

AUSTRALIAN Performance of Services Index

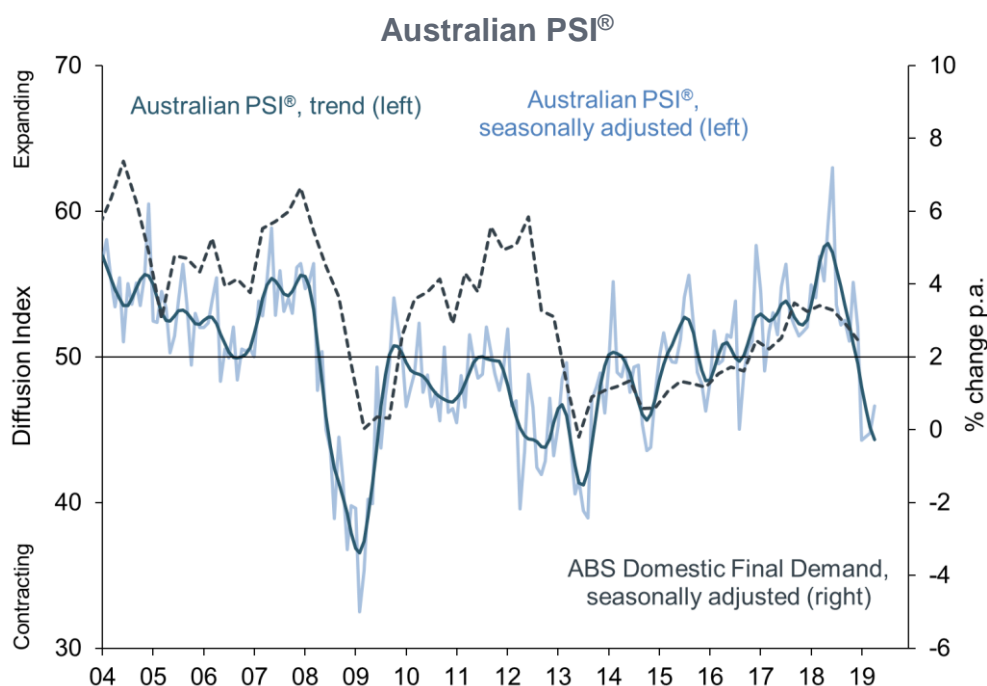


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Services sector decline eases in April

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose by 1.7 points to 46.5 points in April 2019 (seasonally adjusted), indicating a slower rate of contraction across the services sector. This was the fourth month of contractionary conditions for services and the third in which the decline has eased. Results below 50 points indicate contraction in the Australian PSI®, with lower numbers indicating steeper rates of decline.

The Australian PSI® indicated contraction across both the business-oriented sectors and most of the consumer-oriented sectors (trend data). Hospitality stood out as the one bright spot of positive sector activity in April, with businesses in this sector more likely to benefit from April's extended run of public and school holidays than those in other sectors.



Australian PSI® consumer-oriented services sectors

AUSTRALIAN PSI® 46.5 ↑ 1.7 POINTS (seasonally adjusted)	RETAIL TRADE 37.7 ↓ 0.8 POINTS (trend)	HOSPITALITY 52.4 ↑ 2.5 POINTS (trend)	HEALTH, EDUCATION & COMMUNITY 43.1 ↓ 1.7 POINTS (trend)	PERSONAL, RECREATION & OTHER 46.9 ↓ 1.1 POINTS (trend)
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Australian PSI® business-oriented services sectors

AUSTRALIAN PSI® 44.3 ↓ 0.8 POINTS (trend)	BUSINESS & PROPERTY SERVICES 49.0 ↓ 0.5 POINTS (trend)	WHOLESALE TRADE 48.2 ↑ 1.4 POINTS (trend)	FINANCE & INSURANCE 49.1 - 0.0 POINTS (trend)	TRANSPORT & STORAGE 40.5 ↓ 2.2 POINTS (trend)
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Australian PSI® summary

Business-oriented services sectors: All four business-oriented sectors in the Australian PSI® were weak in April (trend). Finance & insurance was mildly negative, as was business & property services and wholesale trade. Transport & storage continued to deteriorate, reporting strongly contractionary conditions. This was the second consecutive month in which all of the business-oriented sectors were negative (and for only the second time since December 2015). No results were available this month for the communications sector.

Consumer-oriented services sectors: Three of the four consumer-oriented sectors contracted in April 2019 (trend). Hospitality was the notable exception and was the only segment to expand in the month. The 'personal, recreational & other services' sector contracted as did 'health, education & community services'. Retail trade deteriorated further. It marked a fifth month of declining conditions and its weakest result since June 2012.

Services wages and prices: The input price index fell in April (down 1 point to 58.0 points). This was the fourth month of decelerating input costs and well below the long-term average for this indicator (64.0 points). The average wage price index fell sharply into contraction and indicated wage deflation (down 10.9 points to 48.2 points). The average selling prices index continued to contract in the month and at a sharper rate, as the pace of discounting increased.

Services activity: One of the five activity indexes in the Australian PSI® was broadly stable in April and four contracted. Inventories were steady following a decline in March; the contraction in the sales index eased after indicating shrinking conditions in the previous month. Employment contracted following one month of positive conditions. Deliveries fell for a second month and new orders continued to contract but its rate of decline eased.

Capacity utilisation in the Australian PSI® rose by 2.0 points to 79.5% of available capacity in April, which is above the long-term average for this series (76.0%).

Services highlights: Some services businesses, particularly in hospitality, saw a pick-up in activity due to the combination of school holidays and the Easter and ANZAC public holidays across the month of April lifting local tourism and hospitality activity. Some businesses noted increased sales to domestic customers and pockets of robust economic activity.

Services concerns: For many business-oriented services businesses, the disruption to trade from the combination of holidays led to weak customer demand in April, with a number of businesses noting slower sales and enquiries. Increased competition was also noted by several respondents as constraining activity and exerting downward pressure on prices. Drought conditions had a negative impact on some services businesses in April. Access to finance for customers in the construction industry was a concern for some participants, with flow-on effects felt in other segments. Retail trade remains particularly weak.

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®	46.5	1.7	51.6	Australian PSI®	44.3	-0.8	51.3
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	48.7	10.2	49.9	Business & property	49.0	-0.5	54.5
Employment	46.0	-6.2	52.3	Finance & insurance	49.1	0.0	53.1
New Orders	44.6	2.3	51.9	Wholesale trade	48.2	1.4	49.7
Supplier deliveries	45.1	-1.8	51.7	Transport & storage	40.5	-2.2	46.9
Finished stocks	49.4	4.6	53.0	Communications	28.9	-3.7	46.7
Capacity Utilisation (%)	79.5	2.0	79.1	<i>Consumer-oriented services</i>			
<i>Prices and wages</i>				Retail trade	37.7	-0.8	48.0
Input Prices	58.0	-1.0	62.5	Hospitality	52.4	2.5	51.6
Selling Prices	42.1	-2.7	47.9	Health & education	43.1	-1.7	54.2
Average Wages	48.2	-10.9	59.0	Recreation & other services	46.9	-1.1	50.1

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/

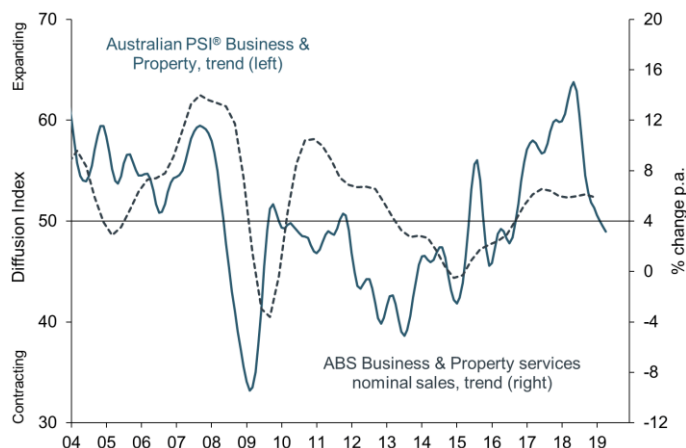
Australian PSI[®] business services sectors

Business & property services

Business & property services produced \$239.1bn in real value-added output in the year to Q4 2018 (13% of gross domestic product). It employed 1,757,700 people in February 2019 (14% of total employment). It includes professional services, real estate and property services.

The index for business & property services fell by 0.5 points to 49.0 points (trend) indicating mildly contractionary conditions in April 2019. This was the eleventh month of weakening conditions and the second of contraction for this large sector, which reached a recent peak in May 2018. Tightening credit conditions and increased competition were the main factors reported by participants as having a negative influence on demand for business & property services in April 2019.

Business & property services



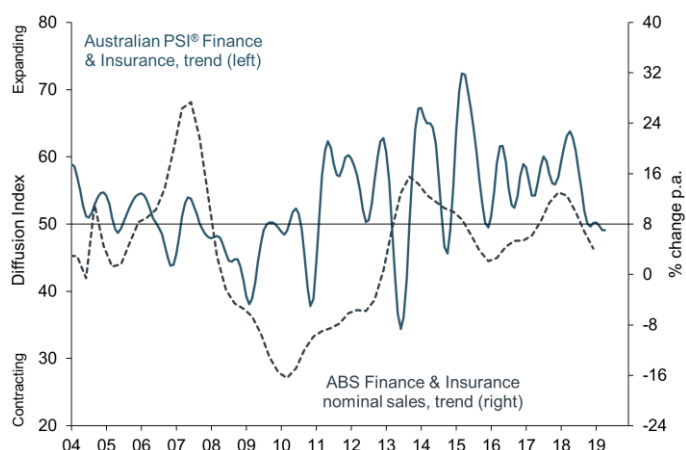
Finance & insurance

Finance & insurance services produced \$160.6bn in real value-added output in the year to Q4 2018 (9% of gross domestic product). It employed 444,100 people in February 2019 (3% of total employment).

The finance & insurance sector reported the same result in April as in March (49.1 points, trend) remaining broadly stable for the month. This marks the seventh month of flat or mildly negative results for the large sector.

Some finance sector respondents reported tighter credit conditions for construction industry customers and the upcoming Federal election as having a dampening effect on business investment and demand for their services.

Finance & insurance



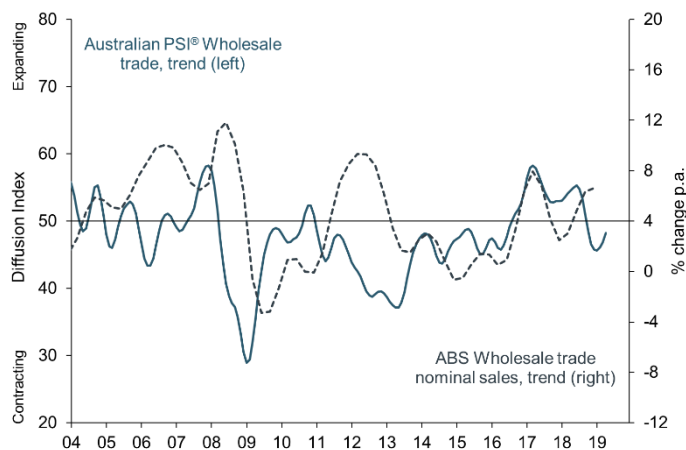
Wholesale trade

Wholesale trade produced \$70.6bn in real value-added output in the year to Q4 2018 (3% of gross domestic product). It employed 386,600 people in February 2019 (3% of total employment).

The wholesale trade sector's index improved by 1.4 points to 48.2 points in April (trend). While this marks seven months of contractionary conditions for the sector, the pace of contraction has been improving for the past three months.

Sales, employment and inventories remained weak in April, however new orders were stable. Input costs for this sector have been elevated for much of the past year and selling prices have deteriorated throughout 2019.

Wholesale trade



Australian PSI® business services sectors

Transport & storage services

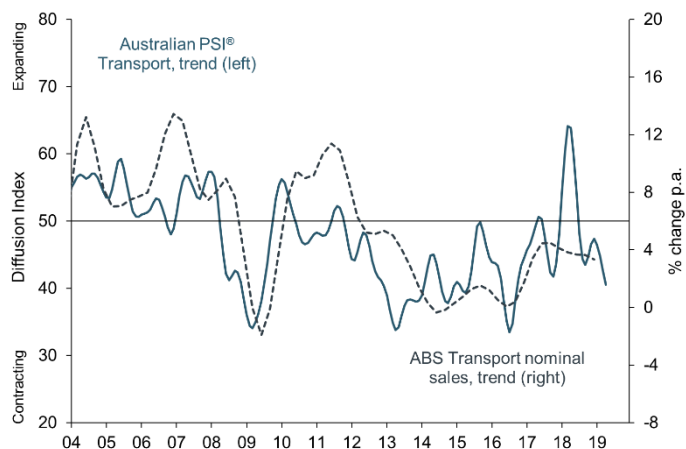
Transport & storage services produced \$83.6bn in real value-added output in the year to Q4 2018 (5% of gross domestic product). It employed 665,000 people in February 2019 (5% of total employment).

The rate of contraction accelerated in the transport & storage sector in April, with its index falling by 2.2 points to 40.5 points (trend). This marked the tenth month of deterioration following a briefly positive period in early 2018.

Sales improved in April, however new orders and employment remained weak. Capacity utilisation for the segment has been above its long-term average for most of the past six months.

Some respondents reported slow enquiries and new orders, while others said they needed to continue price discounting, in order to sustain their sales levels in April.

Transport & storage services



Australian PSI® consumer services sectors

Retail trade

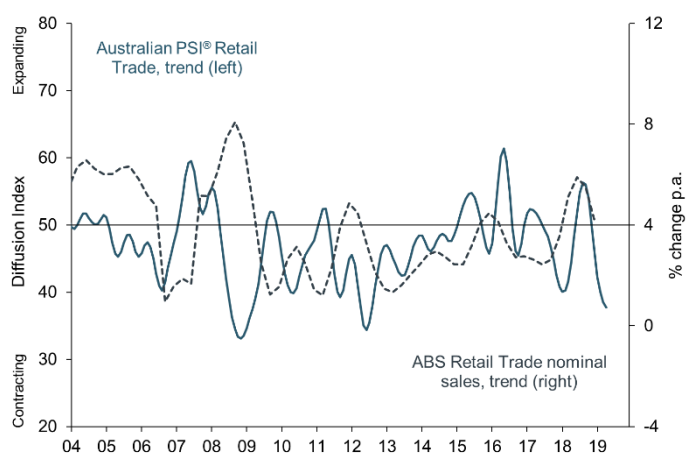
Retail trade produced \$78.4bn in real value-added output in the year to Q4 2018 (4% of gross domestic product). It employed 1,280,400 people in February 2019, (10% of total employment). 49% of retail workers are part-time.

The retail trade sector declined further in April, with its index falling by 0.8 points to 37.7 points (trend). This was the fifth month of contractionary and deteriorating results for this segment and the lowest monthly result since July 2012 (trend).

Retail inventories rose in April as sales, new orders and employment remained weak. Selling prices were stable over the month after decreasing in the previous month.

While some businesses reported bright pockets, others noted ongoing weakness in consumer discretionary spending and increased market competition. Drought conditions in some areas weighed down trade.

Retail trade



Australian PSI® consumer services sectors

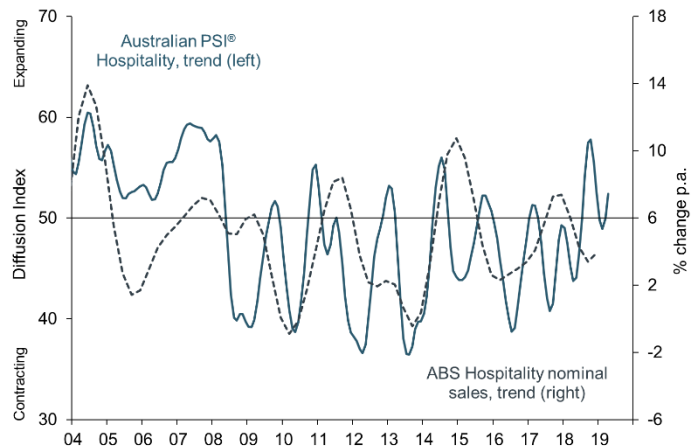
Hospitality (accommodation, cafes & restaurants)

Hospitality produced \$43.0bn in real value-added output in the year to Q4 2018 (2% of gross domestic product). It employed 911,700 people in February 2019 (7% of total employment). 59% of hospitality workers are part-time.

The hospitality sector (accommodation, cafes & restaurants) improved in April, rising 2.5 points from contraction into expansion (52.4 points, trend). The lift in activity was driven by strong sales and increased new orders. Employment and inventories remained stable.

The combination of school holidays, Easter public holidays and ANZAC day in close proximity led to a good pickup in activity for some hospitality businesses in April.

Hospitality (accommodation, cafes & restaurants)



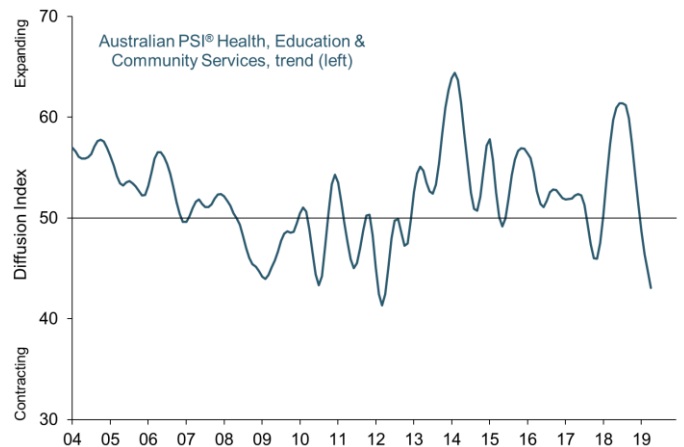
Health, education & community services

Health, education & community services produced \$216.9bn in real value-added output in the year to Q4 2018 (12% of gross domestic product). This industry employed 2,726,200 people in February 2019 (21% of total employment). 56% of workers in education and 25% in health and welfare are employed by the public sector.

The very large 'health, education & community services' sector's index fell by 1.7 points to 43.1 points in April (trend). This marks the fourth month of contraction following a positive year in 2018.

Sales and new orders shrank in April however deliveries lifted and employment was stable. After months of increases, selling prices were also stable. This sector continues to operate at high levels of capacity.

Health, education & community services



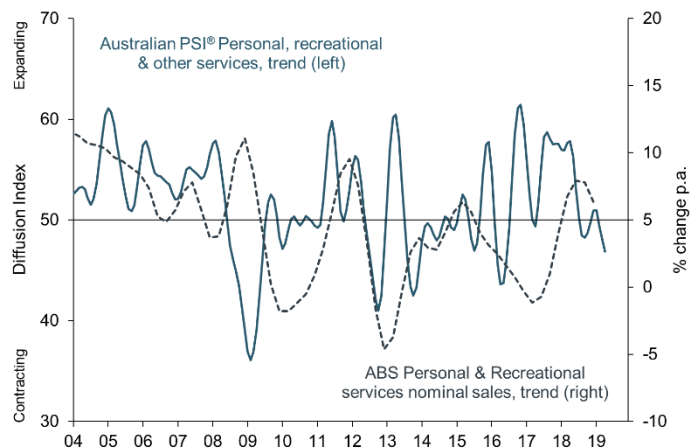
Recreational, personal & other services

Recreational, personal & other services produced \$47.5bn in real value-added output in the year to Q4 2018 (3% of gross domestic product) and employed 774,200 people in February 2019 (6% of total employment). 47% of workers in recreational services and 34% in personal and other services are part-time.

The index for recreational, personal & other services declined by 1.1 points to 46.9 points in April (trend). This was the third month of contraction following a year that was on average, stable (that is, averaging around 50 points).

Sales and employment were positive in April however selling prices fell. Respondents in this business segment reported that tighter discretionary spending constrained activity in April.

Recreational, personal & other services



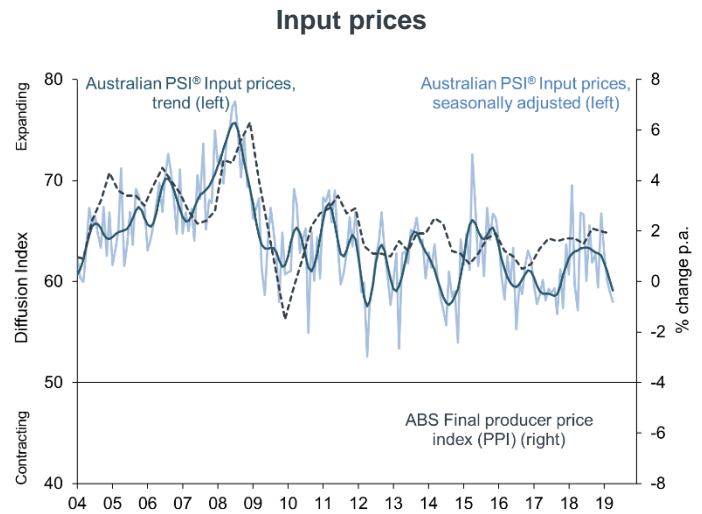
Australian PSI® prices and wages

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 index moderated by 1.0 point to 58.0 points in April 2019. This was the fourth month of decelerating input costs (seasonally adjusted).

The result for April is well below the long-term average of 64.0 points for this data series. It has been moderating since June 2018 in trend terms, suggesting a moderation in input price pressures since 2018. This might reflect the stabilisation in energy input costs that has been apparent in 2019 to date, after sharp increases during 2018.



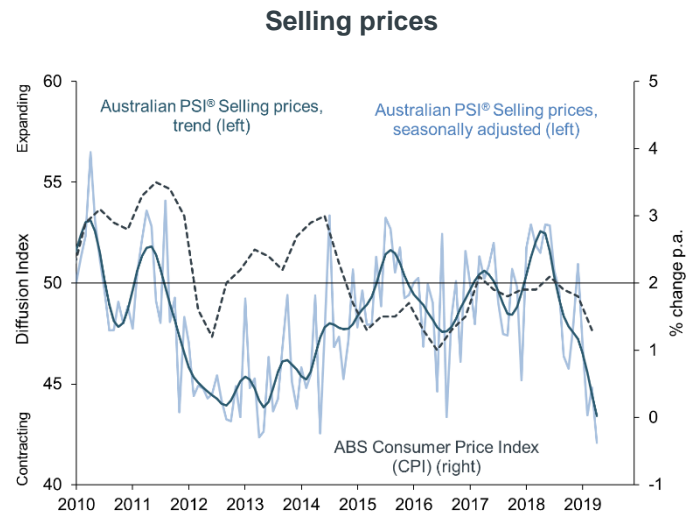
Selling prices

The ABS consumer price index (CPI) remained unchanged (0% q/q) and rose 1.3% y/y in Q1 of 2019.

The rate of decline in selling prices accelerated in April, with this index falling by 2.7 points to 42.1 points. This was the lowest monthly result ever recorded in this data series.

This latest fall in the selling price index has been sharper and faster than the period of growth seen in 2018; it may have wiped out any pricing gains realised in that time. The selling price index last saw similarly low monthly results in August 2016, May 2014 and April 2013.

Increased competition from overseas sellers, slow wage growth and tight consumer discretionary spending have all led to a fall in the number of services businesses reporting that they are able to increase their prices in recent months.

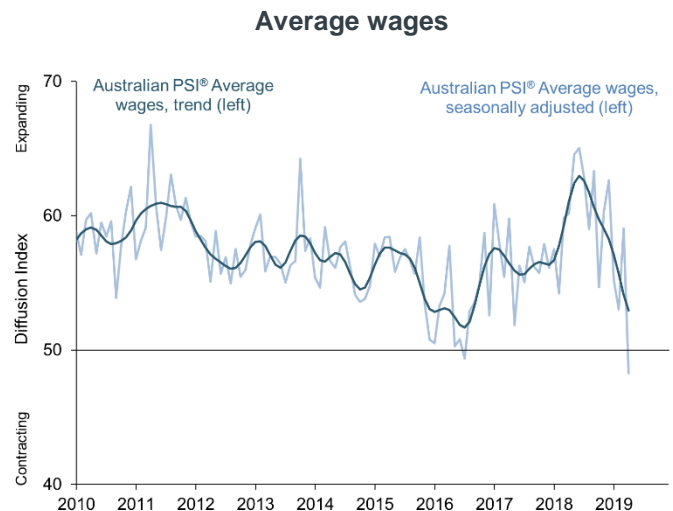


Average wages

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 10.9 points to 48.2 points in April, indicating a fall in wage pressure across the services sectors. This was the lowest monthly result recorded in this data series and only the second time that average wages growth has contracted in the **Australian PSI®**, (the previous occurrence was 49.4 points in July 2016).

The average wages index has decelerated sharply since reaching a recent peak of 65.0 points in June 2018.



Australian PSI® activity

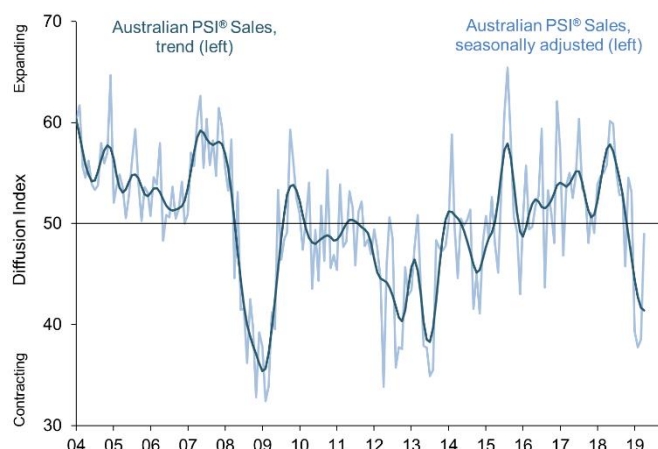
Sales

The services sectors that are included in the Australian PSI® produced \$985.1bn in real value-added output in the year to Q4 2018 (53.6% of total output).

The sales index improved by 10.2 points to 48.7 points in April 2019, marking a return towards stable conditions for this index (seasonally adjusted).

Sales results across the sectors were mixed in April. Businesses in sectors reporting positive sales results noted increased sales to domestic customers, some geographical pockets of strong economic activity and business development efforts leading to higher sales.

Sales



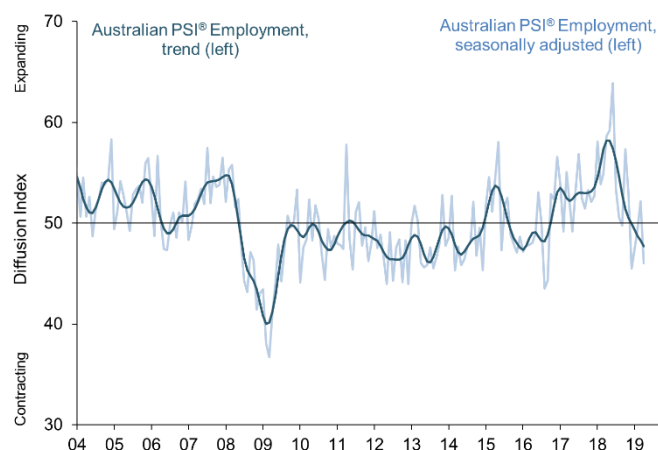
Employment

The services sectors that are included in the Australian PSI® employed 9,166,000 people in February 2019 (72% of total employment).

The employment index in the Australian PSI® fell by 6.2 points to 46.0 points in April, indicating a return to contraction following a positive result in March (seasonally adjusted).

Employment results were mixed across the sectors; the index was positive in two sectors, stable in two sectors and indicating a decline in four sectors.

Employment



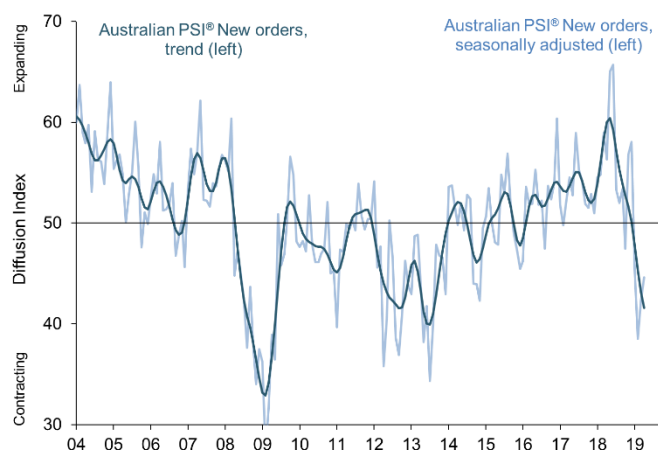
New orders

The rate of contraction in new orders eased in April 2019, with the new orders index lifting by 2.3 points to 44.6 points (seasonally adjusted). This marks the fourth month of contraction in new orders after a generally positive run from February 2016 until late 2018.

New orders grew in two sectors, contracted in three and were stable in three sectors in April.

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

New orders



Australian PSI® activity

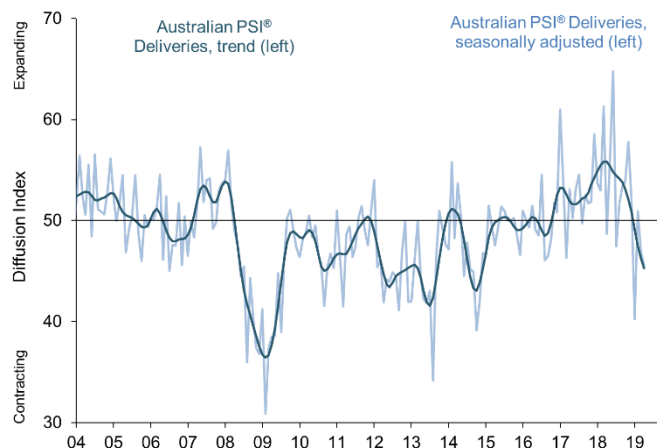
Supplier deliveries

The supplier deliveries index fell by 1.8 points to 45.1 points in April, contracting for a second month.

Supplier deliveries were positive or stable for most of 2018 and 2017 but have been trending down since April 2018. Three of the four months of 2019 to date have seen deliveries shrink, with deliveries stable in February only.

Two experienced a lift in deliveries in April and three were stable, but this was not enough to offset the contraction seen in other sectors.

Supplier deliveries



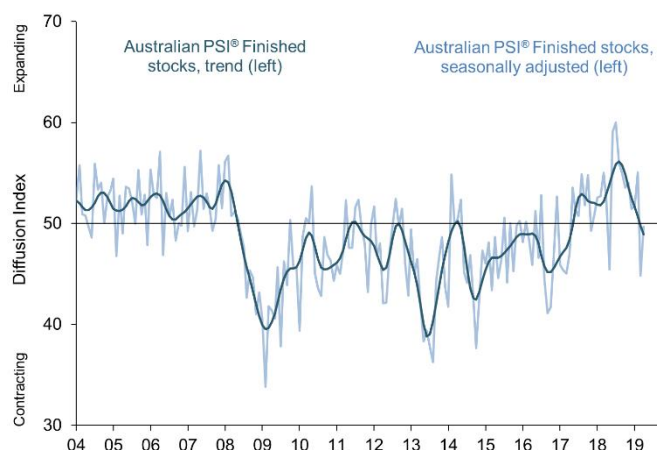
Finished Stocks

The index for finished stocks (inventories) rose by 4.6 points to 49.4 points in April (seasonally adjusted), reflecting broadly stable levels in inventories.

Stocks had been rising in businesses in fourteen of the past sixteen months. Growth in inventories peaked in the middle of 2018 and has been trending down since. In trend terms, the inventories index has moderated further in 2019, in line with other indicators in the **Australian PSI®**.

Stock levels rose in two sectors, were stable in three sectors and fell in three sectors in the Australian PSI® in April 2019.

Finished Stocks

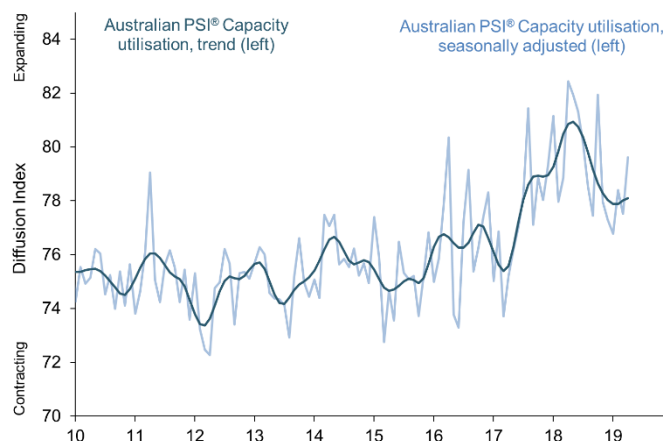


Capacity Utilisation

Capacity utilisation across the services sectors lifted by 2.0 percentage points in April, to reach 79.5% of available capacity being used. Businesses in the services sector have been operating at a higher level of capacity on average, throughout 2018 and 2019 (79.7%). Capacity utilization reached a recent peak in April 2018 and has subsequently has remained above the long-term average for this indicator (76.0%).

Across the services sectors, 'health, education & community services' and 'personal, recreational & other services' (both labour intensive sectors) are operating at relatively elevated levels of capacity utilisation. Transport & storage and finance & insurance also reported high levels of utilisation in April, while other services segments 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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