

Services businesses report a stronger month of recovery in February 2021

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose by 1.5 points to 55.8 points (seasonally adjusted) in February 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.

The **Australian PSI®** indicated growth in four services sectors and contraction in one of the five sectors included (seasonally adjusted). The business-to-business segments of the business & property services sector contracted in February, reflecting lacklustre trading conditions. Four activity indicators were positive and one contracted in February. Sales, new orders, stocks and deliveries showed robust recovery, but the employment index indicated a setback, with a contraction during the month.

Demand was high for goods and services selling to construction and home-oriented customers. Strong home improvement sales continue to benefit sectors including property services, transport, logistics and retail. Ongoing uncertainty regarding border and activity restrictions (and particularly snap lockdowns) remains a key concern for businesses in all services industries.

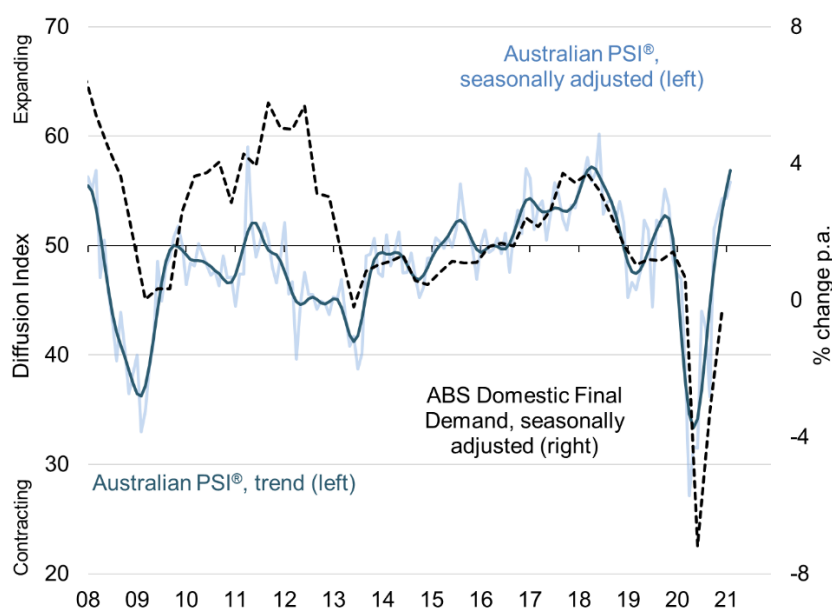
February 2021

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Australian PSI® ▲ 1.5 points (seasonally adjusted)	55.8
Australian PSI® ▲ 1.8 points (trend)	56.9
Business & property services ▼ - 4.6 points (seasonally adjusted)	44.3
Logistics ▲ 8.6 points (seasonally adjusted)	61.1
Finance & insurance	n.a.
Retail trade & hospitality ▼ 0.3 points (seasonally adjusted)	54.0
Health & community ▲ 19.6 points (seasonally adjusted)	66.3
Personal, recreation & other services ▲ 16.3 points (seasonally adjusted)	53.8

Australian PSI® and ABS domestic final demand



Business-oriented services sectors: Logistics improved further in February (seasonally adjusted), as strong demand and easing restrictions boosted activity for wholesale, freight transport and related services. Supply constraints are reported to be easing. Property and business services reported weaker conditions, on average, due to weakness in business-to-business segments. Government stimulus for construction helped boost demand for business and property services that supply or support residential construction (e.g. accounting, legal, design and real estate), but others face subdued demand.

Consumer-oriented services sectors: All three consumer sectors expanded in February (seasonally adjusted). Delayed spending across previous months, easing restrictions and home improvement sales drove demand in the consumer sectors. Stimulus to the construction sector is flowing through to businesses selling home-based goods and services. Consumers are reported to be redirecting savings and funds that would otherwise have been spent on travel into home improvements.

Services prices and wages: The input price index rose further in February 2021 (seasonally adjusted). This marked eight months of input price increases following a record low for this index in June 2020. The average wage index also grew in February, but the rate of increase slowed from previous months. Selling prices improved, with this index at its strongest since April 2011. This suggests services businesses are passing on higher input costs, following a year of subdued prices.

Services activity, orders, employment and deliveries: Four of the five activity indices in the **Australian PSI®** expanded and one declined in February (seasonally adjusted). The indices for sales, new orders, deliveries and inventories posted a more robust rate of recovery, while the employment index indicated a decline from the previous month. 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 4.0 percentage points to 80.2% of available capacity being used across the services sectors in February 2021. This is the highest proportion of capacity in use since February 2020, and is above the long-term average 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 February, as easing restrictions combined with a large degree of pent-up demand. Many participants said their activity in February were similar to pre-pandemic levels or were improving back towards that level. Respondents selling services into business sectors (e.g. wholesale trade and logistics) reported that their customers are deliberately increasing their inventory levels as a precaution, following a year of uncertainty during which they either kept inventory low or faced supply disruption.

Services concerns: Businesses everywhere and in all sectors reported ongoing concerns about uncertain, unpredictable border and activity restrictions, particularly in the wake of various city and state-wide ‘snap’ or ‘circuit-breaker’ lockdowns during January and February 2021. Ongoing capacity restrictions for venues (and offices in Victoria) continue to inhibit hospitality businesses, particularly for those that faced losses during the lockdowns in January and February. Demand from customers in the property and business services sector remains low for commercial or business-oriented respondents.

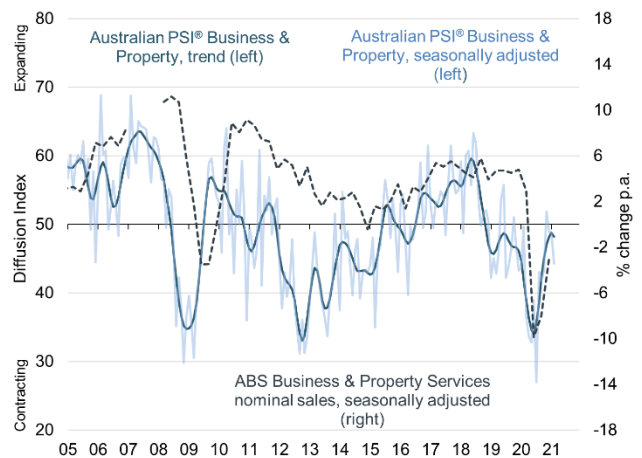
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	12-month average	Australian PSI® sectors	Index this month	Change from last month	12-month average
Australian PSI® (s.a.)	55.8	1.5	49.9	Australian PSI® (trend)	56.9	1.8	49.8
<i>Activity indexes seasonally adjusted</i>				<i>Business-oriented services Seasonally adjusted</i>			
Sales	65.7	5.5	50.3	Business & property	44.3	-4.6	50.7
Employment	42.7	-13.2	50.2	Logistics	61.1	8.6	47.1
New Orders	58.4	3.6	50.6	Finance & insurance	na	na	52.8
Supplier deliveries	57.3	10.0	48.8	<i>Consumer-oriented services Seasonally adjusted</i>			
Finished stocks	55.0	10.0	48.9	Retail trade & hospitality	54.0	-0.3	47.8
Capacity Utilisation (%)	80.2	4.0	76.2	Health & education	66.3	19.6	51.8
<i>Prices and wages</i>				Personal, recreational & other services	53.8	16.3	53.4
Input Prices	64.4	1.8	63.8				
Selling Prices	56.2	11.2	48.3				
Average Wages	58.3	-6.6	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.

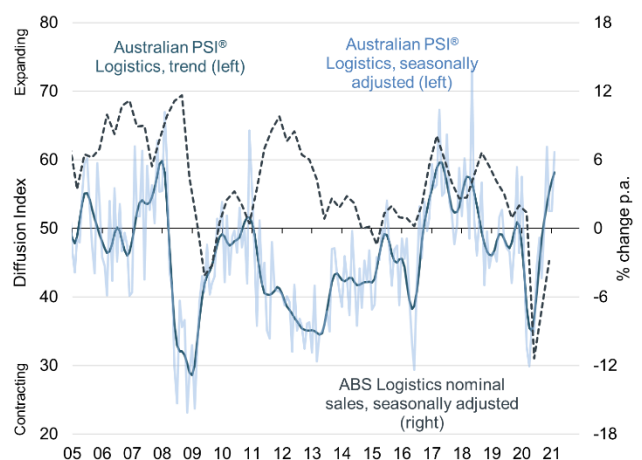
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$290.5bn in real value-added output in the year to Q4 2020 (equal to 15.1% of GDP, ABS data).
- Business & property services employed 2,049,300 people in November 2020 (15.9% of total employment).
- The index for business & property services fell by 4.6 points to 44.3 points in February 2021, indicating a decline in conditions for the sector and at a faster rate.
- Businesses in this sector reported mixed conditions. Stimulus to the construction sector continues to support demand for residential property and related services, but other segments reported subdued conditions.



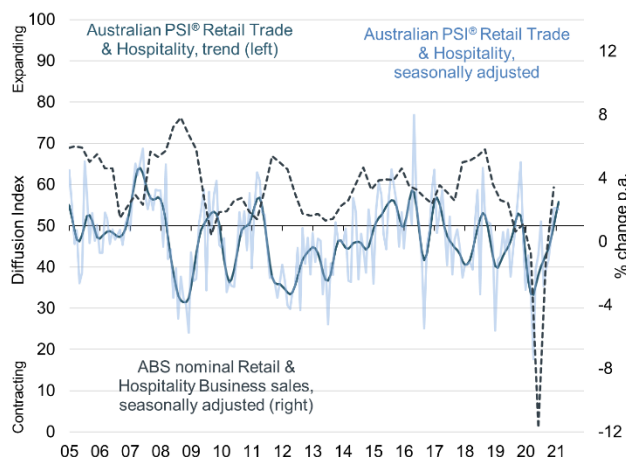
Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$147.4bn in real value-added output in the year to Q4 2020 (equal to 7.7% of GDP, ABS data).
- Logistics employed 1,019,700 people in November 2020 (7.9% of total employment).
- The logistics index improved by 8.6 points to 61.1 points in February (seasonally adjusted) indicating five months of positive and improving conditions.
- Businesses said many of their customers are increasing stock levels, as sales and new orders improve. There were also reports of overseas customers placing new orders or increasing their orders during the month.
- Consumers' strong focus on home-based goods appears to be having a positive effect on this sector, with wholesalers and freight transport providers reporting high demand from their retail and construction customers.
- Strong demand for the supply and delivery of health and safety consumables continued in February, particularly for suppliers of personal protective equipment, cleaning and sanitising products.



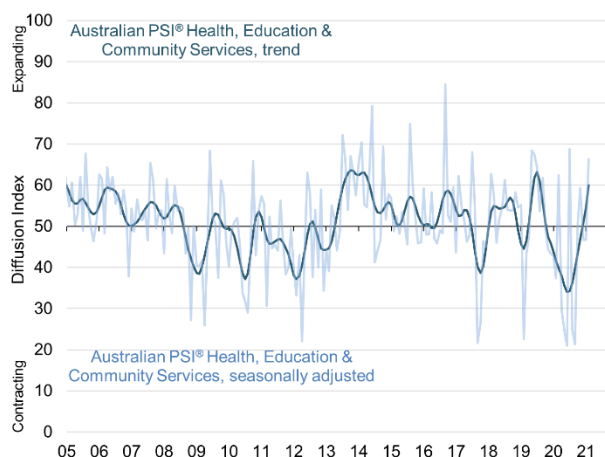
Retail trade & hospitality services

- 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 2,119,600 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 moderated by 0.3 points to 54.0 points in February (seasonally adjusted), indicating that recovery is ongoing.
- Conditions on average were positive for hospitality and retail. Easing restrictions lifted hospitality sales in many locations and demand for home-improvement goods remains strong. Retail and hospitality sales were disrupted and delayed in Victoria during the five-day snap lockdown. Businesses in all states expressed concern about future restrictions, particularly if they are fast and unpredictable.



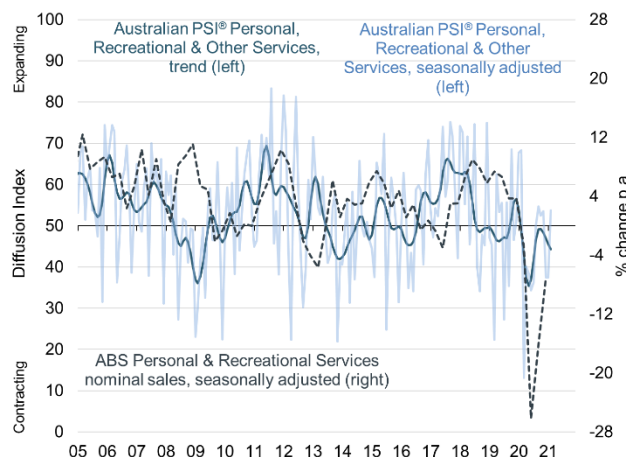
Health, education & community services

- Health, education & community services produced \$239.3bn in real value-added output in the year to Q4 2020 (12.4% of GDP, ABS).
- This 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 jumped up by 19.6 points to 66.3 points in February (seasonally adjusted) indicating a strong improvement in activity. The reduction in activity restrictions boosted activity in healthcare, with the sector reporting pent-up demand after closures in 2020 (e.g. delayed medical appointments, treatments and services).

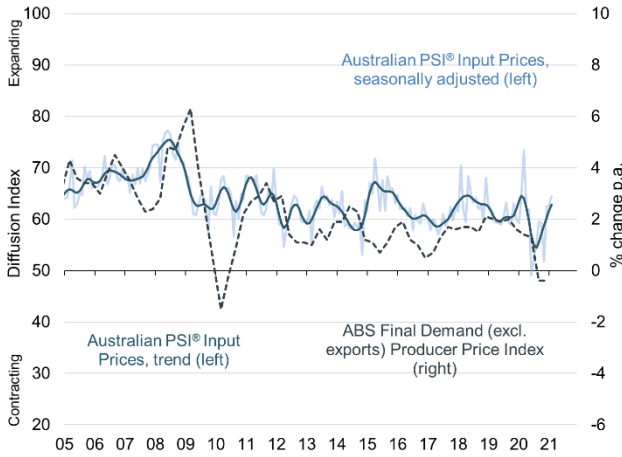


Personal, recreational & other services

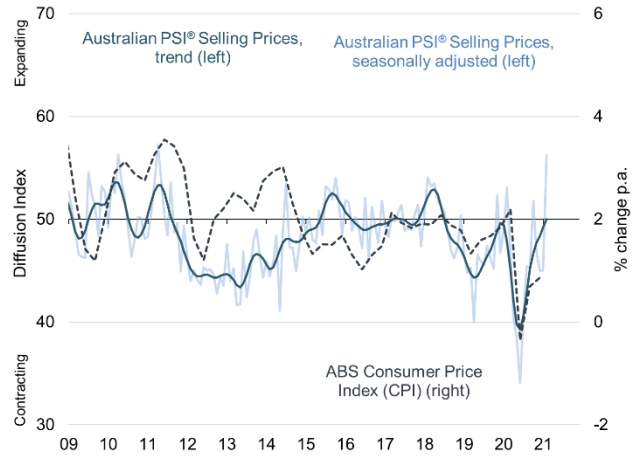
- Personal, recreational, & other services produced \$44.4bn in real value-added output in the year to Q4 2020 (equal to 2.3% of GDP, ABS data).
- This sector employed 708,400 people in November 2020 (5.5% of total employment).
- The index for 'recreational, personal & other' services rose from contraction to growth, lifting by 16.3 points to 53.8 points (seasonally adjusted) indicating recovering conditions in February.
- Easing conditions and pent-up demand due to delayed sales in 2020 drove activity for this sector in February.



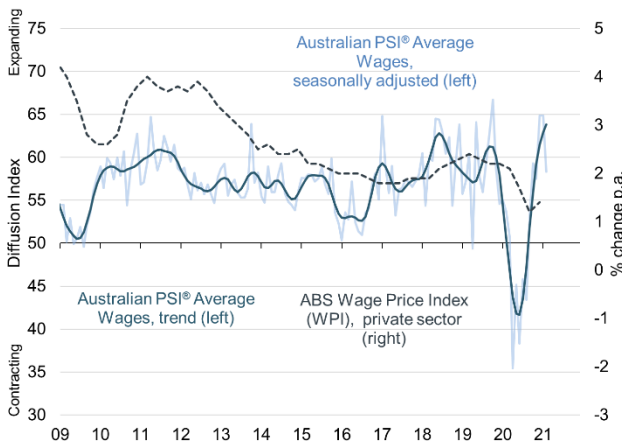
Input prices



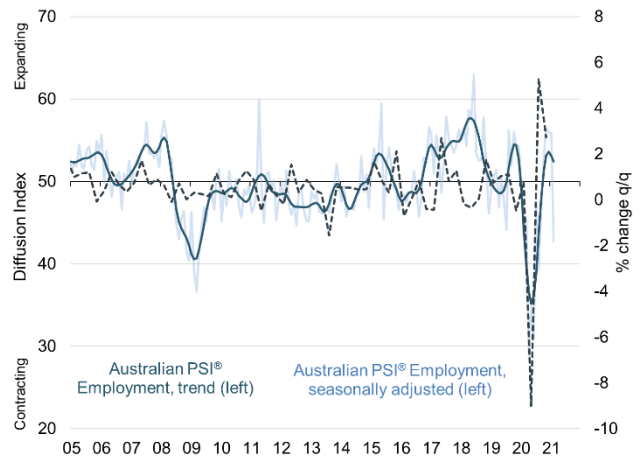
Selling prices



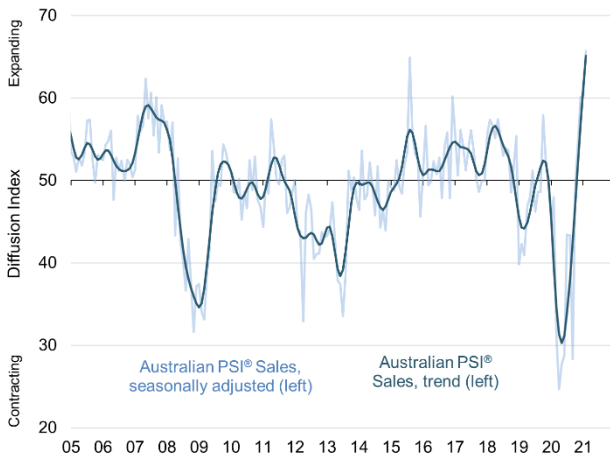
Average wages



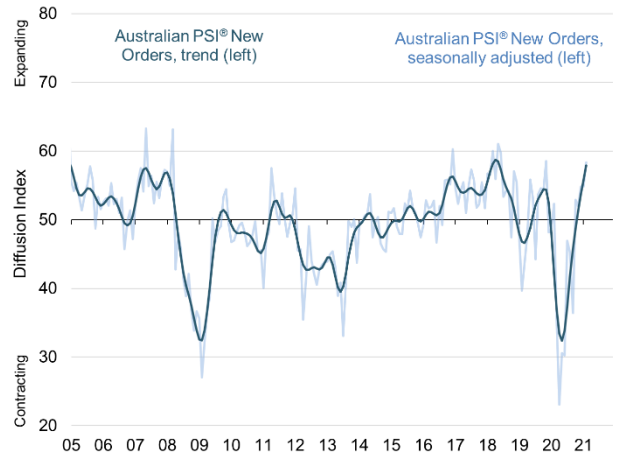
Employment



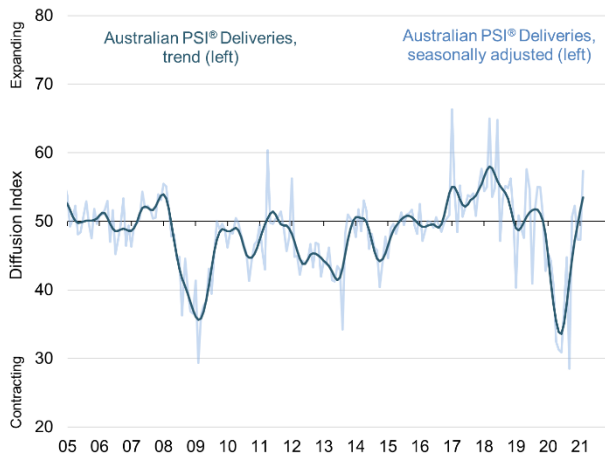
Sales



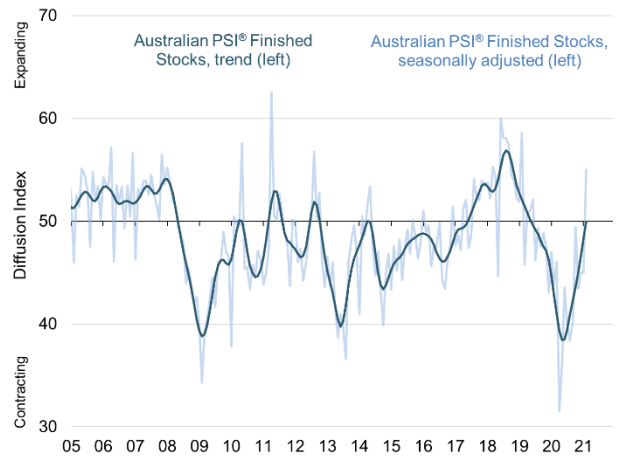
New orders



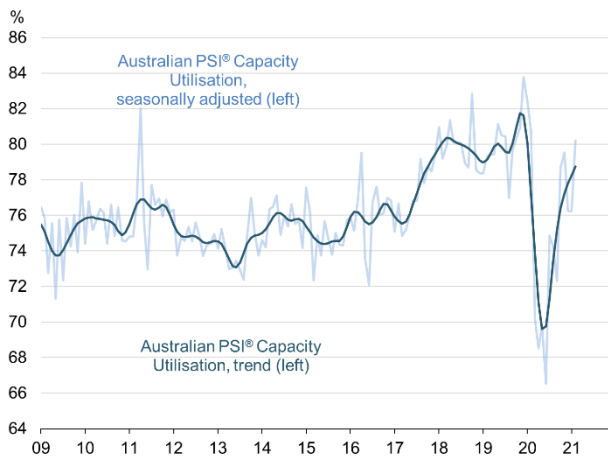
Supplier deliveries



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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