

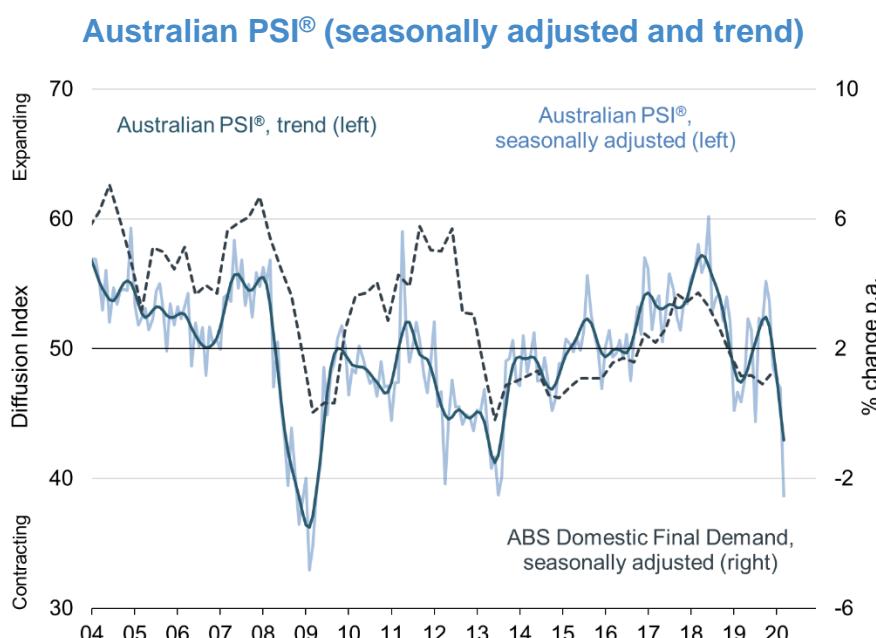
Services sector plunges as pandemic hits in March

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) plunged by 8.3 points to 38.7 points in March 2020 (seasonally adjusted). This was the lowest result since March 2009 and the fourth month of contracting results. The services sector is now entering a difficult period of pandemic-related closures and adjustments from a base already weakened by summer's bushfire crisis and by longer-term factors. Results below 50 points indicate contraction in the Australian PSI® with lower numbers indicating a stronger pace of decline.

Local responses to the global COVID-19 pandemic are already decimating large segments of the services sector. The Australian PSI® indicated stable conditions in finance & insurance but contractions in the five other sectors in March (trend). Restrictions on human movement and gatherings means closures for many businesses in hospitality, retail, transport, recreation, personal services, education and even community services. Businesses that remain open face falling sales and increasing operational restrictions.

A small number of businesses who provide equipment and services for health protection, IT and some personal services noted an increase in demand in March. Real or perceived shortages are bringing orders forward.

Businesses that responded early in the survey collection period for March were generally still optimistic. But as activity restrictions were progressively announced across Australia, respondents became far more pessimistic.



MARCH 2020

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Australian PSI® ▼ 8.3 points (seasonally adjusted)	38.7
Australian PSI® ▼ 2.2 points (trend)	43.0
Business & property services ▼ 1.4 points (trend)	42.1
Logistics ▼ 2.9 points (trend)	42.8
Finance & insurance ▼ 2.6 points (trend)	50.0
Retail trade & hospitality ▼ 4.1 points (trend)	36.1
Health & community ▲ 1.3 points (trend)	47.1
Personal, recreation & other ▼ 4.2 points (trend)	45.7

Business-oriented services sectors: Among the three business-oriented sectors, the most positive was finance & insurance which reported stable results in March. The index for logistics (wholesale trade, transport & storage businesses) declined to its lowest level since July 2016, while the index for business & property services fell to its lowest level since October 2013 (trend). Lower index levels indicate a faster rate of contraction.

Consumer-oriented services sectors: All three consumer-oriented sectors contracted in March. 'Health, education & community services' contracted at a slower rate than the previous month. 'Personal, recreational and other' services fell into contraction in March, from stability in February. The index for 'retail trade & hospitality' fell to its lowest level since June 2012 (trend).

Services wages and prices: The input price index jumped significantly in March as global and local supply chains were disrupted and the Australian dollar plunged. The average wage price index was broadly stable in March, indicating no increase in average wages for the first time since July 2016. Selling prices fell into contraction again in March, continuing almost a year of very weak selling prices (seasonally adjusted).

Services activity: All of the activity indexes in the Australian PSI® contracted in March (seasonally adjusted). The sales index plummeted to the lowest monthly result in the history of the Australian PSI®. The new orders index fell to its lowest level since 2013. The deterioration in supplier deliveries accelerated. Employment and inventories continued to shrink, but the rate of contraction eased somewhat for both indices.

Capacity utilisation fell by 10.5 percentage points to 70.2% of available capacity being used in March. This was the largest monthly fall and the lowest monthly result in the history of the Australian PSI®. This large fall is indicative of the sudden and rapid cessation of activity across retail, transport, education, personal and hospitality services. Although closures and falling sales were notably focused in the consumer-oriented segments, the falls in activity were evident across all sectors.

Services highlights: Responses received earlier in the survey data collection period in March were noticeably more positive, as activity restrictions were progressively tightened, respondents became far more pessimistic. A small number of businesses reported stronger demand for personal protective equipment (PPE), IT services and personal services. Some businesses noted that real or perceived shortages are causing customers to buy more stock and bring forward future orders.

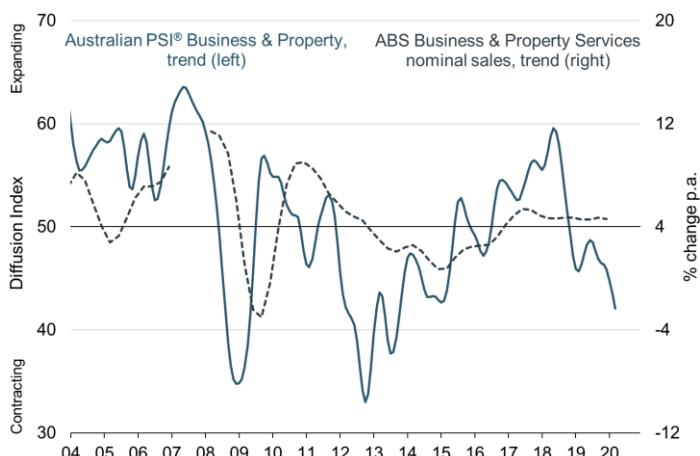
Services concerns: Restrictions associated with the COVID-19 pandemic significantly depressed business activity across all sectors in the Australian PSI® in March. As restrictions increased and rules were tightened, an increasing number of businesses reported falling enquiries and purchases, rising uncertainty and rising difficulties in sourcing supplies. Sales in the hospitality sector and non-food (discretionary) retailing have virtually stopped as restrictions force many businesses to close. Others remain open, but sales and new orders have fallen sharply. The COVID-19 crisis comes on top of the fallout from summer's bushfires, widespread drought conditions and longer-term structural changes.

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>							
Australian PSI®	38.7	-8.3	50.3	<i>trend</i>	Australian PSI®	43.0	-2.2
<i>Activity indexes</i>							
Sales	31.2	-16.8	50.6	Business & property	42.1	-1.4	50.8
Employment	45.3	1.8	50.5	Logistics	42.8	-2.9	46.9
New Orders	35.3	-17.0	50.9	Finance & insurance	50.0	-2.6	53.1
Supplier deliveries	40.7	-3.6	49.1				
Finished stocks	46.1	2.3	49.2				
Capacity Utilisation (%)	70.2	-10.5	76.4	<i>Consumer-oriented services</i>			
<i>Prices and wages</i>							
Input Prices	73.4	9.4	64.1	Retail trade & hospitality	36.1	-4.1	47.9
Selling Prices	46.6	-6.4	48.6	Health & education	47.1	1.3	52.1
Average Wages	50.7	-3.0	57.3	Personal, recreational & other	45.7	-4.2	53.7

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

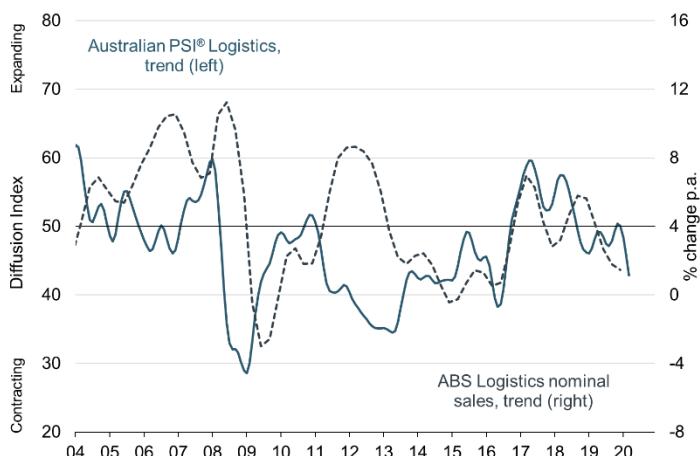
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$302.1bn in real value-added output in the year to Q4 2019 (equal to 15.9% of GDP).
- Business & property services employed 2,029,200 people in February 2020 (16% of total employment).
- The index for business & property services contracted by 1.4 points to 42.1 in March (trend). This was the lowest monthly result since 2013.
- Some businesses noted an increase in demand for telecommunications products and services. Others said customer enquiries had dramatically decreased.



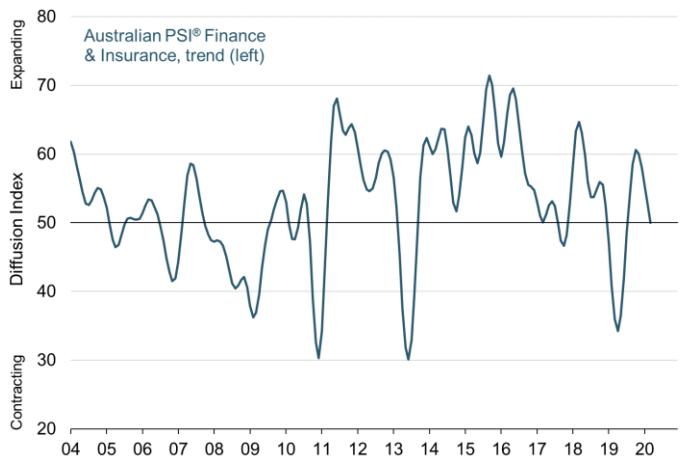
Logistics

- Logistics includes wholesale trade, transport & storage services. It produced \$157.3bn in real value-added output in the year to Q4 2019 (equal to 8.3% of GDP).
- It employed 1,032,100 people in February (8% of total employment).
- The logistics index deteriorated by 2.9 points to 42.8 points in March (trend). This is the third month of decline and the lowest result for this sector since July 2016.
- Suppliers of preventative health equipment reported an increase in demand, as did businesses with customers bringing forward their regular orders.
- Heavy restrictions on passenger travel have forced some transport businesses to cease operating for now.



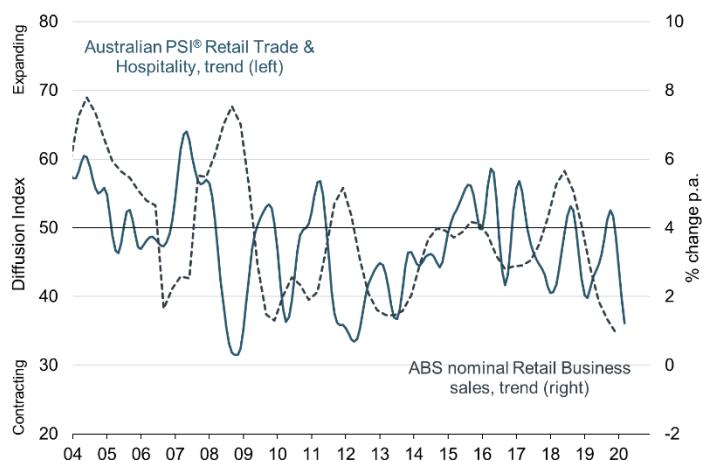
Finance & insurance

- Finance & insurance services (including banking, finance, insurance and superannuation services) produced \$165.7bn in real value-added output in the year to Q4 2019 (equal to 8.7% of GDP).
- This sector employed 465,000 people in February 2020 (4% of total employment).
- The finance & insurance sector's index fell by 2.6 points to 50.0 points in March (trend), indicating broadly stable conditions across the sector. The timing of the survey means this result might not reflect customer demand for financial services assistance in the last week of March.
- Participants who responded earlier in the data collection period noted increased demand from mining customers.



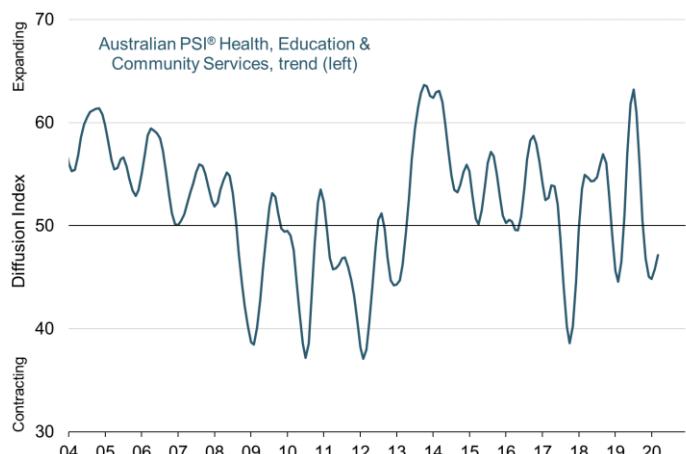
Retail trade & hospitality

- The retail and hospitality sector (including retail shops, restaurants, cafes, take-aways and hotels) produced \$121.5bn in real value-added output in the year to Q4 2019 (equal to 6.4% of gross domestic product).
- It employed 2,183,600 people in February 2020 (17% 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 fell by 4.1 points to 36.1 points in March. This was the lowest monthly result since June 2012 (trend).
- All indicators for retail and hospitality were strongly negative and deteriorating in March.
- Escalating restrictions have resulted in some businesses closing. Others reported rapidly reducing sales.



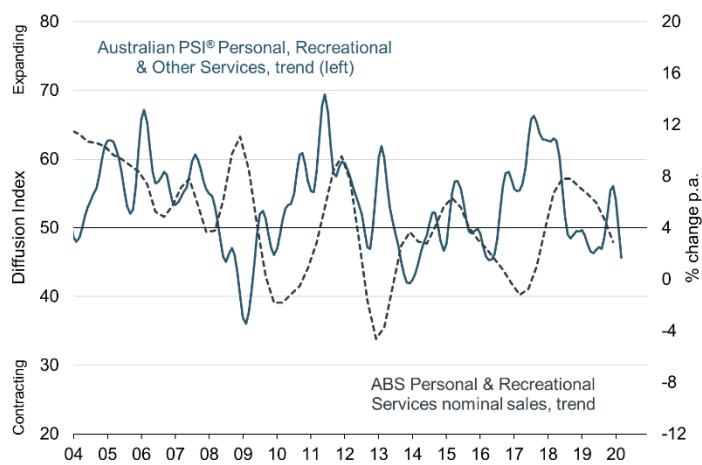
Health, education & community services

- Health, education & community services produced \$232.8bn in real value-added output in the year to Q4 2019 (12.2% of gross domestic product).
- This industry employed 2,842,500 people in February 2020 (22% of total employment). 56% of workers in education and 25% of workers in health and welfare are employed directly by the public sector.
- The rate of contraction in this sector eased in March, with its index rising by 1.3 points to 47.1 points (trend).
- Medical and welfare services face increased demand as a result of COVID-19, but education and other services are already being cut. Respondents from this sector reported overwhelmingly negative experiences to date.



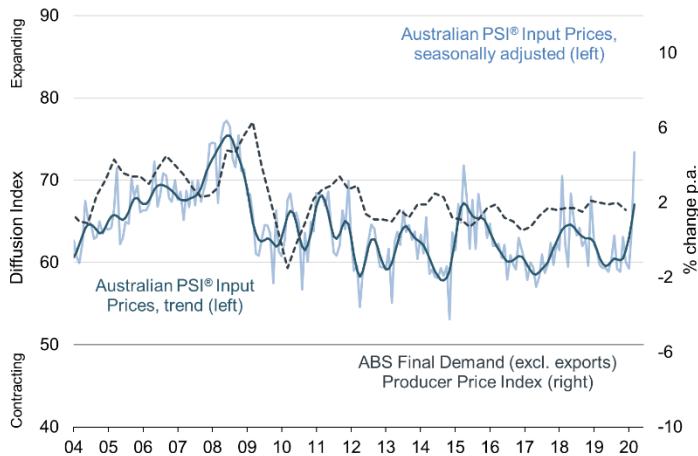
Personal, recreational & other services

- Personal, recreational, & other services produced \$50.7bn in real value-added output in the year to Q4 2019 (equal to 2.7% of gross domestic product).
- This sector employed 758,900 people in February 2020 (6% of total employment). 49% of workers in recreational services and 32% in personal services are part-time.
- The index for 'recreational, personal & other' fell by 4.2 points to 45.7 points in March (trend).
- All indicators were negative for this sector, but some businesses involved in providing assistance to people who are affected by COVID-19 anticipate an increase in demand over the coming months.



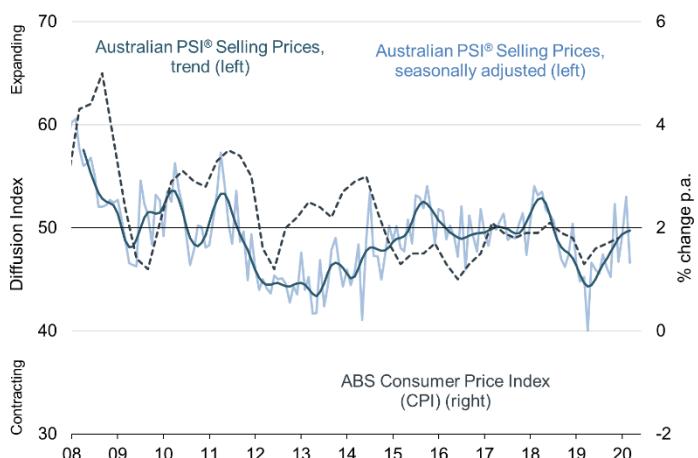
Input prices

- The ABS final producer price index (PPI) rose by 0.4% q/q and 1.6% p.a. in Q4 of 2019. This is weaker than headline consumer inflation (the CPI), which rose by 0.7% q/q and 1.8% p.a. over the same period (see 'selling prices' below).
- The Australian PSI® input price index jumped up by 9.4 points to 73.4 points in March (seasonally adjusted).
- This was the second-largest single month increase and the highest monthly level in cost pressures since October 2008.



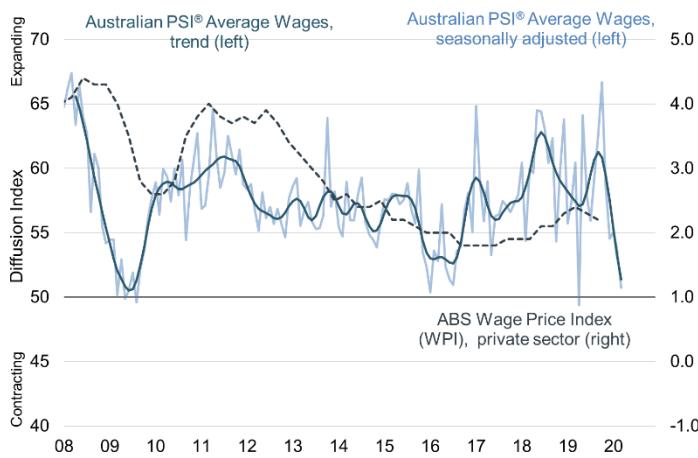
Selling prices

- The ABS headline consumer price index (CPI) accelerated to 0.7% q/q and 1.8% p.a. in Q4 of 2019.
- The selling prices index fell by 6.4 points to 46.6 points in March (seasonally adjusted).
- The selling prices index has been weak since 2018, in line with exceedingly weak headline inflation.
- Selling prices showed some strength in March in health & education services and to a lesser extent in logistics.



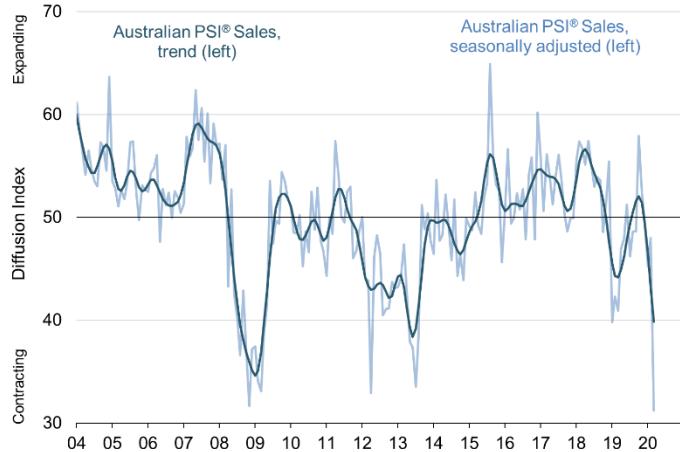
Average wages

- The ABS private sector wage index rose by 0.5% q/q and 2.2% over the year to Q4 of 2019.
- The Australian PSI® average wages index fell by 3.0 points to 50.7 points in March, indicating a further moderation in wage pressures (seasonally adjusted).
- This pricing index reached a recent peak in September 2019 and has been moderating down since then.
- Wages growth showed some resilience in the health & education and finance & insurance sectors, but even in these sectors the rises were reported only by businesses who responded earlier in the data collection period.



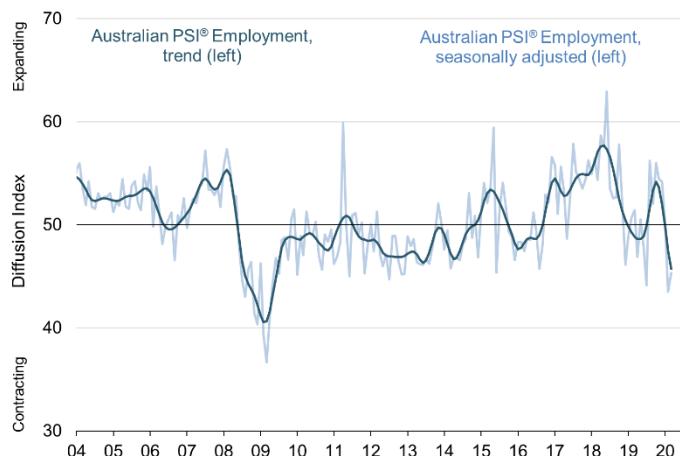
Sales

- The services sectors that are included in the Australian PSI® produced \$1030.2bn in real value-added output in the year to Q4 2019 (equal to 54.1% of total gross value-added output).
- The Australian PSI® sales index dived 16.8 points to 31.2 points in March (seasonally adjusted). This is the largest single month fall and the lowest level ever recorded for this index in the Australian PSI®.
- Sales contracted in every sector except 'health & education', where they were broadly stable.
- The response to the COVID-19 global pandemic halted or greatly decreased sales in most sectors included in the Australian PSI®. Businesses reporting an increase were either suppliers of PPE, or those with anxious customers who are bringing forward their existing orders.



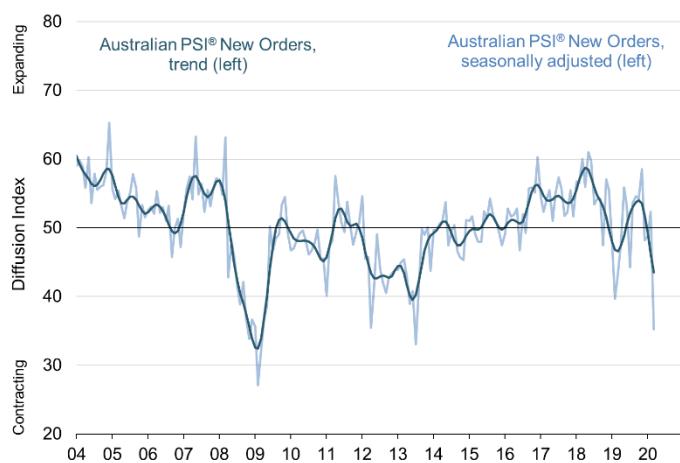
Employment

- The services sectors that are included in the Australian PSI® employed 9,314,100 people in November 2019 (72% of total Australian employment, including employees in the public and private sectors).
- The employment index in the Australian PSI® fell by 1.8 points to 45.3 points in March (seasonally adjusted).
- The employment index in the Australian PSI® has been trending down since the recent peak in October 2019.
- Some businesses in the health & education sector in the Australian PSI® reported employment growth in March.



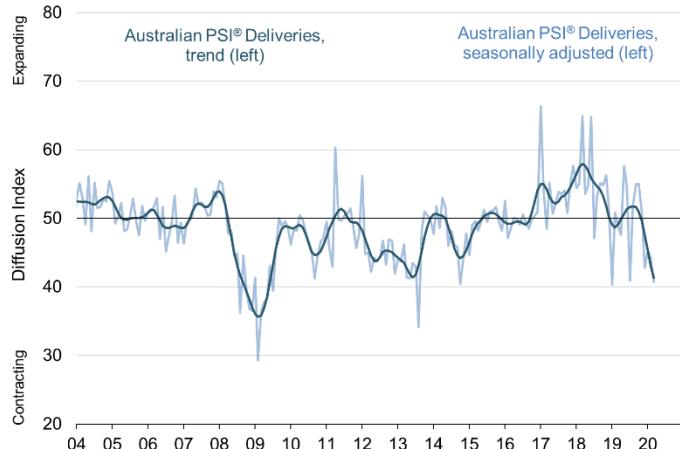
New orders

- New orders plunged in March, with the index falling by 17.0 points to 35.3 points (seasonally adjusted).
- This is the lowest monthly result since July 2013 and the largest single monthly fall since April 2008.
- New orders contracted in every sector except health & education which was broadly stable.
- A large proportion of respondents noted orders being paused or cancelled in March. Businesses who reported an increase in new orders included suppliers of IT and telecommunications services, PPE suppliers and those who supply the energy and mining sectors. New orders were generally higher for respondents who reported earlier in the data collection period this month.



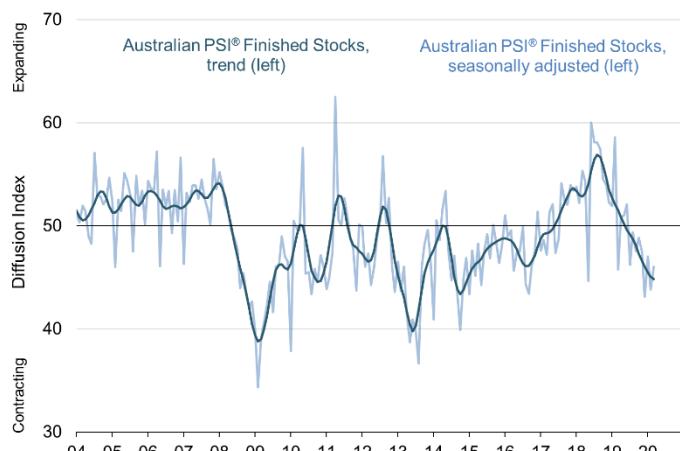
Supplier deliveries

- The Australian PSI® supplier deliveries index deteriorated by 3.6 point to 40.7 points in March (seasonally adjusted), indicating a faster rate of contraction in February.
- This deliveries index has been unusually volatile in 2018 and 2019, with strong growth alternating with large contractions from month to month (seasonally adjusted).
- Looking through this monthly volatility, supplier deliveries have decelerated since August 2019 (trend).



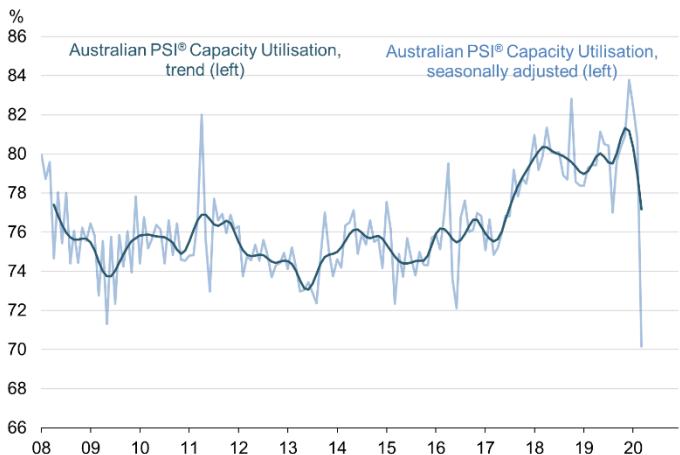
Finished stocks

- The index for finished stocks (inventories) rose by 2.3 points to 46.1 points in March (seasonally adjusted), marking nine months of contraction.
- This index has been under 50 points and trending lower since the middle of 2019.
- Stock levels either shrank or were stable across most sectors in March. Only the health & education sector reported a build-up in stocks.



Capacity utilisation

- Capacity utilisation across the services sectors dropped by 10.5 percentage points to 70.2% of available capacity being used in March.
- This was the single largest monthly fall and the lowest capacity utilisation rate recorded in the history of the Australian PSI®.
- Some businesses represented in the Australian PSI® expect their capacity utilisation rates to continue to fall, as demand for their products and services will be further eroded by restrictions and constraints on activity. Perhaps counter-intuitively, measured capacity may rise again in future months, if some struggling businesses close and remove their empty 'capacity' from this survey.



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 production, 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/policy-and-research/economics/economicindicators/>.

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