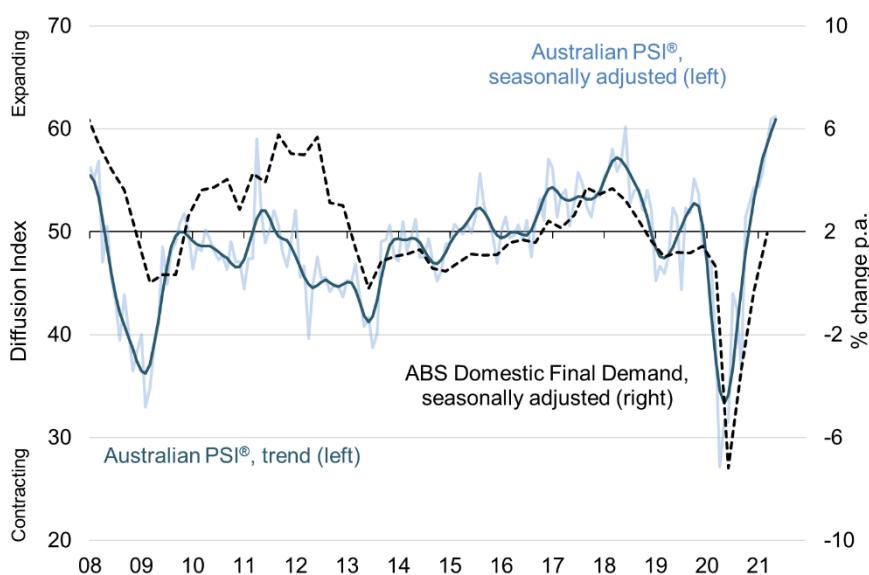
May 2021

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Australian PSI® ▲ 0.2 points (seasonally adjusted)	61.2
Australian PSI® ▲ 1.2 points (trend)	60.9
Business & property services ▲ 2.0 points (trend)	58.6
Logistics ▲ 1.6 points (trend)	66.8
Finance & insurance	n.a.
Retail trade & hospitality ▲ 1.5 points (trend)	61.3
Health & community ▼ 0.4 points (trend)	54.4
Personal, recreation & other services ▼ 0.2 points (trend)	49.8

Australian PSI® and ABS domestic final demand



Business-oriented services sectors: The business oriented sectors in the **Australian PSI®** expanded in May (trend). Low interest rates, Government stimulus and a lack of stock led to surging activity from the construction sector that flowed into the property and business services sector. Logistics (transport, storage and wholesale trade) reached a series high as strong demand and easing restrictions continued to boost activity for importers, freight transport and related services. The effects of higher commodity prices and the lift in local manufacturing activity also continued to benefit logistics and 'business services' businesses. The results of government stimulus for construction continued to lift demand for business and property services that supply or support residential construction (e.g. accounting, legal, design and real estate).

Consumer-oriented services sectors: Two consumer oriented sectors were positive and one was stable in May (trend). An increase in discretionary spending, easing restrictions and broad-based improved confidence lifted demand from consumers. Stimulus to the construction sector, an improved outlook and low interest rates benefited businesses focused on selling home-based goods and services. Material shortages, difficulties employing skilled staff and ongoing uncertainty remain key areas of concern for these businesses.

Services prices and wages: The input price index moderated slightly but remained elevated in May (seasonally adjusted). This marked eleven months of input price increases following a record low for this index in June 2020. The average wage index jumped up in May after moderating in April, indicating increasing wage pressures for services businesses seeking skilled staff. Selling prices rose for a fourth month to reach a record high as businesses passed on business cost increases.

Services activity, orders, employment and deliveries: The activity indices for sales, new orders and employment indicated improving rates of recovery and growth in May (seasonally adjusted). The supplier deliveries index moderated but remained positive. Finished stocks dropped to broadly stable levels. The headline **Australian PSI®** index was the highest in May 2021 since October 2003. The new orders index also reached its highest result since October 2003.

Capacity utilisation rose by 2.2 percentage points to 83.8% of available capacity being utilised across the services sectors in May 2021. This is equal to the series high seen in December 2019. This surge suggests that businesses will need to increase business investment and employment levels to facilitate further growth in capacity during the remainder of 2021.

Services highlights: Many participants said their activity levels continued to recover in May, after record lows in 2020. Businesses reported increased sales to consumers as household savings (built up over the past few months) are now supporting discretionary spending. Hospitality businesses reported strong demand for local tourism, meals, accommodation and related services. Respondents from business-oriented sectors reported strong sales and new orders as a result of stimulus to the construction sector, increased confidence leading to increased decision making and a willingness to invest.

Services concerns: Businesses reported concerns about the availability of raw materials and inputs, as well as increasing prices. Skilled staff shortages, particularly for hospitality businesses and those in regional locations, are an ongoing concern. Uncertainty remains a lurking concern for some respondents, who reported they are not confident this current strong level of demand will continue. *The data for this report was collected before the latest Victorian lockdown began.*

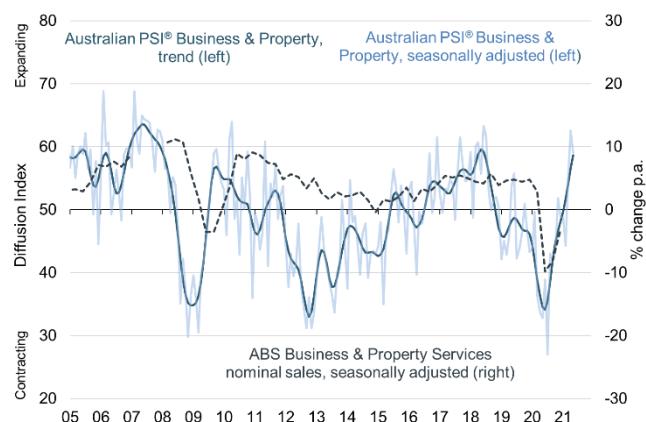
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	12-month average	Australian PSI® sectors	Index this month	Change from last month	12-month average
Australian PSI® (s.a.)	61.2	0.2	50.1	Australian PSI® (trend)	60.9	1.2	49.9
<i>Activity indexes seasonally adjusted</i>				<i>Business-oriented services trend</i>			
Sales	68.6	2.0	50.5	Business & property	58.6	2.0	50.4
Employment	56.6	3.7	50.2	Logistics	66.8	1.6	47.2
New Orders	68.3	0.4	50.8	Finance & insurance	na	na	na
Supplier deliveries	52.5	-2.5	48.8	<i>Consumer-oriented services trend</i>			
Finished stocks	49.3	-9.8	48.9				
Capacity Utilisation (%)	83.8	2.2	76.3	Retail trade & hospitality	61.3	1.5	47.5
<i>Prices and wages</i>				Health & education	54.4	-0.4	51.6
Input Prices	68.1	-1.6	63.9	Personal, recreational	49.8	-0.2	53.1
Selling Prices	63.4	2.0	48.5	& other services			
Average Wages	63.1	7.2	56.9				

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.

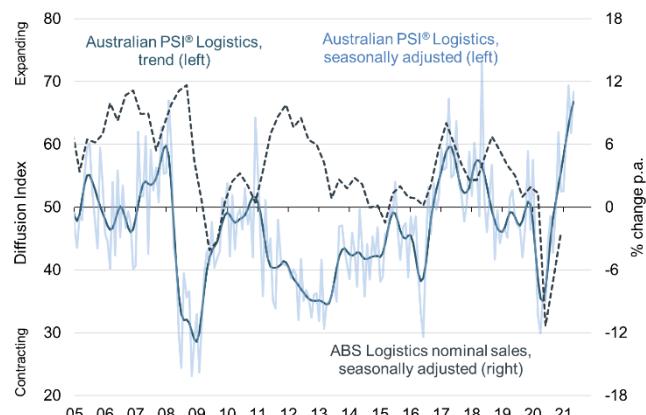
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$289.8bn in real value-added output in the year to Q1 2021 (equal to 15.0% 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 2.0 points to 58.6 points (trend) in May 2021, indicating a further improvement in conditions and a third month of solid recovery.
- Low interest rates, government stimulus and redirected household spending (e.g. from cancelled holidays and savings) continued to support demand for residential property and construction related services in May. Some businesses reported that orders that had previously been paused due to uncertainty were being placed again.



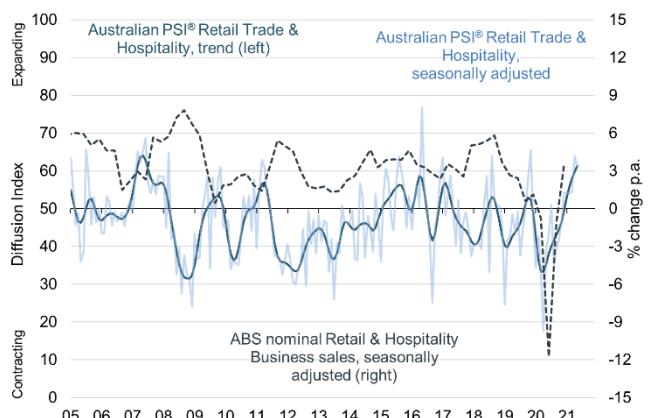
Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$147.2bn in real value-added output in the year to Q1 2021 (equal to 7.6% of GDP, ABS data).
- Logistics employed 1,064,800 people in February 2021 (8.2% of total employment).
- The logistics index improved by 1.6 points to 66.8 points in May, the highest trend result in the history of this index. This indicates a substantial and improving rate of recovery from the lows experienced in April and May of 2020.
- Increased demand and supply disruption from overseas continues to affect stock levels for logistics businesses. Some wholesalers report building stock levels to buffer against future shortages. International travel restrictions remain a major hurdle for passenger transport services.
- Sales to businesses particularly affected by local and interstate activity restrictions continue to improve as restrictions are eased. Some freight transport respondents reported an increase in demand from overseas customers and local customers looking for new local suppliers.



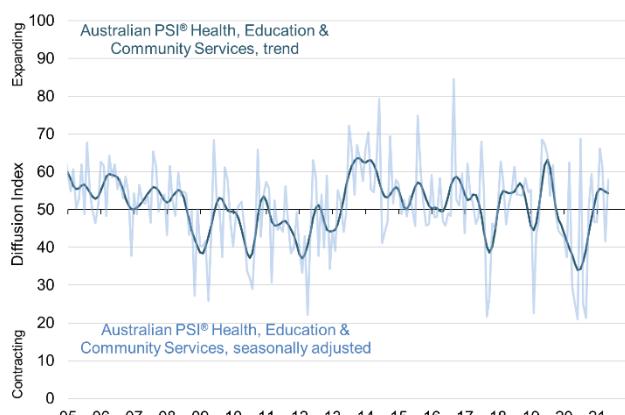
Retail trade & hospitality services

- The retail trade & hospitality sector (including shops, restaurants, cafes, take-aways, hotels & accommodation) produced \$117.5bn in real value-added output in the year to Q1 2021 (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 lifted by 1.5 points to 61.3 points in May (trend), the highest result since June 2007.
- Easing restrictions and strong retail demand particularly for household goods continued to boost spending to the retail trade and hospitality sectors. Staff shortages remain an ongoing concern for hospitality businesses and shortages of stocks due to increased demand and supply disruption affected some respondents in May.



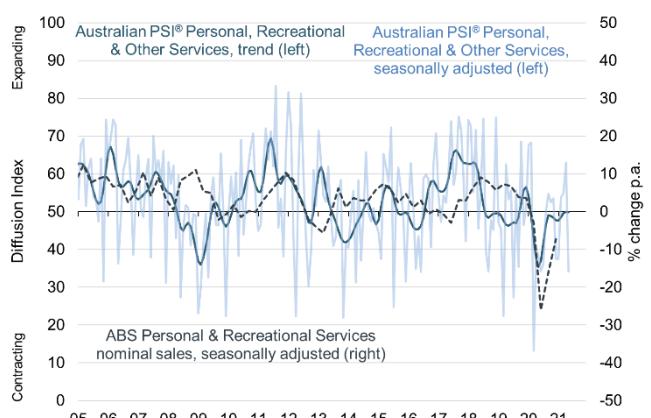
Health, education & community services

- Health, education & community services produced \$241.1bn in real value-added output in the year to Q1 2021 (12.5% 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 0.4 points to 54.4 (trend) in May following stronger activity earlier in the year. This sector has spent the past couple of months catching up with delayed demand. While still positive, the intensity of demand seems to be easing.

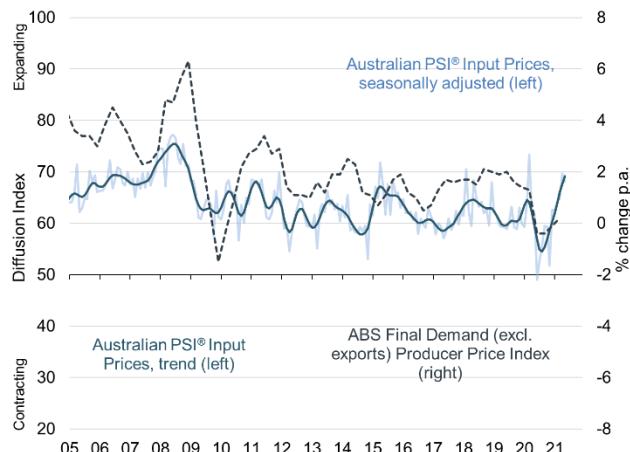


Personal, recreational & other services

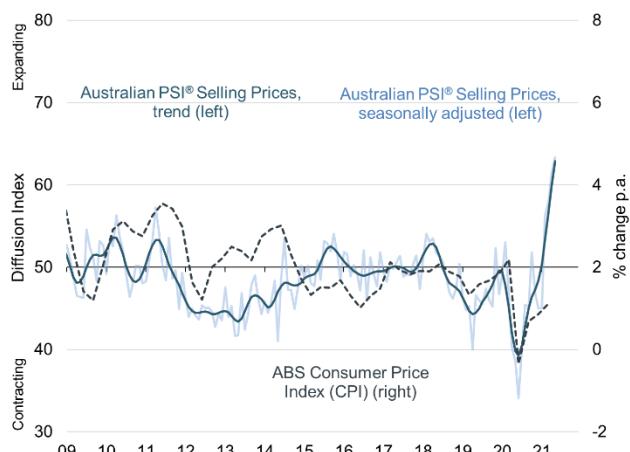
- Personal, recreational, & other services produced \$44.5bn in real value-added output in the year to Q1 2021 (equal to 2.3% of GDP, ABS data).
- This sector employed 747,800 people in February 2021 (5.7% of total employment).
- The index for 'recreational, personal & other' services fell by 0.2 points to 49.8 points (trend) indicating broadly stable conditions in May.
- Respondents reported stable activity on average in May. Some businesses reported an increase in demand while others said their sales have not yet returned to pre-COVID-19 levels.



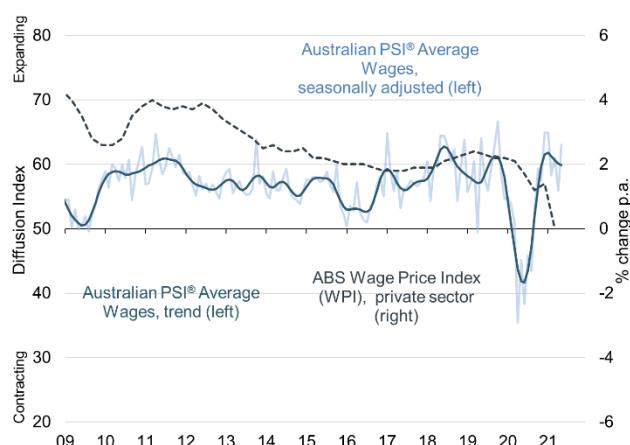
Input prices



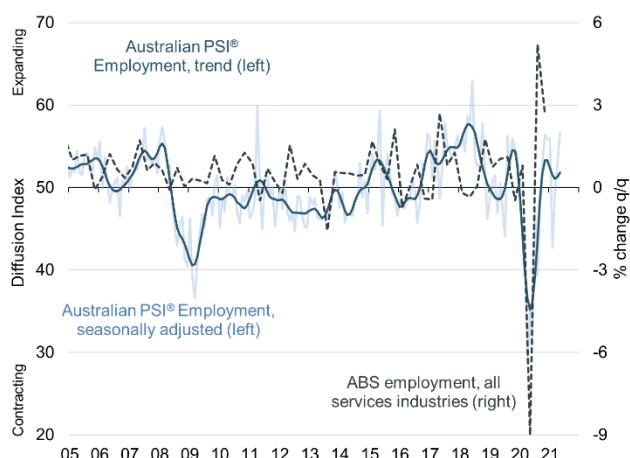
Selling prices



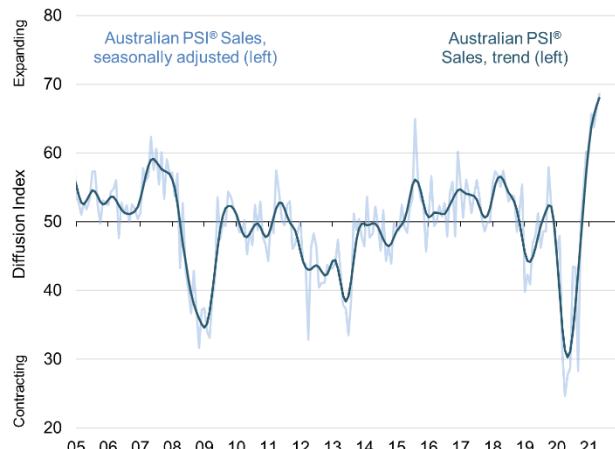
Average wages



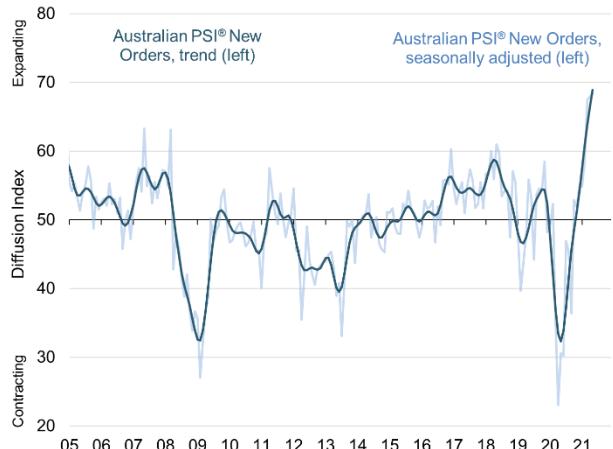
Employment

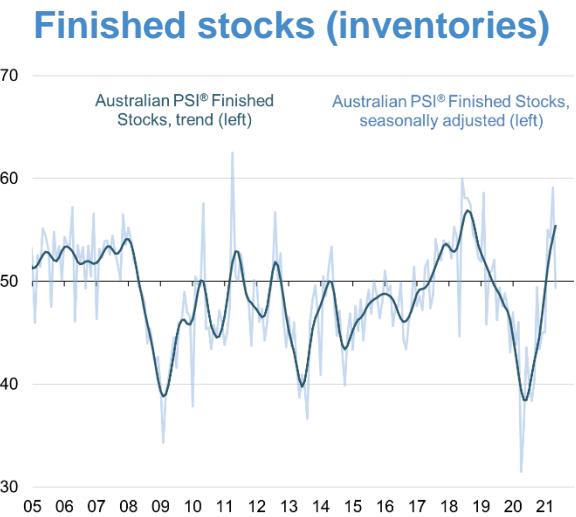
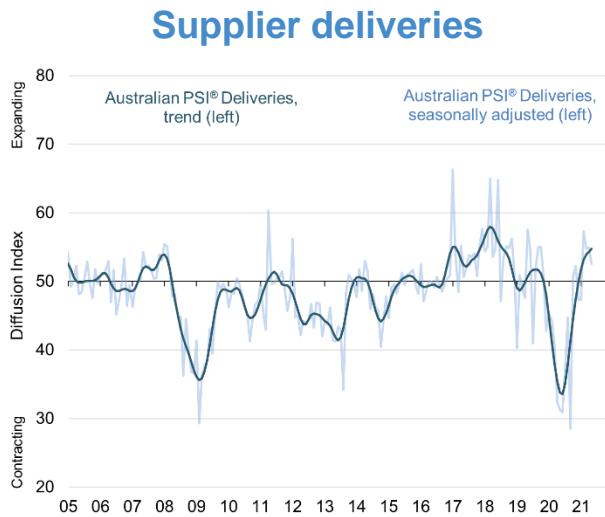


Sales

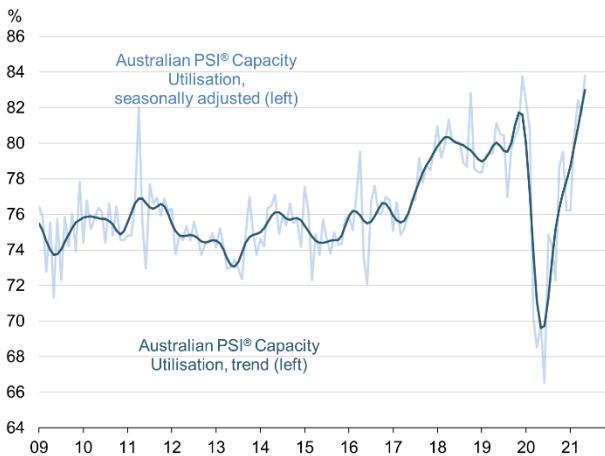


New orders





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 ANSIC 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 ANSIC 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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