

# New orders lift services sector in August

## Key Findings

- The **Australian PSI<sup>®</sup>** indicated mild growth in the services sector in August, following mild growth in July.
- Consumer oriented sectors generally fared better in August. Retail trade & hospitality, improved as did health, education & community services.
- Most services activity indicators were mildly positive, but all price indicators – wages, input prices and sales prices – slowed from record highs.
- Services capacity utilisation rose to 83.7%, the highest result since May 2021.
- Labour shortages and concerns that future demand will decline were key themes for businesses.

The Australian Industry Group Australian Performance of Services Index (**Australian PSI<sup>®</sup>**) rose by 1.6 points to 53.3 points (seasonally adjusted) in August 2022 indicating mild growth and an improvement on the three previous months. Results above 50 points indicate expansion in the **Australian PSI<sup>®</sup>**, with higher numbers indicating a stronger rate of expansion.

August 2022

### MEDIA CONTACT

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<b>Australian PSI<sup>®</sup></b> ▲ 1.6 points (seasonally adjusted)	<b>53.3</b>
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<b>Australian PSI<sup>®</sup></b> ▼ 0.6 points (trend)	<b>50.4</b>
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<b>Business &amp; property services</b> ▼ 7.2 points (seasonally adjusted)	<b>46.2</b>
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<b>Logistics</b> ▲ 4.8 points (seasonally adjusted)	<b>51.1</b>
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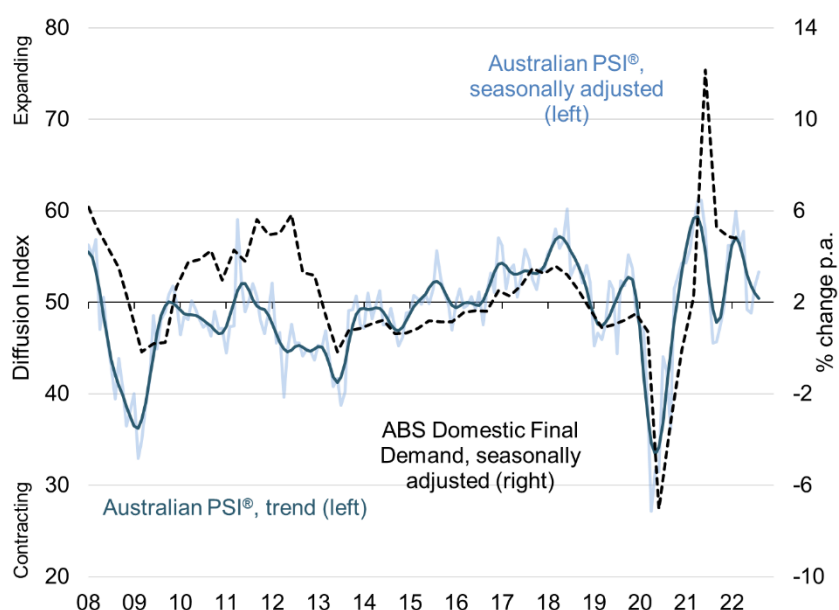
<b>Finance &amp; insurance</b>	n.a.
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<b>Retail trade &amp; hospitality</b> ▲ 5.8 points (seasonally adjusted)	<b>63.1</b>
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<b>Health, education &amp; community</b> ▲ 13.1 points (seasonally adjusted)	<b>57.5</b>
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<b>Personal, recreation &amp; other services</b> ▼ 16.1 points (seasonally adjusted)	<b>45.8</b>
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## Australian PSI<sup>®</sup> and ABS domestic final demand



**Business-oriented services sectors:** The business oriented sectors in the **Australian PSI®** reported mixed results in August (seasonally adjusted). Logistics (transport, storage and wholesale trade) grew, reversing some of the decline in July (which was the only month the sector declined in the past year). Business & property contracted with some respondents reporting that four months of rising interest rates had constrained activity, however others reported solid ongoing demand. Businesses continue to report higher levels of inventory to smooth volatility in stock delivery, but potentially lower future demand as customers build stock levels.

**Consumer-oriented services sectors:** Retail trade & hospitality grew in August, and at a faster rate than the previous month. Health & education and ‘personal, recreation & other services’ contracted (seasonally adjusted). Households continued to spend amid high employment and despite interest rate increases. However, businesses are concerned about future levels of demand if interest rate increases continue, and/or household savings rates fall. Some hospitality businesses reported better staffing levels although current and future labour shortages remain a key concern. Some respondents servicing customers in the housing construction sector reported solid ongoing demand while others noted a dropoff in sales and new orders.

**Prices and wages:** The input prices, selling prices and average wages indexes all moderated from July, but all remain elevated. Although the rate of growth eased across all three, the high results indicate inflationary pressures persisted across August.

**Sales, orders, employment and deliveries:** The sales and employment indexes improved, indicating mild growth in August (seasonally adjusted). The rate of growth in new orders increased. The contraction in the supplier deliveries index increased slightly compared to July, deliveries have been volatile over the past year as pressures on supply chains persist.

**Capacity utilisation** rose 3.4% to 83.7% across the services sectors in August 2022, the highest result since May 2021. The index is well above the long-term average for the series, as it has been for much of 2021 and 2022. Businesses continue to report plans to increase employment where they can find and retain staff.

**Services highlights:** New orders particularly from customers in the construction sector and resilient household spending lifted the services sector in August. Increased inventories to smooth supply volatility and some easing in supply chain pressures were bright spots reported by respondents. Health, education & community services saw a catchup in demand following weaker results in previous months.

**Services concerns:** Increased uncertainty around future demand, particularly related to higher interest rates was a key concern for respondents in August. Staff shortages in an historically tight labour market have increased the work needed to recruit and retain staff. While businesses built inventories to protect against future stock shortages, they were concerned customers doing the same would reduce demand in the near future.

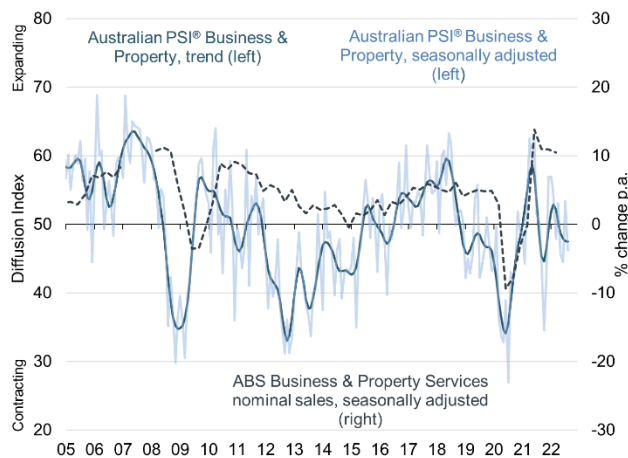
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	Historical average	Australian PSI® sectors (seasonally adjusted)	Index this month	Change from last month	Historical average
<b>Australian PSI® (s.a.)</b>	<b>53.3</b>	1.6	<b>50.2</b>				
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	51.9	2.6	50.7	Business & property	46.2	-7.2	50.7
Employment	53.2	0.8	50.5	Logistics	51.1	4.8	47.9
New Orders	57.3	6.7	50.9	Finance & insurance	n.a.	n.a.	n.a.
Supplier deliveries	46.8	-0.8	48.8	<i>Consumer-oriented services</i>			
Finished stocks	56.9	-7.8	49.1	Retail trade & hospitality	63.1	5.8	48.0
Capacity Utilisation (%)	83.7	3.4	76.7	Health & education	57.5	13.1	51.9
<i>Prices and wages</i>				Personal, recreational & other services	45.8	-16.1	53.1
Input Prices	68.7	-5.6	64.3				
Selling Prices	61.2	-2.2	49.7				
Average Wages	67.6	-1.3	57.5	<b>Australian PSI® (trend)</b>	<b>50.4</b>	<b>-0.6</b>	<b>50.1</b>

Results above 50 indicate expansion. Data is seasonally adjusted; trend data in the Australian PSI® calculated with a Henderson 13-month filter formula.

n.a.. Results are not available for this sector in this period due to low survey response numbers. All sectors are included in the total results.

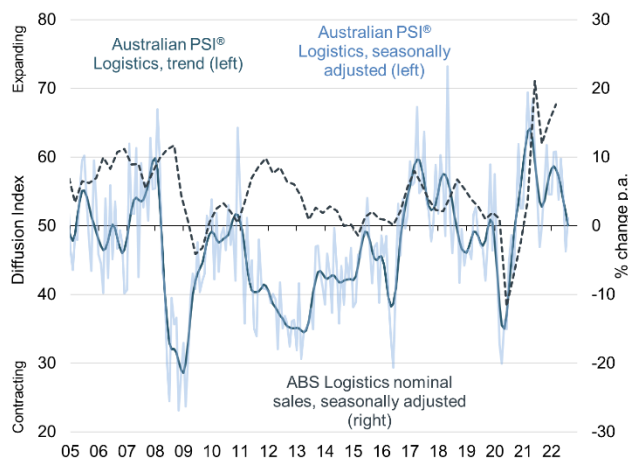
### Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$326.5bn in real value-added output in the year to Q1 2022 (equal to 15.8% of GDP, ABS data).
- Business & property services employed 2,143,100 people in May 2022 (15.8% of total employment).
- The index for business & property services fell by 7.2 points to 46.2 points in August 2022 (seasonally adjusted).
- Comments from this diverse sector were mixed as some respondents reported solid and stable demand and positive conditions. Others reported concerns about interest rate increases, a drop in business from the construction sector and supply delays and staff shortages.



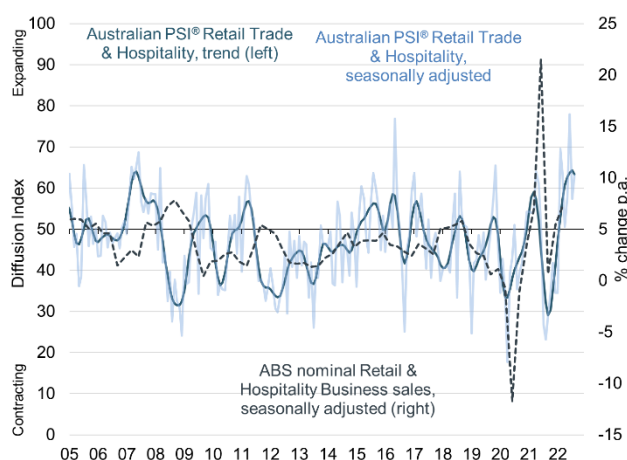
### Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$166.9bn in real value-added output in the year to Q1 2022 (equal to 8.1% of GDP, ABS data).
- Logistics employed 1,067,200 people in May 2022 (7.9% of total employment).
- The logistics index rose by 4.8 points to 51.1 points indicating mild growth in August lifting from contraction in July (seasonally adjusted).
- Sales and employment dropped in August but new orders picked up and inventories rose. Some respondents reported an improvement in supplies but raised concerns about future demand due to uncertainty and increased customer inventories.



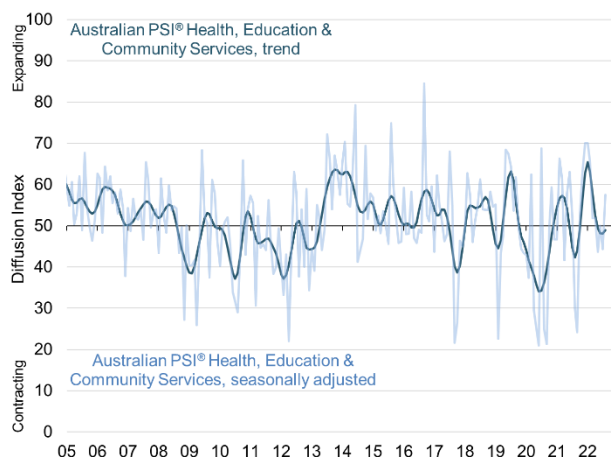
### Retail trade & hospitality services

- The retail trade & hospitality sector (including shops, restaurants, cafes, take-aways, hotels & accommodation) produced \$126.2bn in real value-added output in the year to Q1 2022 (equal to 6.1% of GDP, ABS).
- Retail trade and hospitality employed 2,188,700 people in May 2022 (16.2% of total employment). Most retail & hospitality staff are part-time (under 35 hours per week).
- The index for the retail trade & hospitality sector rose by 5.8 points to 63.1 points in August indicating growth in activity across the sector (seasonally adjusted).
- The growth in spending in retail and hospitality picked up from July as pockets of resilience, particularly from retail customers were evident. Respondents reported concerns about future demand as higher interest rates take effect and staff shortages remain an ongoing concern for businesses in this sector.



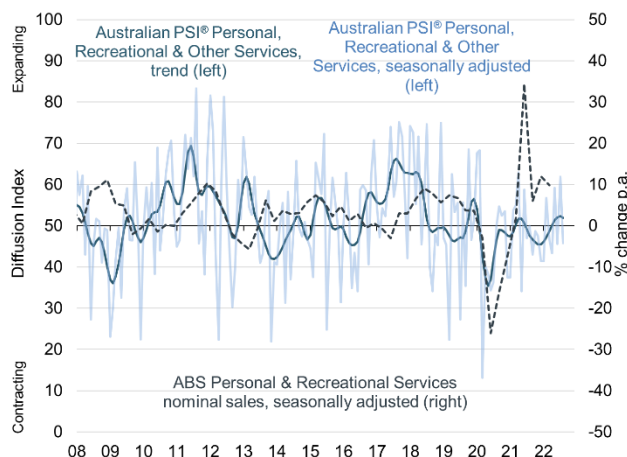
### Health, education & community services

- Health, education & community services produced \$259.4bn in real value-added output in the year to Q1 2022 (12.5% of GDP, ABS).
- This group of industries employed 3,140,900 people in May 2022 (23.6% 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 13.1 points to 57.5 points in August returning to more buoyant conditions seen in the first half of the year. Demand for health, welfare services and education has been volatile since the start of the pandemic.

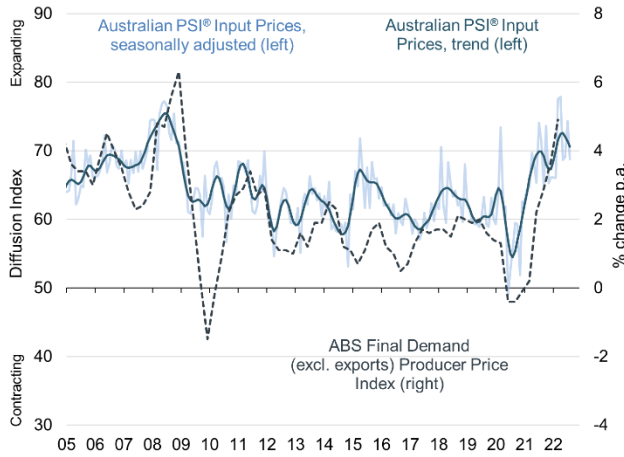


### Personal, recreational & other services

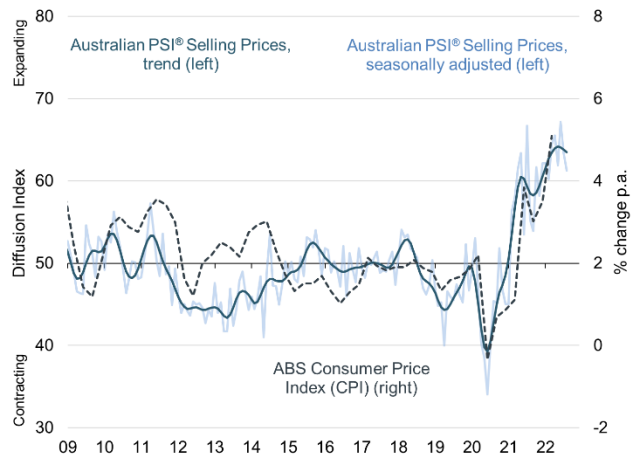
- Personal, recreational, & other services produced \$49.5bn in real value-added output in the year to Q1 2022 (equal to 2.4% of GDP, ABS data).
- This sector employed 782,500 people in May 2022 (5.8% of total employment).
- The index for 'recreational, personal & other services' fell by 16.1 points to 45.8 in August (seasonally adjusted).
- This sector is particularly volatile and sensitive to changes in discretionary spending, in August it fell to reverse the growth seen in July. Concerns about interest rate increases reduced discretionary spending in August.



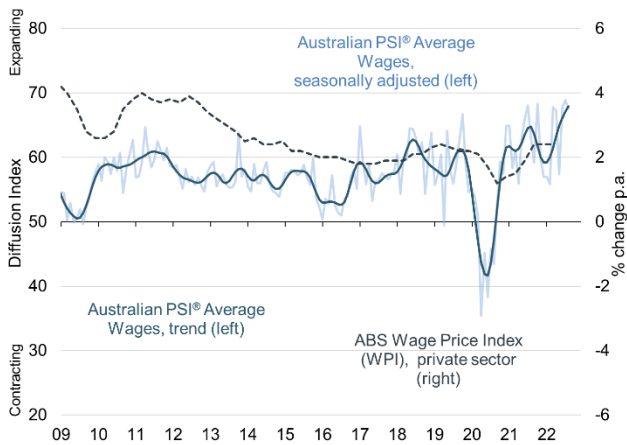
### Input prices



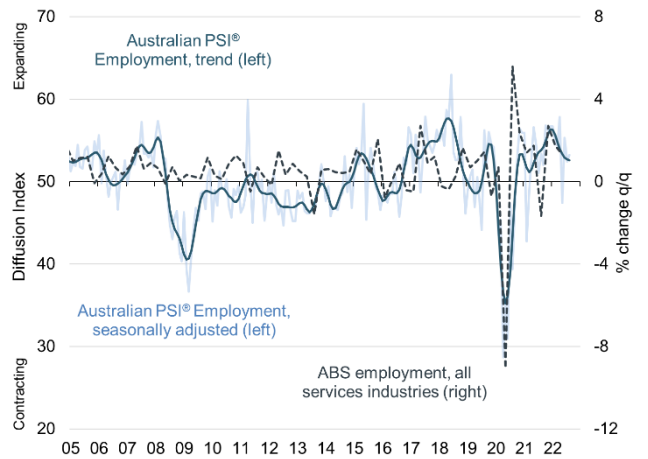
### Selling prices



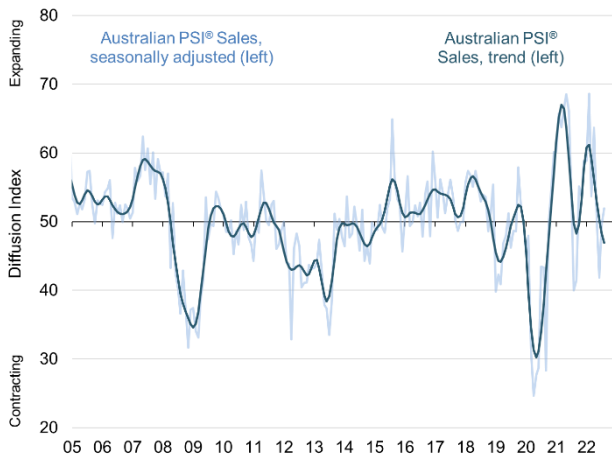
### Average wages



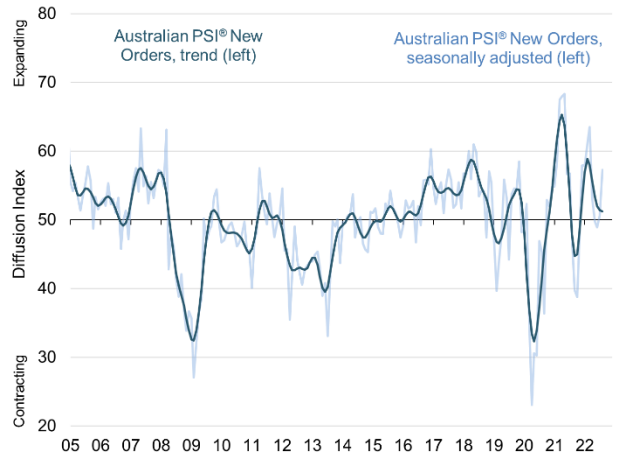
### Employment



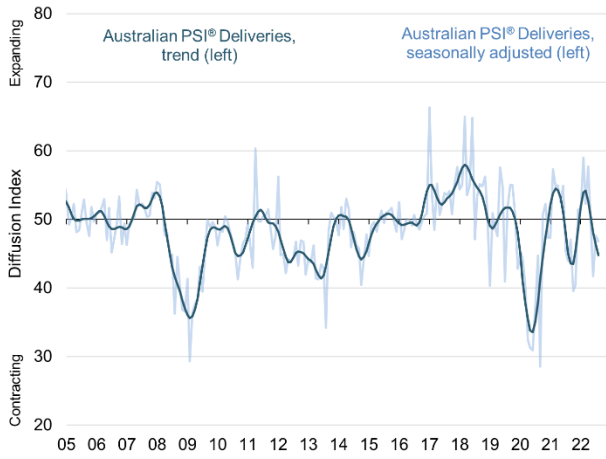
### Sales



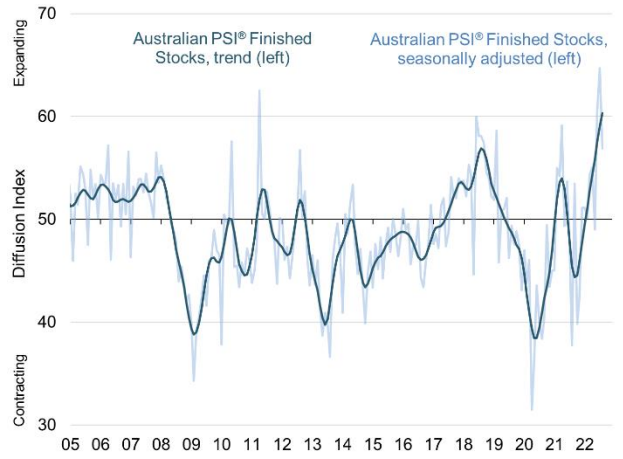
### New orders



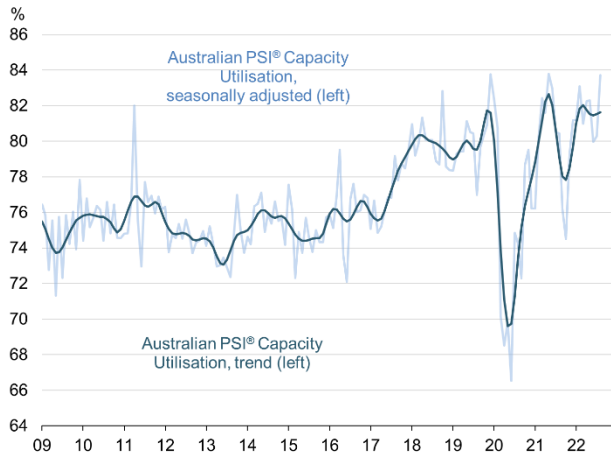
### Supplier deliveries



### 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 on-selling, 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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