

AUSTRALIAN Performance of Services Index

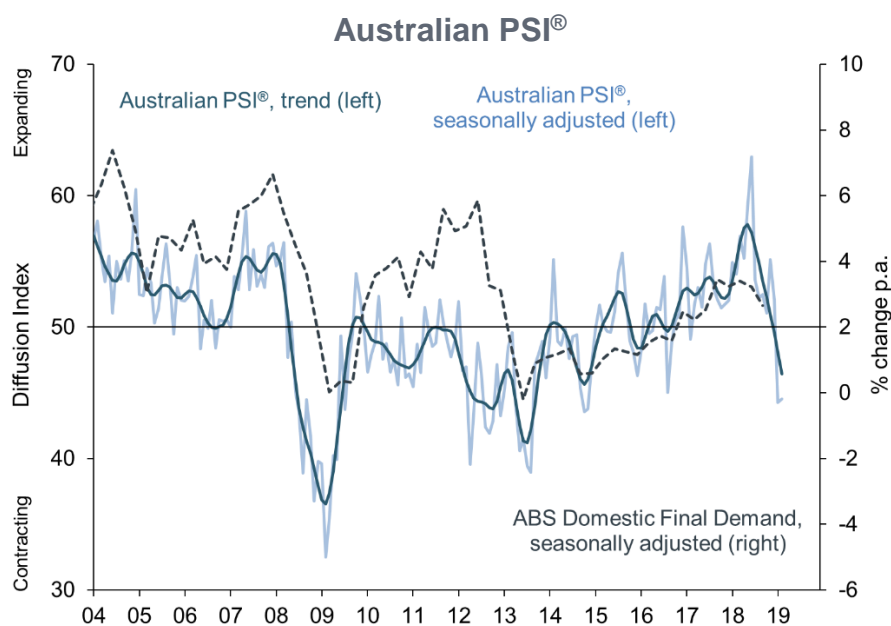


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Services sector contracts in February

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose by 0.2 points to 44.5 points in February 2019 (seasonally adjusted), indicating slight moderation in contraction across the sector. This was the second month of contractionary conditions for services following a positive run since 2017. Results above 50 points indicate expansion in the Australian PSI®, with higher numbers indicating stronger growth rates.

In trend terms, the Australian PSI® indicated expansion in one sector, was stable in three sectors and contracted in five in February. The consumer-oriented sectors were mainly contractionary, the business-oriented sectors were mostly stable (trend).



Australian PSI® consumer-oriented services sectors

AUSTRALIAN PSI® 44.5 ↑ 0.2 POINTS (seasonally adjusted)	RETAIL TRADE 39.9 ↓ 2.9 POINTS (trend)	HOSPITALITY 41.9 ↓ 6.4 POINTS (trend)	HEALTH, EDUCATION & COMMUNITY 42.7 ↓ 3.8 POINTS (trend)	PERSONAL, RECREATION & OTHER 54.9 ↑ 1.9 POINTS (trend)
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Australian PSI® business-oriented services sectors

AUSTRALIAN PSI® 46.5 ↓ 1.6 POINTS (trend)	BUSINESS & PROPERTY SERVICES 50.2 ↓ 0.8 POINTS (trend)	WHOLESALE TRADE 45.2 ↓ 0.1 POINTS (trend)	FINANCE & INSURANCE 50.4 - (trend)	TRANSPORT & STORAGE 49.1 ↑ 0.6 POINTS (trend)
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Australian PSI® summary

Business-oriented services sectors: Business-oriented sectors in the Australian PSI® were mostly stable across February. Finance & insurance reported the same results as January, transport and storage improved slightly, property & business services deteriorated slightly. None of the business-oriented sectors experienced expansion in February. The wholesale trade sector reported firmly negative conditions, with particularly weak sales and new orders in February. No results were available this month for the communications sector.

Consumer-oriented services sectors: Three of the consumer-oriented sectors contracted and one expanded in February 2019. Hospitality contracted sharply with negative (and deteriorating) results for sales, new orders, employment and deliveries. Retail and health & community services also contracted. The 'personal, recreational & other services' sector expanded in February.

Services wages and prices: The input price index rose in February (60.2 points) but at a slower rate than the previous two months and below the long-term average for this index (64.0 points). Average wage growth eased (53.0 points) the second month of moderation and the slowest pace of growth since May 2017. The average wage index continues to trend down from the recent peak in May 2018. The selling prices index continued to contract in February, the eighth month of flat or falling selling prices and the lowest result since August 2016.

Services activity: Two of five of the activity indexes in the Australian PSI® were negative and indicated contraction in February two were stable and one expanded. Sales and new orders both shrank for a second month, in line with this, inventories increased steadily across the month. Employment improved slightly to be stable, while deliveries bounced back from a single month of contraction in January to also be stable in February.

Services highlights: The Australian PSI® contracted for a second month in February following 22 months of positive conditions. It had been trending down since its recent peak in the middle of 2018. Consumer-oriented businesses are now facing the tighter conditions that business-oriented sectors saw through the end of 2018. Capacity utilisation in the Australian PSI® improved by 1.6 points to 78.4% of available capacity in February. This is above the long-run average of 76.0% but down from the average across 2018 (79.7%).

Services concerns: Retail trade and hospitality were the weakest services sectors in early 2019 as consumer-focused business face increasingly tighter conditions. Services businesses reported weak customer demand in February due to extreme heat and drought conditions in some areas of Australia, flooding in others and a deterioration in consumer spending. The lower Australian dollar increased competition for local businesses and increased costs for those using imported inputs, however some businesses benefitted from an uptick in export orders.

Australian PSI® key numbers	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>seasonally adjusted</i>				<i>trend</i>			
Australian PSI®	44.5	0.2	53.3	Australian PSI®	46.5	-1.6	53.4
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	37.8	-1.5	51.8	Business & property	50.2	-0.8	56.8
Employment	49.3	1.8	53.6	Finance & insurance	50.4	0.0	55.6
New Orders	38.5	-6.9	54.2	Wholesale trade	45.2	-0.1	50.8
Supplier deliveries	50.9	10.6	53.2	Transport & storage	49.1	0.6	51.2
Finished stocks	55.0	3.3	54.0	Communications	N/A	N/A	49.6
Capacity Utilisation (%)	78.4	1.6	79.4	<i>Consumer-oriented services</i>			
<i>Prices and wages</i>				Retail trade	39.9	-2.9	48.8
Input Prices	60.2	-3.0	62.5	Hospitality	41.9	-6.4	49.9
Selling Prices	43.4	-3.6	49.2	Health & education	42.7	-3.8	56.2
Average Wages	53.0	-2.2	60.1	Recreation & other services	54.9	1.9	52.5

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

For more detail about the Ai Group Australian PSI® visit: www.aigroup.com.au/policy-and-research/economics/

Australian PSI® business services sectors

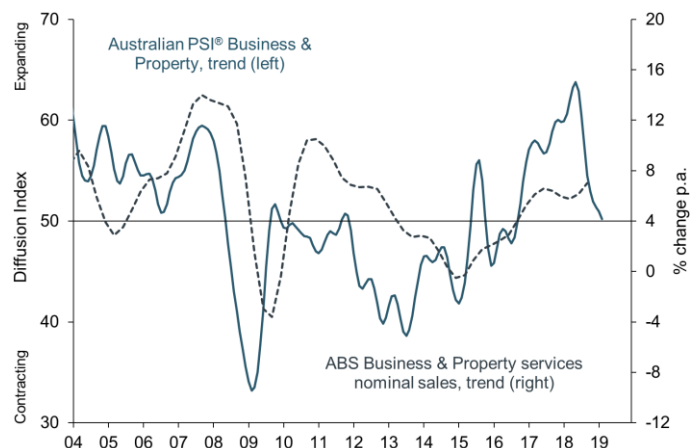
Business & property services

Business & property services produced \$237.7bn in real value-added output in the year to Q3 2018 (13% of gross domestic product). It employed 1,705,000 people in November 2018 (13% of total employment).

The index for business & property services fell by 0.8 points to 50.2 (trend) indicating stable conditions in February 2019. This is the ninth month of softening conditions for this large sector which reached a recent peak in activity in May 2018 and has been trending down ever since.

Competition from overseas businesses was the most cited factor influencing activity for this sector in February as the Australian dollar continued to trade in a lower range than the past few years and in a similar range to late 2015.

Business & property services



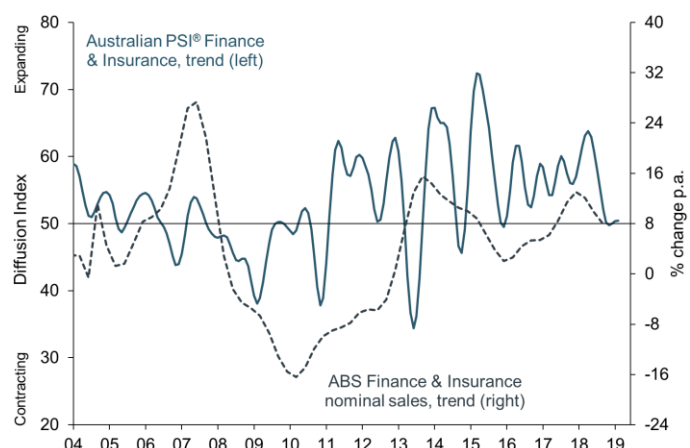
Finance & insurance

Finance & insurance services produced \$159.5bn in real value-added output in the year to Q3 2018 (9% of gross domestic product). It employed 447,800 people in November 2018 (4% of total employment).

The large finance & insurance sector reported the same stable conditions in February as it did in January returning the result of 50.4 (trend).

Sales and new orders fell in February, but employment grew. This is the fifth month of largely flat results for this sector, following 33 months of continuous growth. This has been the longest period of flat results for the finance & insurance sector and the weakest conditions since the end of 2015.

Finance & insurance



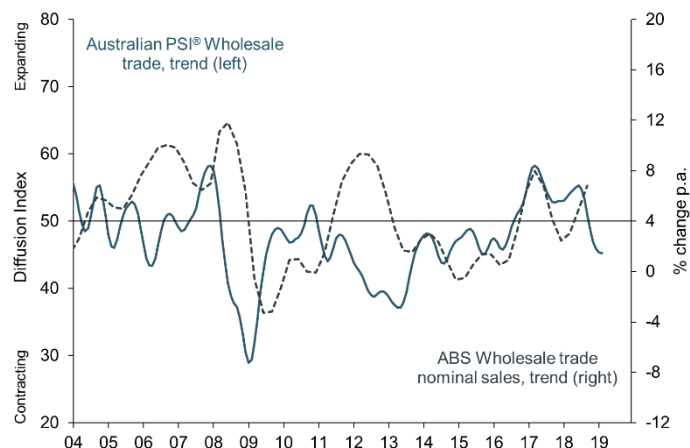
Wholesale trade

Wholesale trade produced \$70.3bn in real value-added output in the year to Q3 2018 (4% of gross domestic product). It employed 408,100 people in November 2018 (3% of total employment).

The wholesale trade sector continued to contract in February at almost the same rate as January, with its index dropping by 0.1 points to 45.2 points (trend).

This marks the fifth month of contraction following two years of solid expansion for wholesalers. Some wholesale respondents to the **Australian PSI®** noted higher prices for imports and lower demand from customers dragging down sales and new orders for the segment. Others reported increased export orders and good demand from the mining sector.

Wholesale trade



Australian PSI® business services sectors

Transport & storage services

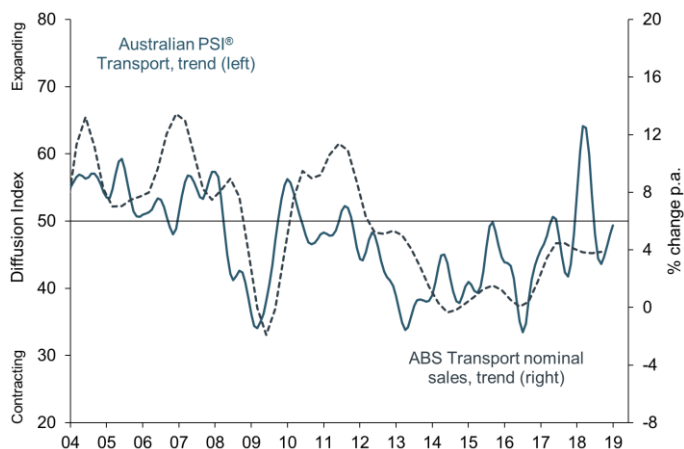
Transport & storage services produced \$83.5bn in real value-added output in the year to Q3 2018 (5% of gross domestic product). It employed 651,700 people in November 2018 (5% of total employment).

The rate of contraction continued to ease in the transport & storage services sector with its index lifting by 0.6 points from January (48.5) to 49.1 in February (trend). This was the fifth month of improving results as it edged up into stability.

New orders expanded in February however sales and employment were flat. Capacity utilisation was relatively elevated.

Lunar New Year provided a boost to some respondents and others noted the ongoing trade from infrastructure investment in some states. For others, customer demand was down on normal levels.

Transport & storage services



Australian PSI® consumer services sectors

Retail trade

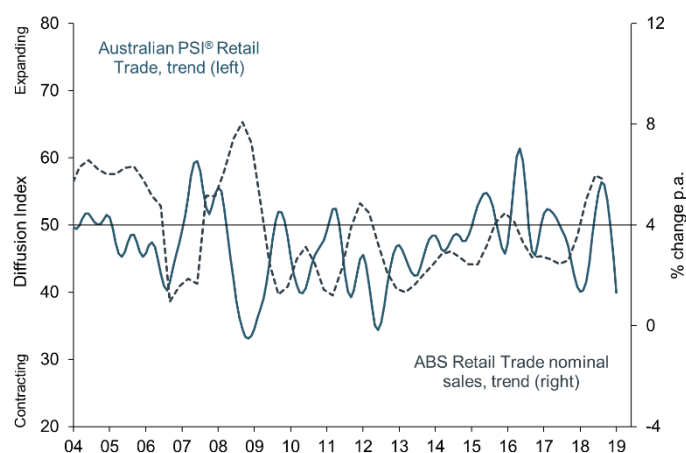
Retail trade produced \$78.1bn in real value-added output in the year to Q3 2019 (4% of gross domestic product). It employed 1,273,600 people in November 2018, (10% of total employment). 51.6% work part-time.

Retail trade slipped further into contraction in February falling 2.9 points to 39.9, the lowest result since August 2012 (trend).

Sales, new orders and deliveries contracted, employment was stable and stock levels rose. Input costs continued to rise as selling prices contracted, however a fall in prices wasn't enough to stimulate turnover for this consumer-oriented segment.

Lack of consumer demand and competitor pricing were the main factors noted for constraining sales activity

Retail trade



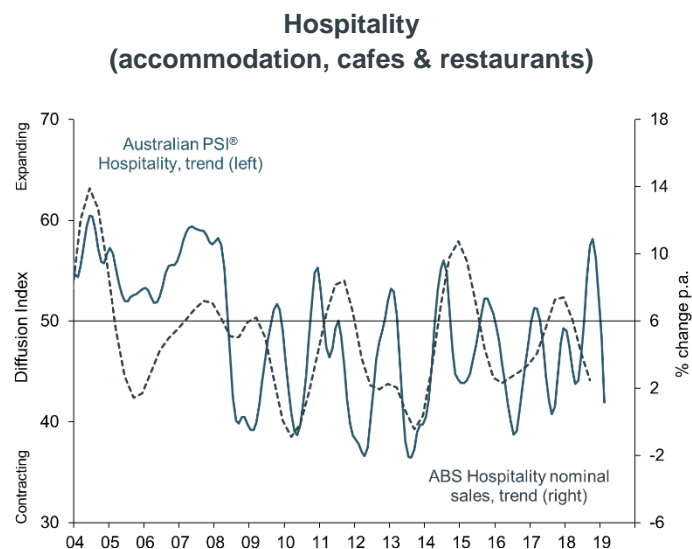
Australian PSI® consumer services sectors

Hospitality (accommodation, cafes & restaurants)

Hospitality produced \$42.9bn in real value-added output in the year to Q3 2018 (2% of gross domestic product). It employed 903,200 people in November 2018 (7% of total employment). 60.3% work part-time.

The hospitality (accommodation, cafes & restaurants) sector contracted in February, its index dropped by 6.4 points to 41.9 (trend). The sector had enjoyed a positive run of activity in the latter part of 2018, reaching a recent peak in October 2018, but those gains have evaporated as activity trended down and became negative at the start of 2019.

Sales, new orders and employment all contracted in February, while input costs increased significantly.

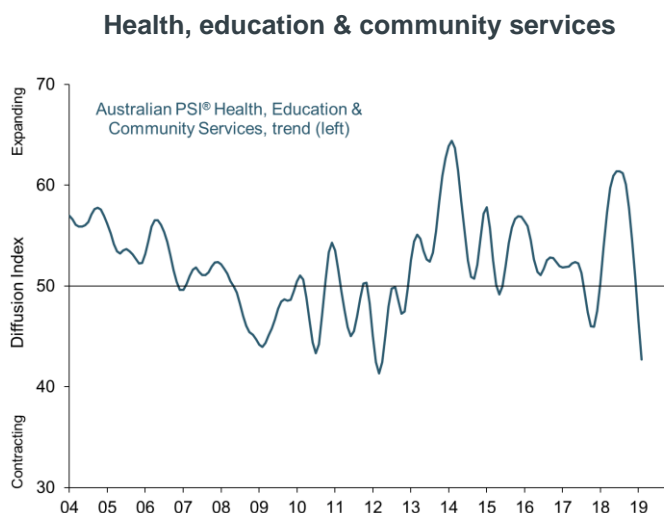


Health, education & community services

Health, education & community services produced \$213.9bn in real value-added output in the year to Q3 2018 (12% of gross domestic product). This industry employed 2,728,900 people in November 2018 (21% of total employment). 51% of workers in education and 21% in health and welfare are employed by the public sector.

The very large 'health, education & community services' sector's index eased by 3.8 points to 42.7 in February (trend). This marks the second month of contraction following a positive year in 2018.

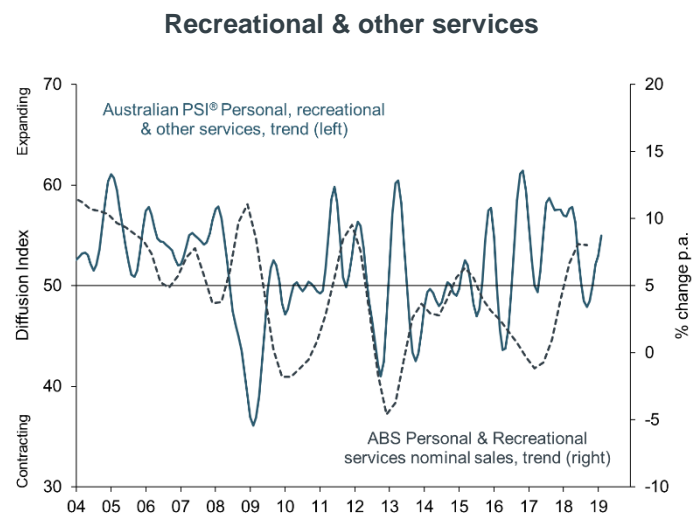
Sales, new orders and employment shrank in February, input costs rose and the sector continues to operate at relatively high levels of capacity.



Recreational & other services

Recreational & other services produced \$47.2bn in real value-added output in the year to Q3 2018 (3% of gross domestic product) and employed 731,300 people in November 2018 (6% of total employment). 48% of workers in recreation and 31% in personal services are part-time.

The index for personal, recreational & other services improved by 1.9 points to 54.9 points in February (trend). This was the third month of growth following a month of stability and three months of contraction. In February sales and new orders were down but employment was steady. Respondents in this business segment reported weather conditions had the largest impact, both positive and negative, on their businesses in February.



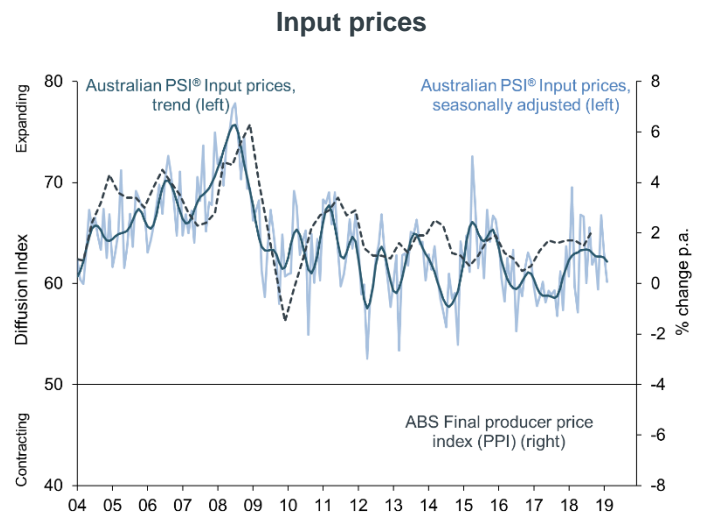
Australian PSI® prices and wages

Input prices

The ABS final producer price index (PPI) rose by 0.5% q/q and 2.0% y/y in Q4 of 2018.

The input prices sub-index moderated by 3.0 points to 60.2 points in February 2019, following an acceleration in price rises over the past couple of months. February's result is below the long-term average of 64.0 points for this data series.

Some respondents to the Australian PSI® reported increasing input costs most notably from imported goods. The lower range in which the Australian dollar has traded recently has increased the prices for imports for businesses who are already facing high energy costs.

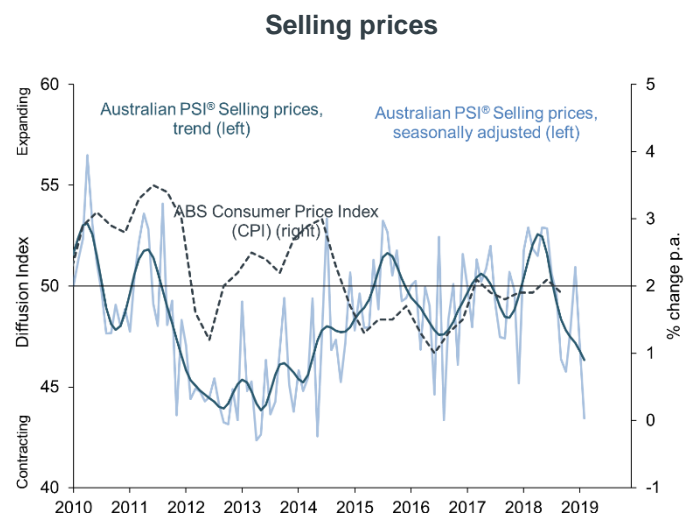


Selling prices

The ABS consumer price index (CPI) rose by 0.5% q/q and 1.8% y/y in Q4 of 2018.

The selling prices index for the Australian PSI® contracted in February declining by 3.6 points to 43.4 points. This was the lowest result since August 2016. Selling prices saw improvement in the first half of 2018 peaking around the middle of the year but it was mild growth and has waned since then.

Selling prices fell in seven of the nine sectors in August, while two sectors reported stable figures.

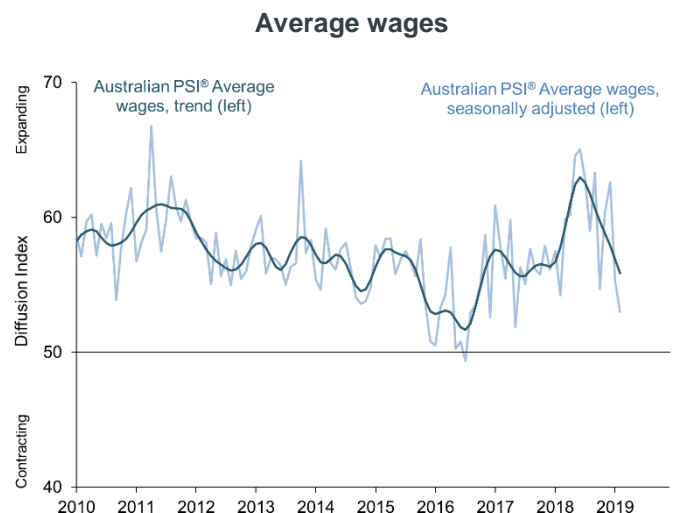


Average wages

The ABS private sector wage index rose by 0.5% q/q in and 2.3% y/y in Q4 of 2018.

The average wages index fell by 2.2 points to 53.0 points in February, indicating a deceleration in wage pressure across the services sectors. This is the lowest result since May 2017. The wages index is below its long-term average (57.0 points since 2009).

The average wages sub-index has been trending down since a recent peak of 65.0 points in June 2018.



Australian PSI® activity

Sales

The services sectors that are included in the Australian PSI® produced \$978.3bn in real value-added output in the year to Q3 2018 (53.6% of total output).

The sales index fell by 1.5 points to 37.8 points in February 2019, the lowest result since August 2013. Sales have been trending down since the recent peak in May 2018.

Sales contracted or were stable across all services sectors in February. Increased import costs, softer consumer spending, extreme heat, drought and flooding all drove down customer demand over the month. Sales levels at this rate of deterioration were last seen when the Australian dollar was trading at a much higher range.

Employment

The services sectors that are included in the Australian PSI® employed 9,076,100 people in November 2018 (71% of total employment).

The employment index in the Australian PSI® lifted by 1.8 points to 49.3 points in February, indicating broadly stable conditions. February marked a second month of employment growth below 50 in the Australian PSI® following 26 months of stable or growing employment. It has been trending down since the middle of 2018.

Three of the eight services sectors (all business-oriented) experienced an increase in employment in February 2019, it was stable in three sectors and fell in two.

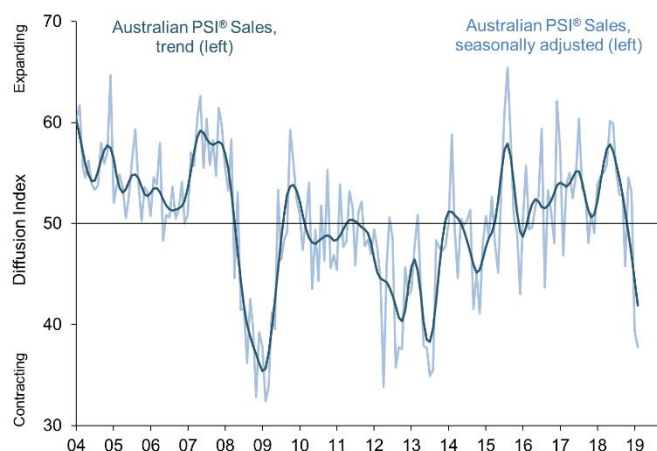
New orders

The new orders index contracted sharply in February 2019 falling 6.9 points to 38.5, the lowest level since July 2013. New orders had been positive or stable in 28 of the past 30 months.

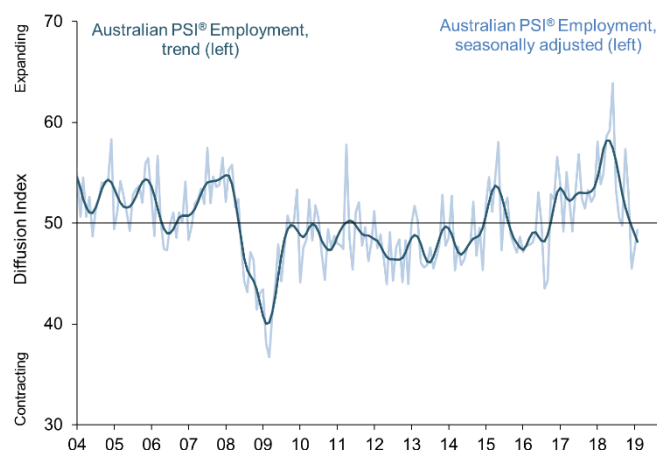
New orders contracted across six of the eight sectors in February, was stable in property & business services and expanded in transport & storage.

As with several other indicators in the Australian PSI®, new orders reached a recent peak around the middle of 2018 and has been trending down since then.

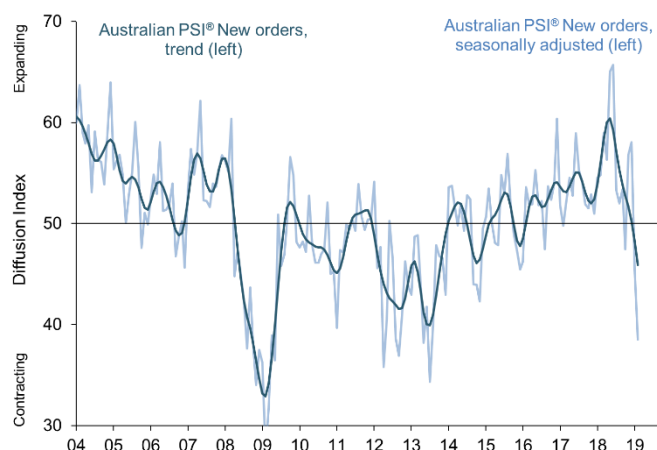
Sales



Employment



New orders



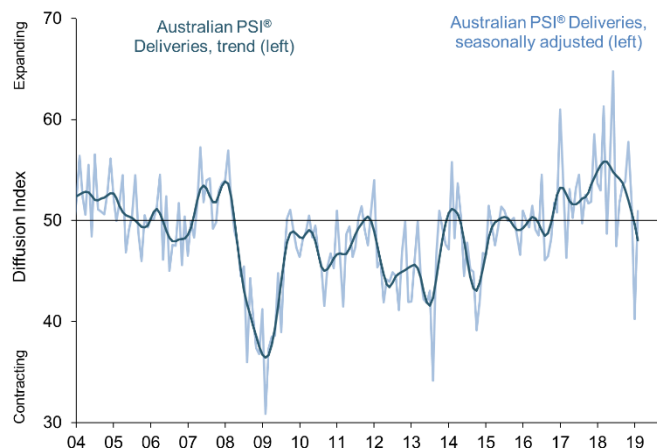
Australian PSI® activity

Supplier deliveries

The supplier deliveries index recovered by 10.6 points to 50.9 points in February, indicating lift back into stable conditions for deliveries from suppliers.

Deliveries had been positive or stable for most of the past two years. Supplier deliveries grew or were stable across five of the sectors in the Australian PSI® in February.

Supplier deliveries



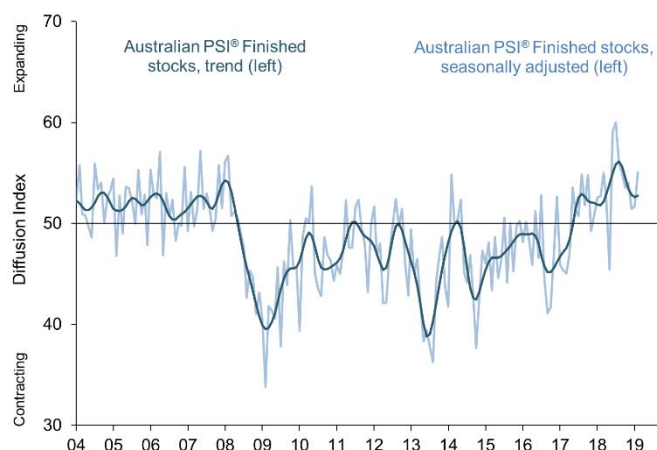
Finished Stocks

The index for finished stocks (inventories) lifted in February rising by 3.3 to 55.0. This indicated a growth in inventory levels in line with shrinking sales.

Inventory levels have been rising in businesses in thirteen of the past fourteen months. Growth in stocks peaked in the middle of 2018 and in trend terms has moderated in line with other indicators in the Australian PSI® but remains positive and rose in February.

Stock levels expanded or were stable across six of the eight services sectors in the Australian PSI® in February 2019.

Finished Stocks



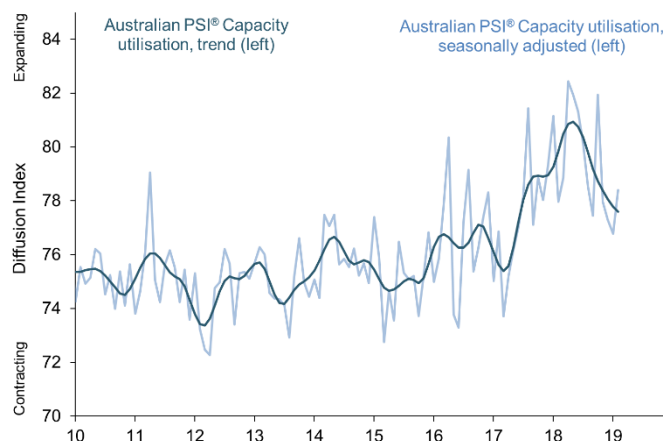
Capacity Utilisation

Capacity utilisation across the services sectors rose 1.6 points to 78.4% of available capacity in February, slightly above the long-term average for this indicator (76.0%).

Businesses in the services sector had been operating at a higher level of capacity during 2018 (79.7%), reaching a series peak in April 2018.

Across the services sectors, 'health, education & community services' and 'personal, recreational & other services' (both very labour intensive services sectors) are still operating at elevated levels of capacity utilisation. Wholesale trade and transport & storage also had an increase in efficiency while other services sectors currently face lower capacity constraints.

Capacity Utilisation



Australian PSI® data definitions

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 9 sectors in the Australian PSI® are:

Business services sectors

1. Property & Business services (Divisions 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.
2. Wholesale trade (Division 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.
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.
4. Transport & storage (Division I) includes 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.
5. Information Media & Telecommunications (Division J) includes 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.

Consumer services sectors

6. Retail Trade (Division G) includes businesses mainly engaged in the purchase and onselling of goods, without significant transformation, to the public. The Retail Trade Division also includes units that purchase and onsell goods to the public using non-traditional means, including the internet.
7. Accommodation & Food Services (Division H) includes businesses providing short-term accommodation for visitors and/or meals, snacks, and beverages for consumption by customers both on and off-site.
8. 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.
9. Arts, Recreation & 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.

For more information about the Ai Group Australian PSI® visit:

www.aigroup.com.au/policy-and-research/economics/

What is the Australian PSI®? The Australian Industry Group Australian Performance of Services Index (Australian PSI®) is a national composite index constructed from data about sales/activity, new orders, deliveries, inventories and employment with varying weights. An Australian PSI® reading above 50 points indicates that services 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 services businesses. The Australian PSI® uses the ANZSIC industry classifications for services 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/policy-and-research/economics/economicindicators/>.

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