

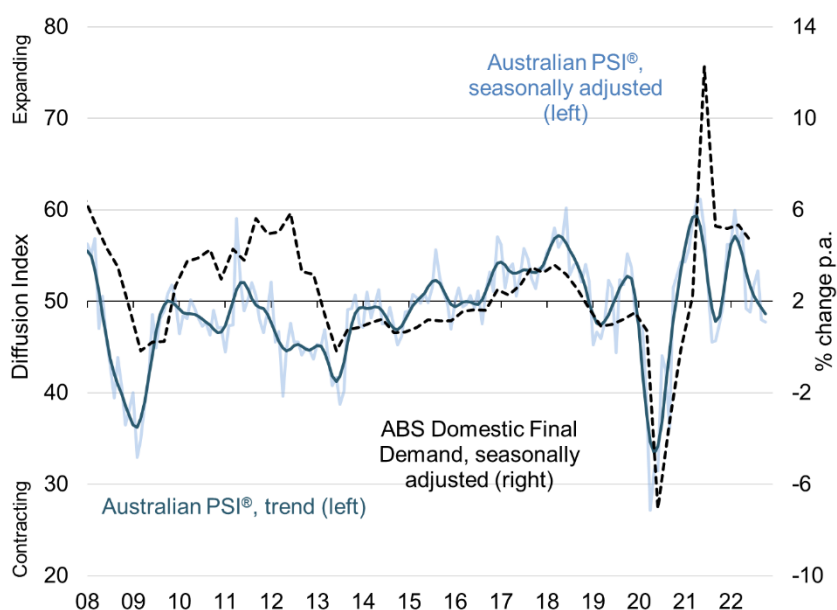
Services sector contracts in October

Key Findings

- The **Australian PSI®** indicated contraction in the services sector in October, the second month of declining results.
- Results were mixed - business & property services showed the strongest month-on-month decline and logistics the largest improvement. Logistics was the only service sector in growth.
- Sales, deliveries and stocks all indicated substantial deterioration; new orders and employment were positive and improved from September.
- Services capacity utilisation remained elevated, rising to 79.9%. This reflects tight employment conditions.
- Wet weather and flooding events, cumulative interest rate increases, and labour shortages were key concerns for businesses.

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell slightly dropping 0.3 points to 47.7 points (seasonally adjusted) in October 2022 indicating contraction for the second 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



October 2022

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Australian PSI® ▼ -0.3 points (seasonally adjusted)	47.7
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Australian PSI® ▼ 0.6 points (trend)	48.7
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Business & property services ▼ 8.2 points (seasonally adjusted)	38.4
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Logistics ▲ 9.9 points (seasonally adjusted)	51.2
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Finance & insurance	n.a.
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Retail trade & hospitality ▼ 3.1 points (seasonally adjusted)	48.1
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Health, education & community ▲ 4.4 points (seasonally adjusted)	45.0
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Personal, recreation & other services ▼ 3.8 points (seasonally adjusted)	57.5
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Business-oriented services sectors: The business oriented sectors in the **Australian PSI®** reported mixed results in October (seasonally adjusted). Logistics (transport, storage and wholesale trade) grew, reversing the decline in September. Business & property contracted with some respondents reporting that months of rising interest rates had weakened activity, however others reported solid ongoing demand. Some businesses reported strong improvements in supplies but on balance they declined for a majority of businesses.

Consumer-oriented services sectors: Retail trade & hospitality declined in October - the first month of negative results for the year. Health & education also shrank, but the rate of contraction was slower than September. The 'personal, recreation & other' services sector expanded marking two months of strong results (seasonally adjusted). While some businesses reported a pickup in social season events, current and future labour shortages remain a key constraint on activity. Some respondents servicing customers in the property and housing construction sector reported a fall in demand.

Prices and wages: The input prices index rose to be similar to the recent peak (and series high) seen in March and April. Selling prices increased – they have been positive across 2021 and 2022. The average wages indexes grew the rate of growth moderated from September, but it remains elevated. Taken together the elevated results indicate inflationary pressures grew in October.

Sales, orders, employment and deliveries: The employment index improved in October for a fifth month, businesses reported increased recruitment and lower levels of absenteeism due to illness. New orders also grew improving from the stable conditions reported in September. The sales index declined, as did stocks and deliveries which have been volatile over the past year as pressures on supply chains persist, some businesses reported great improvements in deliveries but on balance they contracted for a majority of businesses.

Capacity utilisation rose 0.8% to 79.9% across the services sectors in October 2022, the second lowest result this year. However the index remains 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: Some businesses reported large improvements in supplies being delivered. A change in season and increase in social events led to a lift in activity for some respondents in the retail & hospitality sector. 'Personal, recreation and other services' continued a catchup in demand following weaker results earlier in the year. An improvement in exchange rates benefited some exporters towards the end of the month.

Services concerns: Wet weather events and subsequent flooding, cumulative interest rate rises and staff shortages constrained activity in October. Supply chain delays continued along with increased costs for inputs and freight; which some businesses reported difficulties passing on. Some respondents reported a slowdown in business from property and construction customers as higher costs led to increased uncertainty.

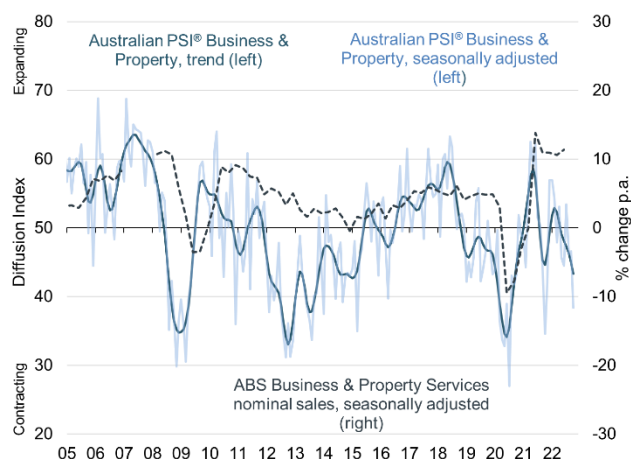
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	Historical average	Australian PSI® sectors (seasonally adjusted)	Index this month	Change from last month	Historical average
Australian PSI® (s.a.)	47.7	-0.3	50.2				
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	41.3	-0.5	50.6	Business & property	38.4	-8.2	50.7
Employment	53.9	1.3	50.5	Logistics	51.2	9.9	47.9
New Orders	54.5	4.3	50.9	Finance & insurance	n.a.	n.a.	n.a.
Supplier deliveries	38.4	-4.7	48.7	<i>Consumer-oriented services</i>			
Finished stocks	45.3	-8.2	49.1	Retail trade & hospitality	48.1	-3.1	48.0
Capacity Utilisation (%)	79.9	0.8	76.8	Health & education	45.0	4.4	51.8
<i>Prices and wages</i>				Personal, recreational & other services	57.5	-3.8	53.1
Input Prices	77.6	4.2	64.4				
Selling Prices	62.2	3.9	49.9				
Average Wages	64.8	-1.1	57.6	Australian PSI® (trend)	48.7	-0.6	50.1

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.

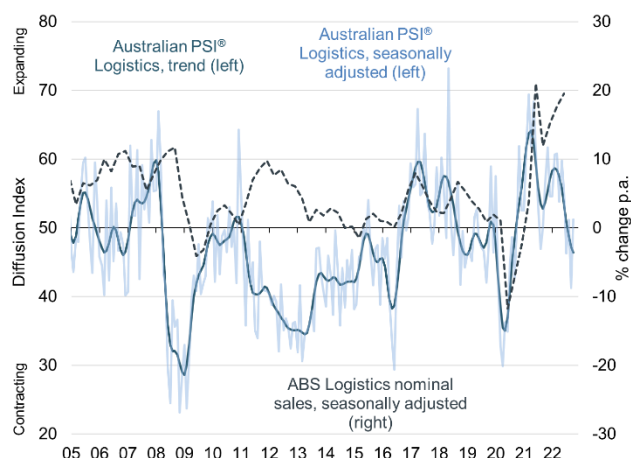
Business and property services

- 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 8.2 points to 38.4 points in October 2022 to record the lowest result since October 2021 (seasonally adjusted).
- All activity indicators declined in October, with sales particularly weak.



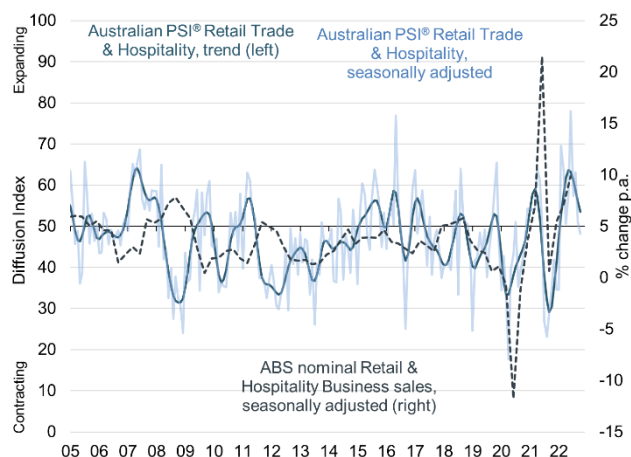
Logistics services

- 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 9.9 points to 51.2 points indicating mild growth in October lifting from contraction in September (seasonally adjusted).
- Sales, employment and new orders were positive in October reversing the decline in September. The sector has been volatile in 2022 with results much weaker in recent months. Price rises were the key concern for as inputs and freight prices increased. Slow delivery times and wet weather events constrained activity for some respondents.



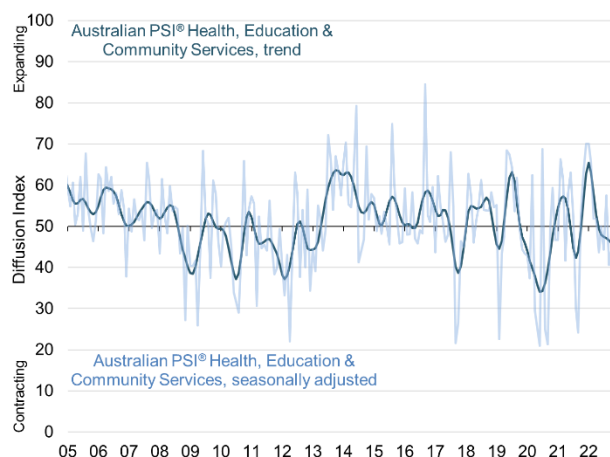
Retail trade & hospitality services

- 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 3.1 points to 48.1 points in October indicating a decline in activity across the sector (seasonally adjusted).
- A return to normal conditions with social events and holidays led to an increase in activity. The cumulative effects of interest rate increases on discretionary spending reduced activity for others. The sector continues to report by labour shortages.



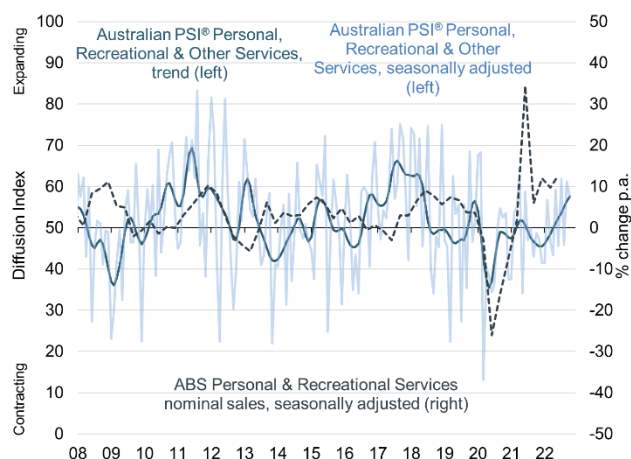
Health, education & community services

- 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 4.4 points to 45.0 points indicating an easing in contraction in October.
- Demand for health, welfare services and education has been volatile since the start of the pandemic. Some health respondents reported increased activity as a result of higher demand for medical services.

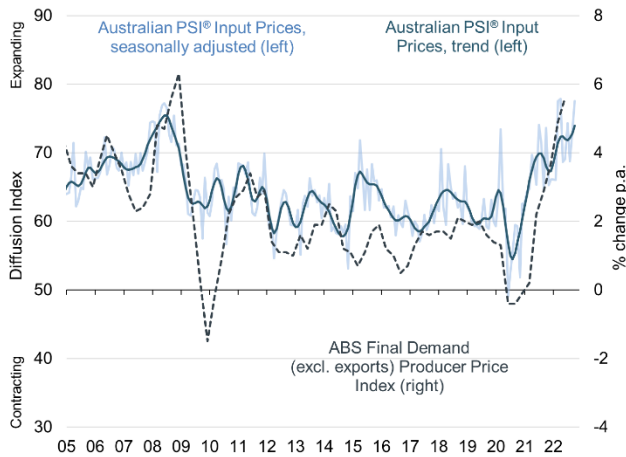


Personal, recreational & other services

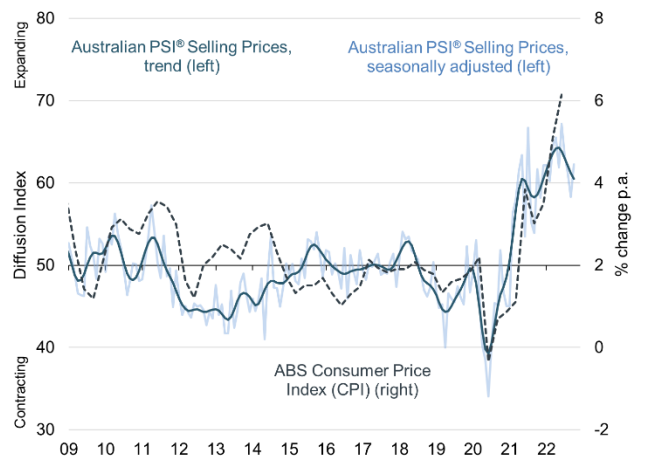
- Personal, recreational, & other services produced \$50.1bn in real value-added output in the year to Q2 2022 (equal to 2.4% of GDP, ABS data).
- This sector employed 760,800 people in August 2022 (5.6% of total employment).
- The index for 'recreational, personal & other services' fell by 3.8 points to 57.5 in October (seasonally adjusted).
- Businesses reported improvements in activity due to seasonal changes, and a return to more normal conditions following the pandemic. concerns around supply chain disruption and ongoing labour shortages remain.



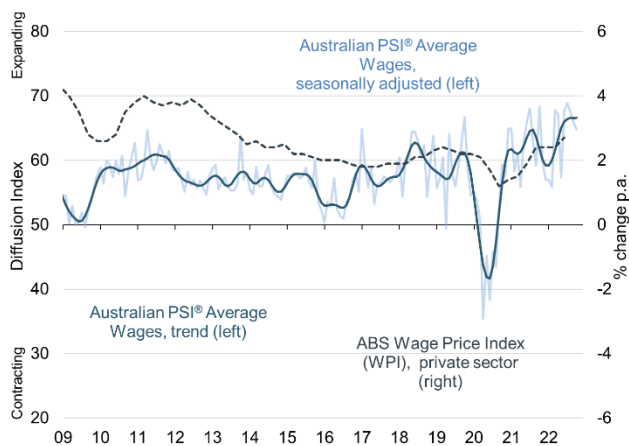
Input prices



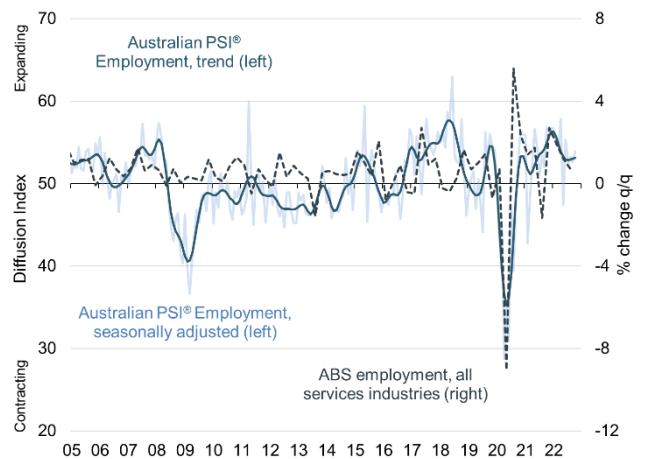
Selling prices



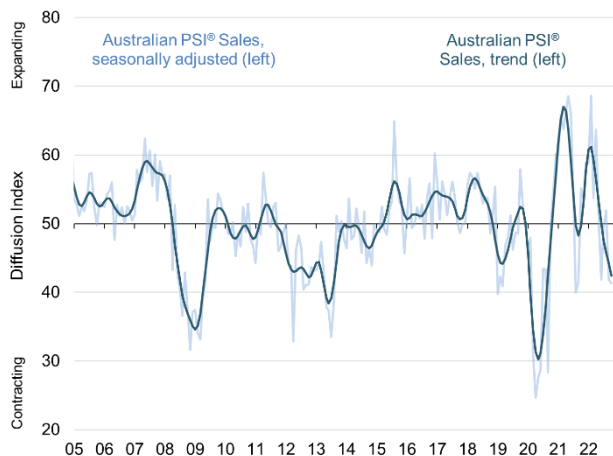
Average wages



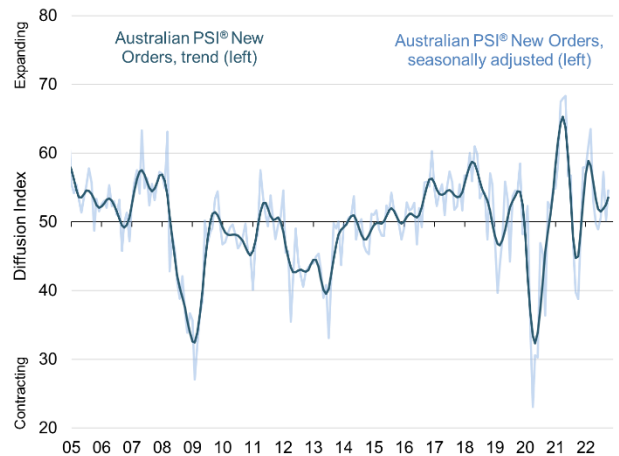
Employment



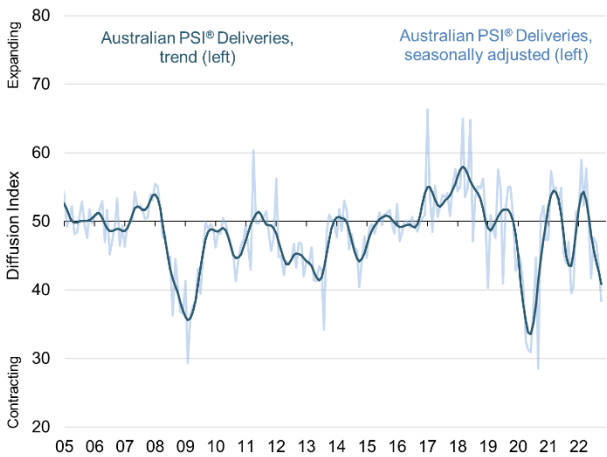
Sales



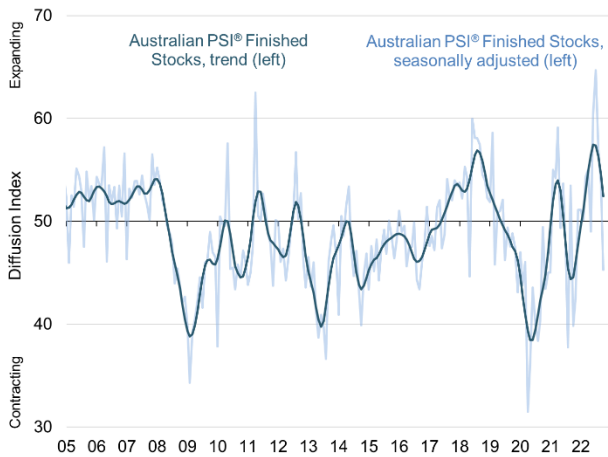
New orders



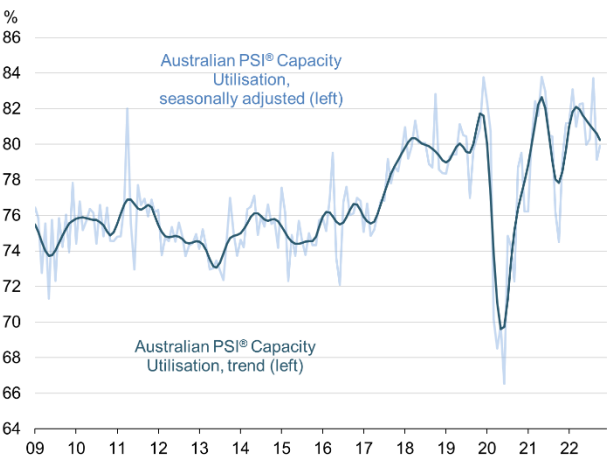
Supplier deliveries



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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