

Sales boost services sectors over the summer holiday period

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose by 1.4 points to 54.3 points (seasonally adjusted) over the summer holiday period (December 2020 and January 2021*), indicating a further improvement in conditions after the COVID-19 recession of 2020. This was the highest monthly result in the **Australian PSI®** since November 2019. Results above 50 points indicate expansion in the **Australian PSI®**, with higher numbers indicating a stronger expansion.

The **Australian PSI®** indicated growth in three services sectors and contraction in two of the five sectors covered (trend data). The 'personal, recreation & other services' sector contracted again in December and January, and at a faster pace than in November. Three activity indicators were positive and two contracted in the summer holiday period. Sales, new orders and employment were positive as activity restrictions eased.

Stimulus to the construction sector continued to flow through to services industries that support construction or are affected by it, including property services, transport and logistics. Demand for local and imported consumer goods improved in summer due to a backlog of pent-up demand.

Dec 2020 & Jan 2021

MEDIA CONTACT

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| Australian PSI® ▲ 1.4 points (seasonally adjusted) | 54.3 |
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| Australian PSI® ▲ 4.3 points (trend) | 55.0 |
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|---|-------------|
| Business & property services ▲ 3.8 points (trend) | 51.2 |
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|--|-------------|
| Logistics ▲ 2.1 points (trend) | 55.4 |
|--|-------------|

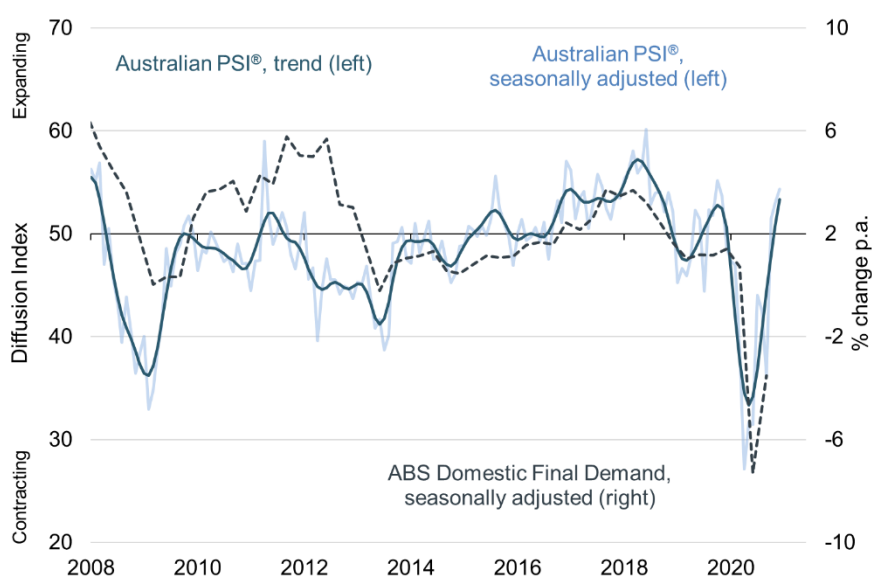
| | |
|--------------------------------|-------------|
| Finance & insurance | n.a. |
|--------------------------------|-------------|

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|---|-------------|
| Retail trade & hospitality ▲ 5.4 points (trend) | 52.2 |
|---|-------------|

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|---|-------------|
| Health & community ▲ 2.8 points (trend) | 49.1 |
|---|-------------|

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|---|-------------|
| Personal, recreation & other services ▼ -5.3 points (trend) | 42.8 |
|---|-------------|

Australian PSI® and ABS domestic final demand



* the monthly data for the Australian PSI® in December 2020 and January 2021 are combined into one data release that describes two months of survey participation (released on 5 February 2021). This is due to ongoing business disruptions as a result of COVID-19 in Australia.

Business-oriented services sectors: Logistics recovered further in December and January (trend) as easing restrictions, pent-up demand and improved supply boosted activity for freight transport and related services. Property and business services reported positive conditions on average. Government stimulus for construction helped boost demand for business and property services that supply or support the construction industry (e.g., accounting, legal, design and real estate).

Consumer-oriented services sectors: The retail & hospitality sector expanded in December and January rising from contraction in November. The large 'health, education and community services' sector was broadly stable but some respondents in this sector noted a surge of pent-up demand lifted health & education providers' activity, while the 'personal, recreation & other' sector reported a continuation of negative conditions (trend).

Services prices and wages: The input price index jumped up in December and January compared to November 2020 (seasonally adjusted). This marked a solid half-year of input price increases following a record low for this index in June 2020. The average wage index also saw an increase in December and January, following an unprecedented five months of contraction earlier this year. The selling prices index contracted again in December and January, following one month of growth and seven months of deflationary price pressures due to low demand. Taken together, these indexes indicate a very modest increase in inflation pressures.

Services activity, orders, employment and deliveries: Three of the five activity indices in the **Australian PSI®** expanded and two were stable in December and January (seasonally adjusted). The indices for employment, sales and new orders indicated recovering or positive conditions, while deliveries and finished stocks contracted over this period. These were the best conditions (i.e., the highest activity index results) reported by businesses in the **Australian PSI®** since November 2019.

Capacity utilisation fell by 3.3 percentage points to 76.2% of available capacity being used across the services sectors in December and January. Capacity utilisation has moderated since September and October 2020 and is below the long-term average for capacity utilisation in the **Australian PSI®**.

Services highlights: Many businesses reported improved conditions in summer as easing restrictions combined with a large degree of pent-up demand led to increased sales to household and business customers. Activity remained lower than pre-pandemic levels, but many respondents reported improving activity, particularly in Victoria. Some businesses said they are continuing to benefit from changes to consumers' buying patterns due to the COVID-19 pandemic, particularly with regard to stronger online sales and ongoing disruptions of overseas competitors' ability to deliver quickly to Australia.

Services concerns: Lower demand still weighed on some services businesses in December and January. Some felt the improvements came too late in the year because many businesses were shut down for the holiday period. Others noted the negative impact of temporary (and largely unpredictable) local lockdowns and interstate border movement restrictions across Australia in December and January. Demand from overseas customers remains muted for some sectors. Ongoing shipping delays, both locally and from overseas, were mentioned by many respondents to the **Australian PSI®**.

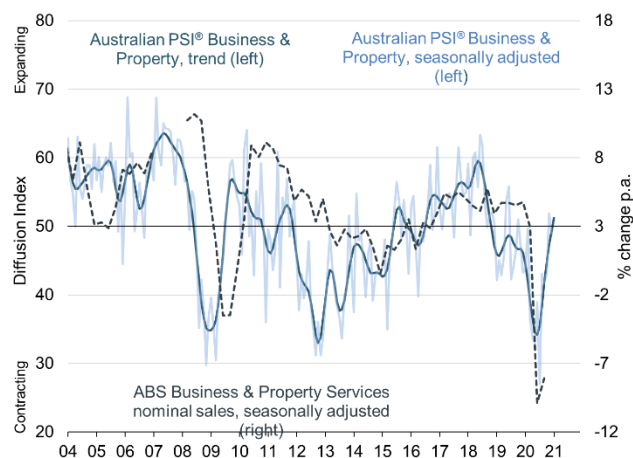
| Australian PSI® key numbers | Index Dec 2020 Jan 2021 | Change from Nov 2020 | 12-month average | Australian PSI® sectors | Index Dec 2020 Jan 2021 | Change from Nov 2020 | 12-month average |
|-----------------------------|----------------------------|----------------------|------------------|---|----------------------------|----------------------|------------------|
| <i>Seasonally adjusted</i> | | | | <i>Trend</i> | | | |
| Australian PSI® | 54.3 | 1.4 | 42.6 | Australian PSI® | 55.0 | 4.3 | 42.6 |
| <i>Activity indexes</i> | | | | <i>Business-oriented services</i> | | | |
| Sales | 60.2 | 5.5 | 41.7 | Business & property | 51.2 | 3.8 | 50.4 |
| Employment | 55.9 | -0.5 | 44.9 | Logistics | 55.4 | 2.1 | 46.8 |
| New Orders | 54.8 | 2.9 | 42.9 | Finance & insurance | na | | 52.8 |
| Supplier deliveries | 47.3 | -5.0 | 40.6 | <i>Consumer-oriented services</i> | | | |
| Finished stocks | 45.0 | 1.6 | 41.9 | Retail trade & hospitality | 52.2 | 5.4 | 47.6 |
| Capacity Utilisation (%) | 76.2 | -3.3 | 74.0 | Health & education | 49.1 | 2.8 | 51.5 |
| <i>Prices and wages</i> | | | | Personal, recreational & other services | 42.8 | -5.3 | 53.2 |
| Input Prices | 62.6 | 10.8 | 59.5 | | | | |
| Selling Prices | 45.0 | -1.8 | 44.3 | | | | |
| Average Wages | 64.9 | 7.4 | 51.0 | | | | |

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.

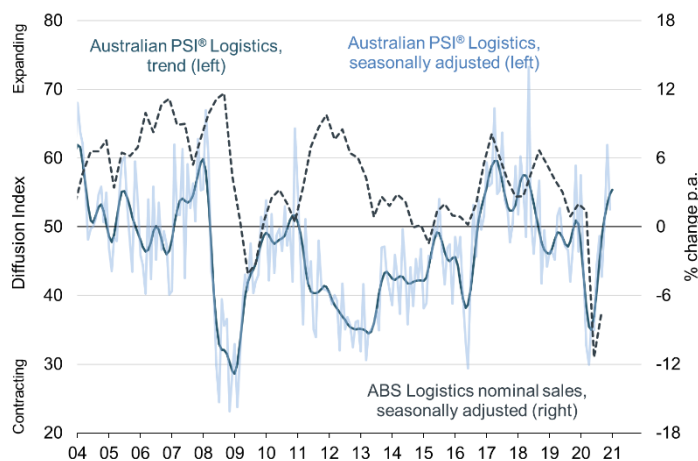
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$292.4bn in real value-added output in the year to Q3 2020 (equal to 15.2% of GDP, ABS data).
- Business & property services employed 2,049,000 people in November 2020 (15.9% of total employment).
- The index for business & property services improved by 3.8 points to 51.2 points in January 2021 (trend, compared to November 2020), indicating broadly stable conditions.
- Businesses in this sector reported a mix of conditions across the holiday period. Some businesses reported buoyant conditions and a lift in sales after an extended period of pent-up demand from household and business customers (and especially from construction businesses), while others noted that their business-to-business customers were mainly closed for the holiday period.



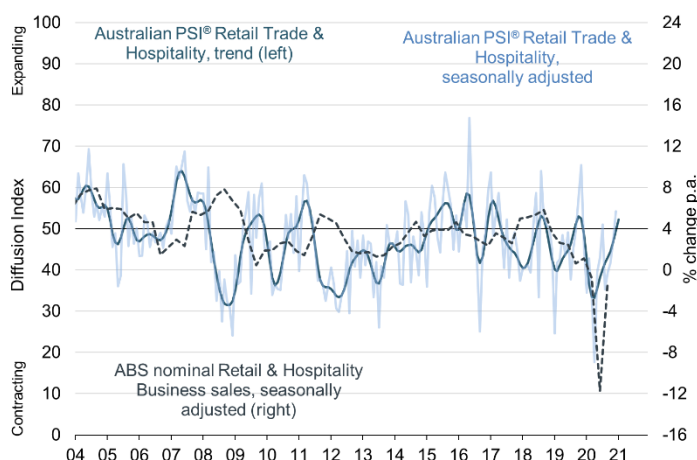
Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$150.5bn in real value-added output in the year to Q3 2020 (equal to 7.8% of GDP, ABS data).
- Logistics employed 1,009,700 people in November 2020 (7.9% of total employment).
- The logistics index improved by 2.1 points to 55.4 points January (trend, compared to November 2020), indicating a stronger pace of recovery than in November.
- Supply disruptions throughout 2020 saw strong demand for freight transport and related logistics services. Businesses reported that many customers are still factoring in expected delays and disruptions into their ordering process (e.g. by allowing more time for freight deliveries or ordering in advance). Disruptions in Europe and other international markets continue to inhibit some stock availability.
- Sales and new orders of stock were strong, both for international products and locally produced goods.



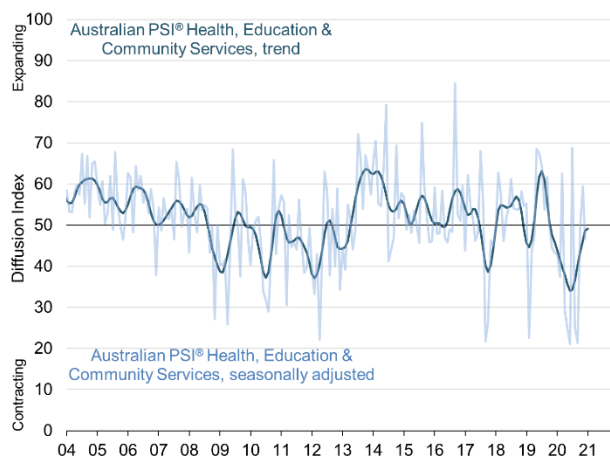
Retail trade & hospitality services

- The retail & hospitality sector (including shops, restaurants, cafes, take-aways, hotels & accommodation) produced \$116.9bn in real value-added output in the year to Q3 2020 (equal to 6.1% of GDP, ABS).
- It employed 2,119,600 people in November 2020 (16.5% 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 5.4 points to 52.2 points in January (trend, compared to November 2020).
- Conditions are improving for hospitality and retail but remain lower than pre-pandemic levels. Easing restrictions lifted hospitality sales in many locations, with some businesses reported difficulties obtaining more staff. Demand for goods for home and home-improvement remain strong and online sales increased. Consumer sales were disrupted by temporary lockdowns in summer.



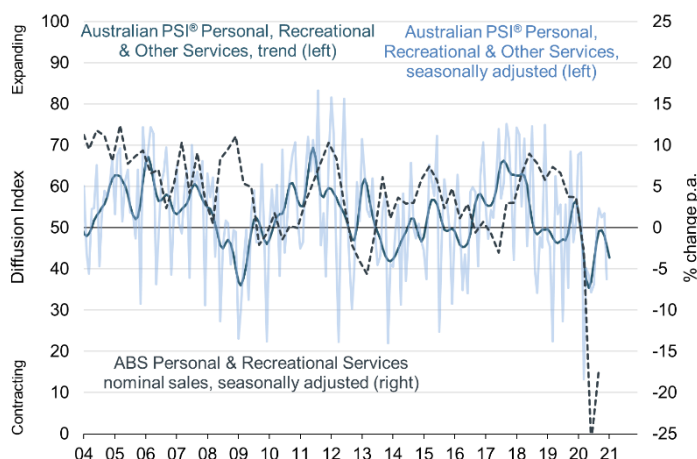
Health, education & community services

- Health, education & community services produced \$238.2bn in real value-added output in the year to Q3 2020 (12.3% of gross domestic product).
- This industry employed 2,848,000 people in November 2020 (22.1% 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 rose by 2.8 points to 49.1 points in January (trend, compared to November 2020) indicating broadly stable conditions for the sector. The reduction in activity restrictions lifted in activity in healthcare, with the sector reporting pent-up demand after closures in 2020.

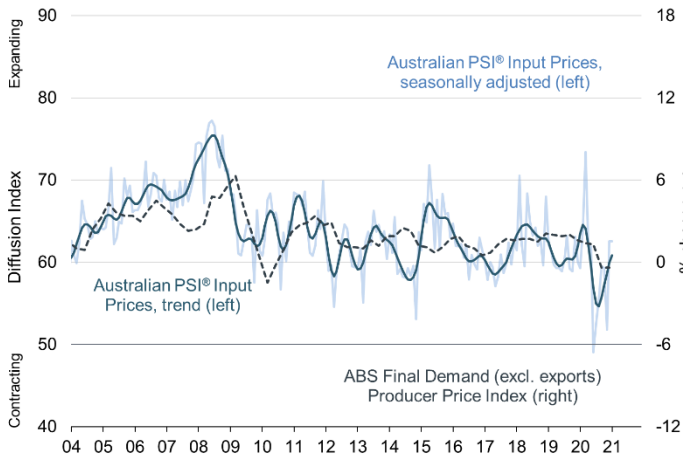


Personal, recreational & other services

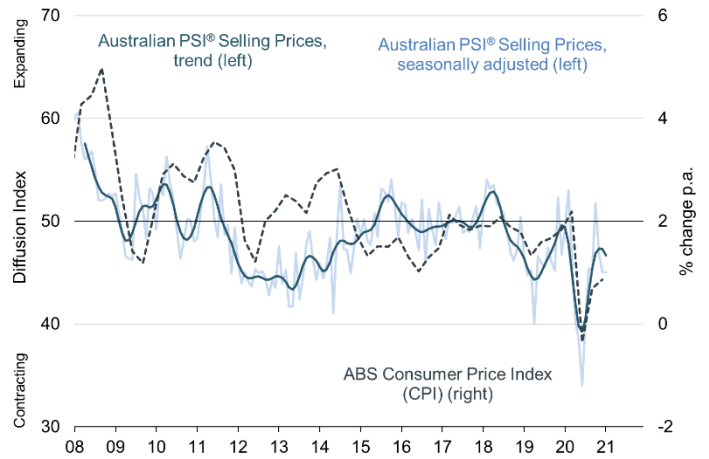
- Personal, recreational, & other services produced \$45.3bn in real value-added output in the year to Q3 2020 (equal to 2.3% of GDP, ABS data).
- This sector employed 708,400 people in November 2020 (5.5% of total employment).
- The index for 'recreational, personal & other' services fell by 5.3 points to 42.8 points (trend, compared to November 2020) indicating weakening conditions in January.
- Participants reported lower demand and increased price competition.



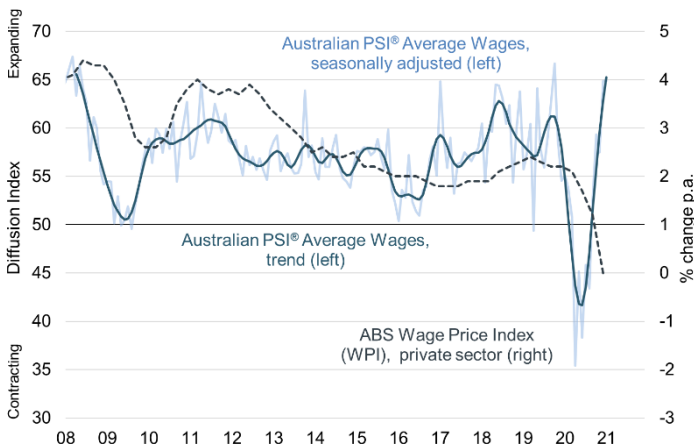
Input prices



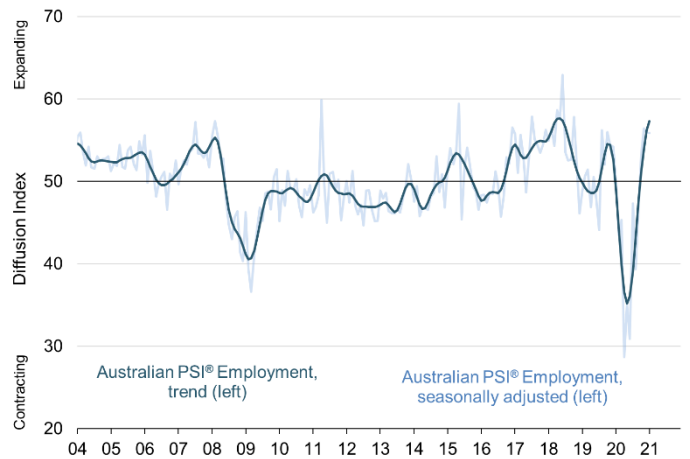
Selling prices



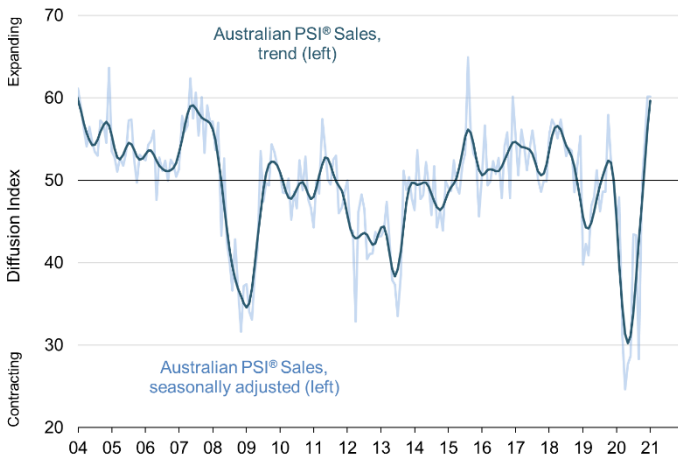
Average wages



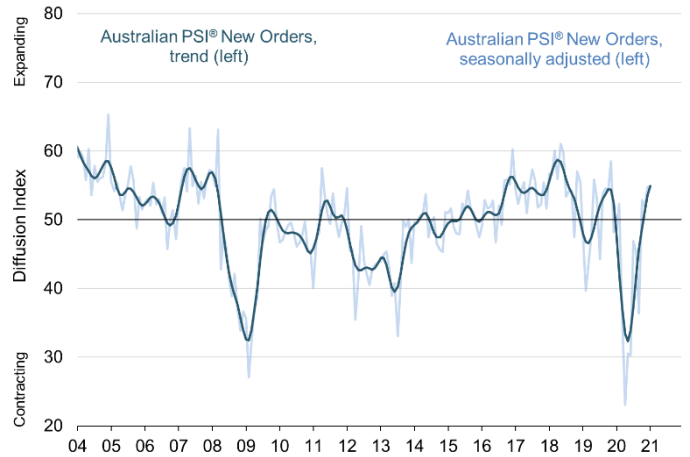
Employment



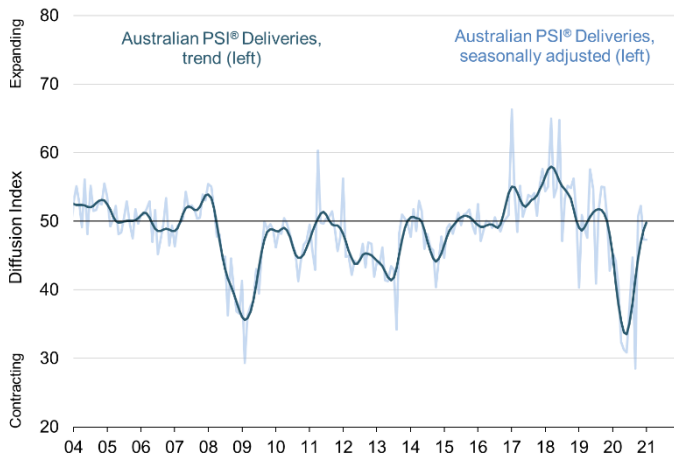
Sales



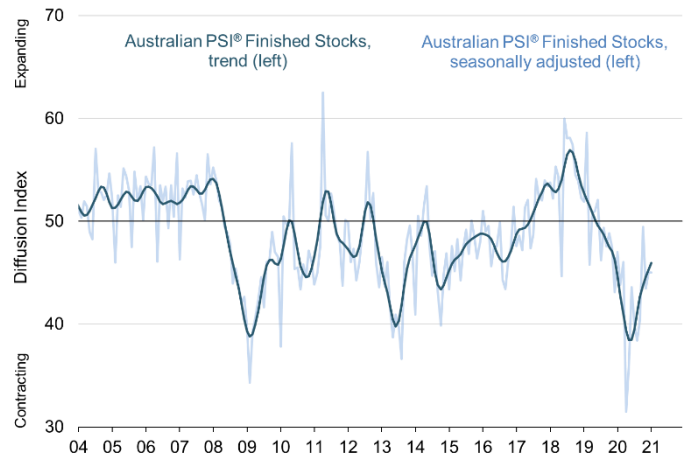
New orders



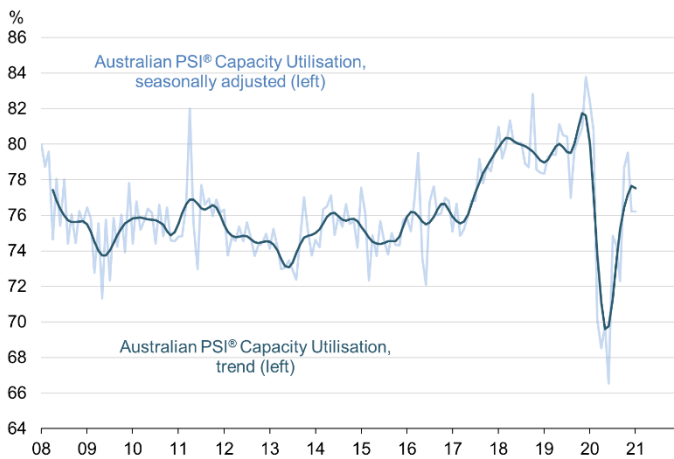
Supplier deliveries



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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