

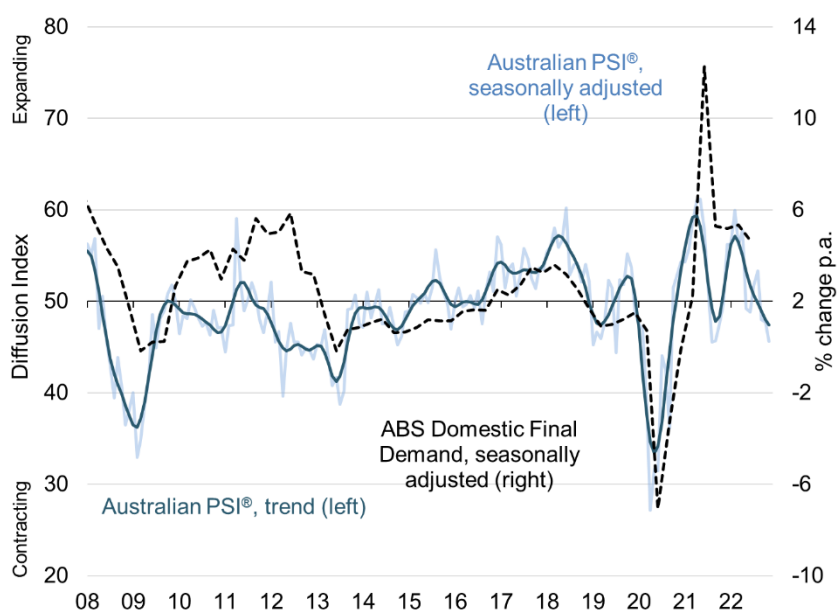
Services sector shrinks in November

Key Findings

- The **Australian PSI[®]** indicated contraction in the services sector in November, the third month of declining results.
- Results were mixed – business & property services showed the strongest month-on-month decline, and logistics the largest improvement.
- All activity indicators are in contraction. The employment and new orders indicators declined significantly in November, suggesting weakening demand.
- However, capacity utilisation remained elevated, rising to 82.8%. In services, this reflects ongoing tight employment conditions.
- Delivery delays, cumulative interest rate increases, and labour shortages were key concerns for businesses.

The Australian Industry Group Australian Performance of Services Index (**Australian PSI[®]**) declined falling 2.1 points to 45.6 points (seasonally adjusted) in November 2022 indicating contraction for a third month. Results below 50 points indicate contraction in the **Australian PSI[®]**, with lower numbers indicating a stronger rate of contraction.

Australian PSI[®] and ABS domestic final demand



November 2022

MEDIA CONTACT

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Australian PSI[®] ▼ -2.1 points (seasonally adjusted)	45.6
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Australian PSI[®] ▼ 0.6 points (trend)	47.4
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Business & property services ▼ 0.2 points (seasonally adjusted)	38.2
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Logistics ▲ 0.8 points (seasonally adjusted)	52.0
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Finance & insurance	n.a.
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Retail trade & hospitality ▼ 7.7 points (seasonally adjusted)	40.4
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Health, education & community ▲ 5.0 points (seasonally adjusted)	50.0
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Personal, recreation & other services ▼ 2.5 points (seasonally adjusted)	55.0
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Business-oriented services sectors: The business oriented sectors in the **Australian PSI®** reported mixed results in November (seasonally adjusted). Logistics (transport, storage and wholesale trade) indicated weak growth for a second month, while business & property declined for a fourth month – the solid contraction similar to the results in October. Respondents reported cumulative interest rate increases weakened activity again, it was particularly noticeable from construction sector customers. Pockets of solid demand were sustained for some respondents. Improvements in supplies continue to be noted but on balance they declined solidly for a majority of business-oriented respondents.

Consumer-oriented services sectors: Retail trade & hospitality declined in November - the second month of negative results for the year, and at a faster pace than October. Health & education was flat following two months of contractionary results. The ‘personal, recreation & other’ services sector expanded marking three months of positive results (seasonally adjusted). While some businesses reported a pickup in social season events, current and future labour shortages remain a key constraint. Some respondents servicing customers in the property and housing construction sector reported a fall in demand. The impact of increased interest rates and wet weather constrained sales for several respondents.

Prices and wages: The input prices index moderated from October, to be below the recent series high seen in 2022, but still well above long-term averages. Selling prices increased slightly – also well above the long-term average for the series. The average wages index grew and was similar to the recent series high in July 2022. Taken together these elevated results indicate inflationary pressures persist in November.

Sales, orders, employment and deliveries: The employment index weakened in November – the second month of contraction in 2022. Some businesses reported a pause in recruitment activity particularly particularly for professional services. Absenteeism due to illness continues to abate. New orders also weakened, reflecting a softer demand outlook. The sales index rebounded slightly but remains in overall contraction, as did stocks and deliveries. Pressures on supply chains persist across much of the services sector. Some businesses reported improvements in deliveries arriving, but on balance they contracted substantially for a majority of businesses in the **Australian PSI®**.

Capacity utilisation rose 2.9% to 82.8% across the services sectors in November 2022. Capacity utilisation has been elevated across 2021 and 2022 – averaging 80.7% of capacity in use across the period, compared to 76.3 on average from 2007 to 2020. Businesses continue to report intentions to increase employment, but labour shortages persist in the sector.

Services highlights: ‘Personal, recreation & other services’ continued a catchup in demand following weaker results earlier in the year. Health & education businesses reported stable conditions following months of volatility. Some businesses reported an increase in successful recruitment activity and increased business development showing results.

Services concerns: Cumulative interest rate rises, concerns about future demand and staff shortages constrained activity in November. Supply chain delays persisted as well as increased costs for inputs and freight. Businesses continue to report being unable to pass through the entirety of price increases. Some respondents reported a slowdown in business from property and construction customers; concerns around price rises and the impact on future demand increased uncertainty.

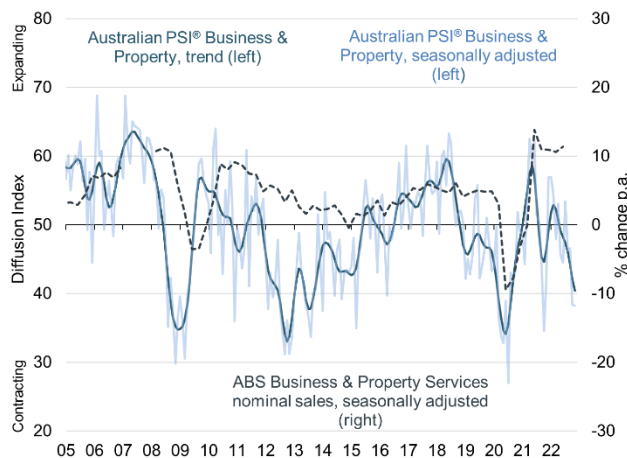
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	Historical average	Australian PSI® sectors (seasonally adjusted)	Index this month	Change from last month	Historical average
Australian PSI® (s.a.)	45.6	-2.1	50.2				
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	42.8	1.5	50.6	Business & property	38.2	-0.2	50.6
Employment	47.8	-6.1	50.5	Logistics	52.0	0.8	47.9
New Orders	49.7	-4.8	50.9	Finance & insurance	n.a.	n.a.	n.a.
Supplier deliveries	38.4	0.0	48.7	<i>Consumer-oriented services</i>			
Finished stocks	47.9	2.6	49.1	Retail trade & hospitality	40.4	-7.7	48.0
Capacity Utilisation (%)	82.8	2.9	76.8	Health & education	50.0	5.0	51.8
<i>Prices and wages</i>				Personal, recreational & other services	55.0	-2.5	53.1
Input Prices	74.0	-3.6	64.4				
Selling Prices	64.4	2.2	49.9				
Average Wages	68.6	3.8	57.6	Australian PSI® (trend)	47.4	-0.6	50.0

Results above 50 indicate expansion. Data is seasonally adjusted.

n.a. Results are not available for this sector in this period due to low survey response numbers.

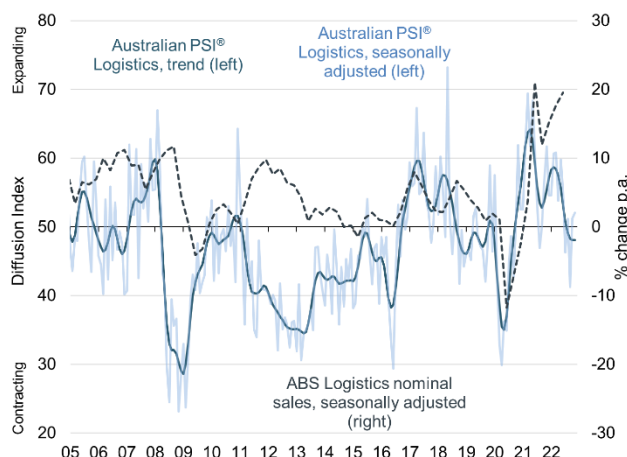
Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$333.0bn in real value-added output in the year to Q2 2022 (equal to 15.9% of GDP, ABS data).
- Business & property services employed 2,185,200 people in August 2022 (16.0% of total employment).
- The index for business & property services fell by 0.2 points to 38.2 points in November 2022 to record the lowest result since October 2021 (seasonally adjusted).
- All activity indicators except inventories declined in November, sales were particularly weak as they were in October.



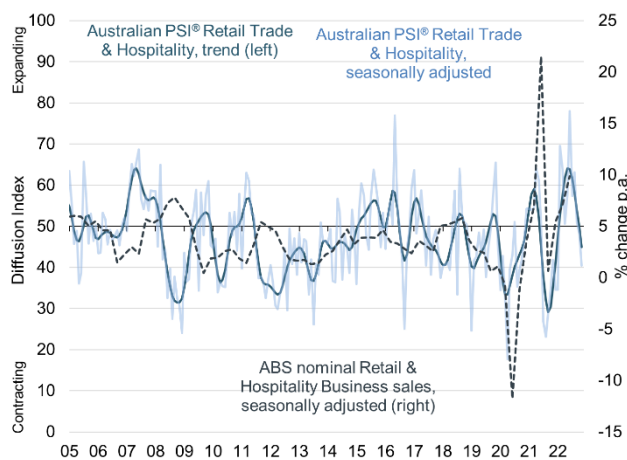
Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$169.6bn in real value-added output in the year to Q2 2022 (equal to 8.1% of GDP, ABS data).
- Logistics employed 1,065,600 people in August 2022 (7.8% of total employment).
- The logistics index rose by 0.8 points to 52.0 points indicating mild growth in November and at a similar pace to October (seasonally adjusted).
- Some businesses reported a pickup in customer demand and new orders in the month, others reported staff shortages and weather events constraining activity in November



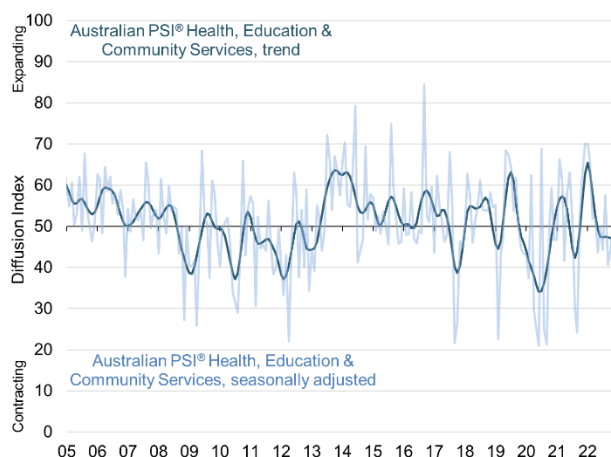
Retail trade & hospitality services

- The retail trade & hospitality sector (including shops, restaurants, cafes, take-aways, hotels & accommodation) produced \$127.9bn in real value-added output in the year to Q2 2022 (equal to 6.1% of GDP, ABS).
- Retail trade and hospitality employed 2,286,200 people in August 2022 (16.8% of total employment). Most retail & hospitality staff are part-time (under 35 hours per week).
- The index for the retail trade & hospitality sector fell by 7.7 points to 40.4 points in November indicating a decline in activity across the sector (seasonally adjusted).
- The cumulative effects of interest rate increases on discretionary spending flattened spending for some retailers and hospitality respondents, as did rain and flooding. The sector continues to report labour shortages and increasing costs.



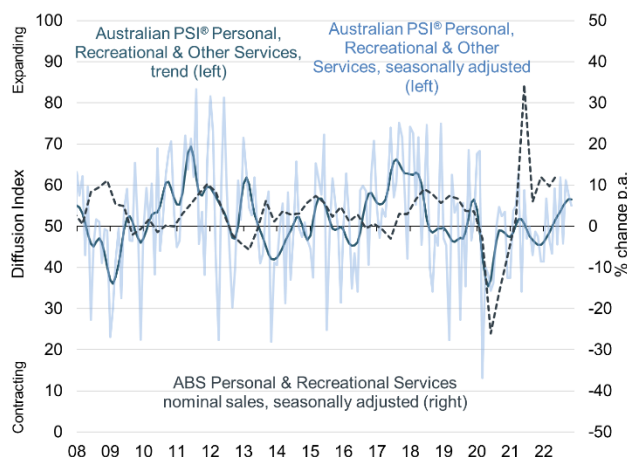
Health, education & community services

- Health, education & community services produced \$262.1bn in real value-added output in the year to Q2 2022 (12.5% of GDP, ABS).
- This group of industries employed 3,135,300 people in August 2022 (23.0% 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 5.0 points to 50.0 points indicating stable conditions in November.
- Demand for health and education was volatile during the peak of the pandemic and the catch-up in 2022. Difficulties in recruitment persisted in health; education respondents reported increases demand for services.

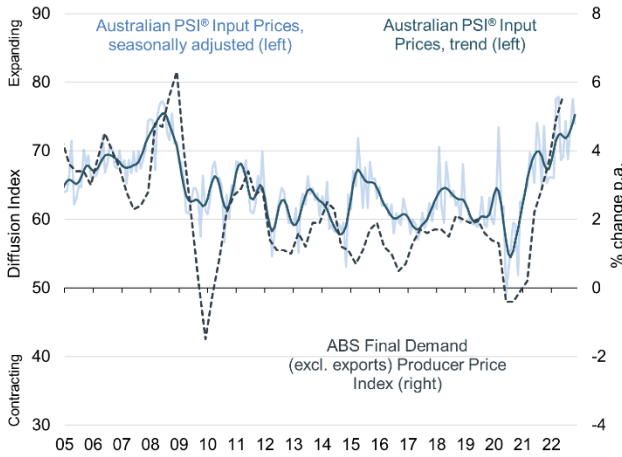


Personal, recreational & other services

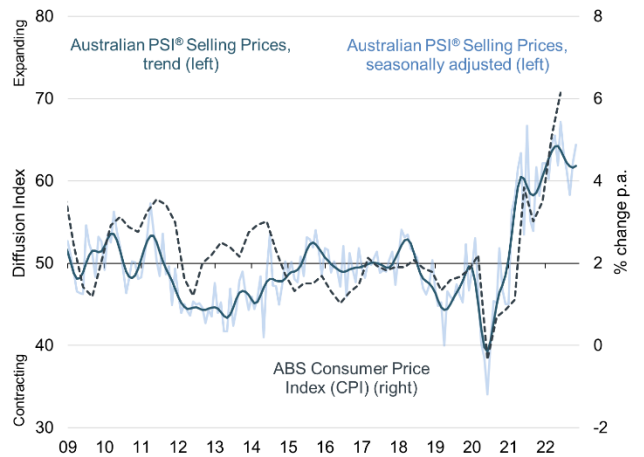
- Personal, recreational, & other services produced \$50.1bn in real value-added output in the year to Q2 2022 (equal to 2.4% of GDP, ABS data).
- This sector employed 760,800 people in August 2022 (5.6% of total employment).
- The index for 'recreational, personal & other services' fell by 2.5 points to 55.0 in November (seasonally adjusted).
- Businesses reported solid activity and positive trading conditions, but concerns around supply chain disruption and ongoing labour shortages remain. Sales and employment were positive in November, but new orders were flat.



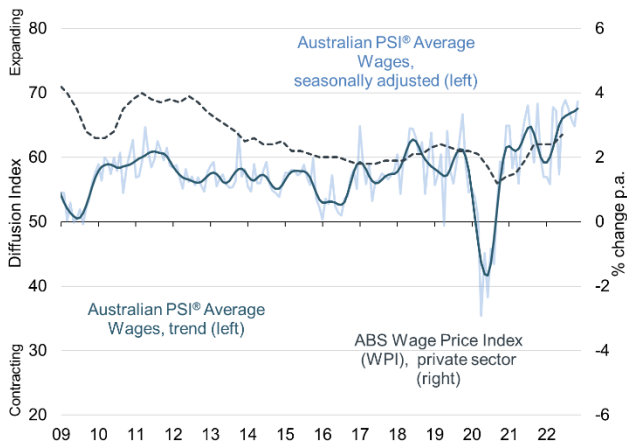
Input prices



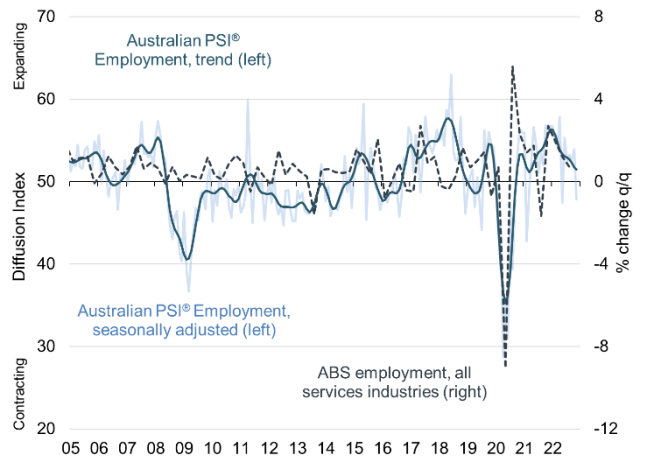
Selling prices



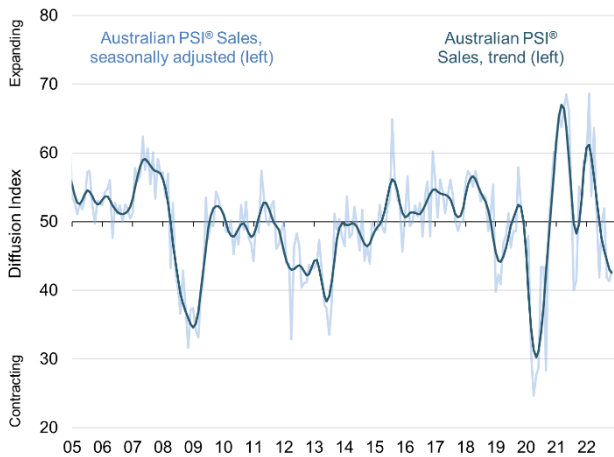
Average wages



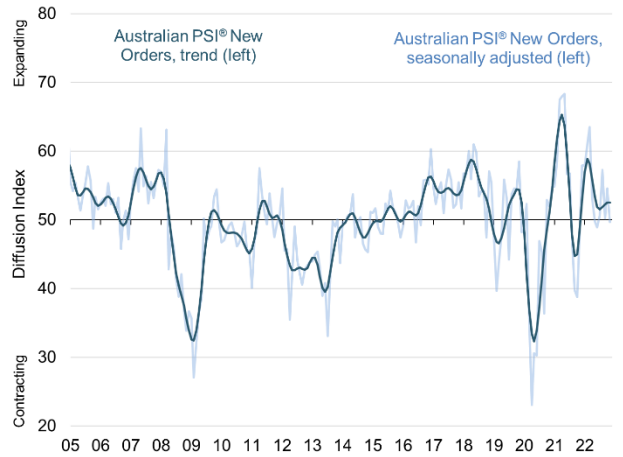
Employment



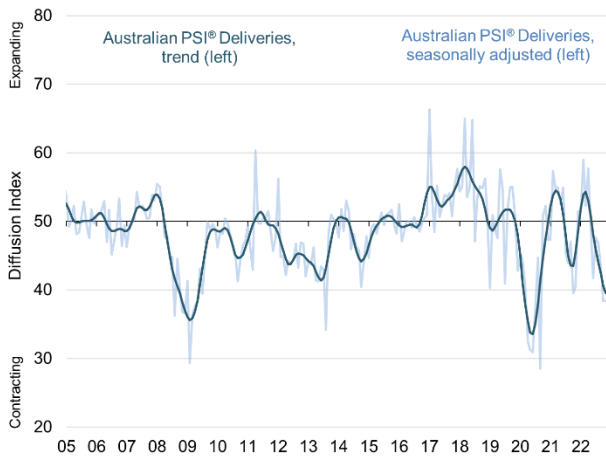
Sales



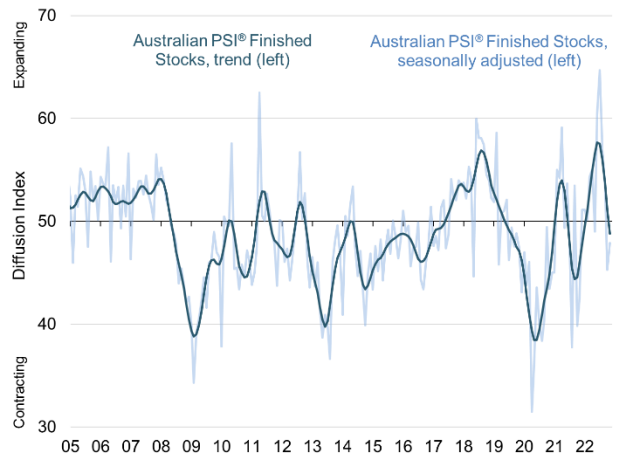
New orders



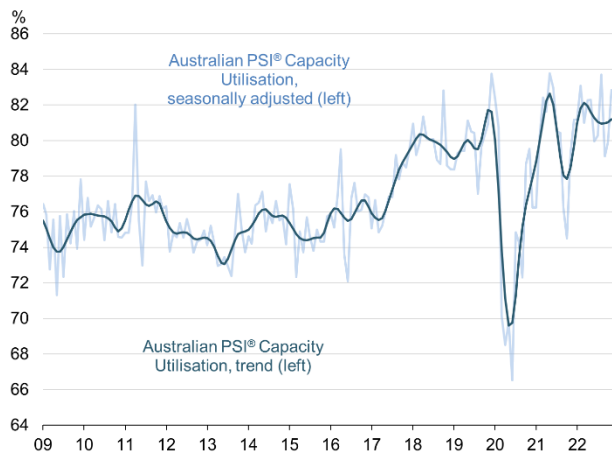
Supplier deliveries



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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