

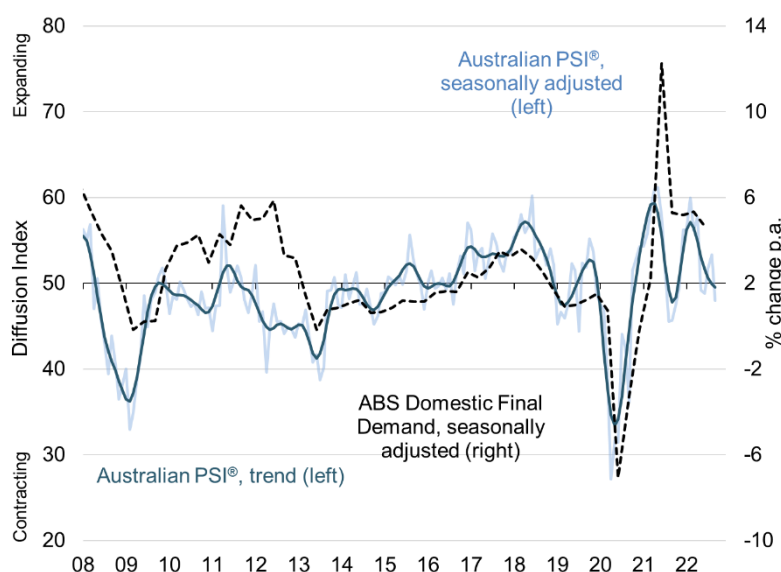
# Services sector slips in September

## Key Findings

- The **Australian PSI®** fell 5.3 points into contraction in September, following two months of mild growth.
- All service sector activity indicators were lower than August, and most are now in contraction. Employment and inventories are still expanding but at a slower pace than the previous month.
- The input price indicator rose while sales prices slowed – indicating increased pressure on margins.
- Services capacity utilisation fell to 79.1, the lowest result since November 2021.
- Labour shortages and concerns over economic uncertainty were key themes for businesses.

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell by 5.3 points to 48.0 points (seasonally adjusted) in September 2022 indicating contraction following two months of expansionary readings. 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



September 2022

#### MEDIA CONTACT

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<b>Australian PSI®</b> ▼ 5.3 points (seasonally adjusted)	<b>48.0</b>
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<b>Australian PSI®</b> ▼ 0.3 points (trend)	<b>49.6</b>
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<b>Business &amp; property services</b> ▲ 0.4 points (seasonally adjusted)	<b>46.6</b>
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<b>Logistics</b> ▼ 9.8 points (seasonally adjusted)	<b>41.3</b>
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<b>Finance &amp; insurance</b>	<b>n.a.</b>
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<b>Retail trade &amp; hospitality</b> ▼ 11.9 points (seasonally adjusted)	<b>51.2</b>
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<b>Health, education &amp; community</b> ▼ 13.1 points (seasonally adjusted)	<b>40.6</b>
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<b>Personal, recreation &amp; other services</b> ▲ 15.5 points (seasonally adjusted)	<b>61.3</b>
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**Business-oriented services sectors:** The business oriented sectors in the **Australian PSI®** contracted in September (seasonally adjusted). Logistics (transport, storage and wholesale trade) fell substantially, business & property contracted for a fifth month. Compounding interest rate increases and staff shortages constrained activity. There are pockets of solid and stable demand. Some businesses reported running down inventory levels as some supply constraints eased.

**Consumer-oriented services sectors:** Retail trade & hospitality grew in September, but the pace of growth slowed substantially from August. Health & education had a steep fall into contraction, while personal, recreational and other services bounced back. Some households continued to spend amid high employment, but the effect of higher interest rates was evident for others. More businesses are reporting concerns about future levels of demand being sustained if interest rate increases continue, and/or household savings buffers fall. Some hospitality businesses reported better staffing levels although current and future labour shortages and burnout of current staff. Respondents servicing customers in the housing construction sector reported falling interest and a dropoff in sales and new orders.

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

**Sales, orders, employment and deliveries:** The sales index fell from mild growth to significant contraction in September. The employment index improved but at a slower pace than August indicating mild growth for the month (seasonally adjusted). The rate of growth in new orders fell to indicate stable conditions. The contraction in the supplier deliveries index increased, deliveries have been contracting for five months as pressures on supply chains persist.

**Capacity utilisation** fell 4.6% to 79.1% across the services sectors in September 2022. This was the lowest result since November 2021, and just above the long-term average for the series. It has been elevated for much of 2021 and 2022. Businesses continue to report plans to increase employment where they can find and retain staff.

**Services highlights:** There were pockets of stable and resilient demand across services, particularly those with customers in agriculture and construction. Consumer-oriented businesses reported an improvement in the number of staff absent to illness or isolation. 'Personal, recreational and other' services saw a lift following weaker results in previous months.

**Services concerns:** Staff shortages in an historically tight labour market have increased the work needed to recruit and retain staff. There are reports of burnout among current staff. Increased uncertainty around future demand, particularly related to the effect of higher interest rates, was a key concern for respondents. Some reported a slowdown in enquiries customers particularly from the construction sector.

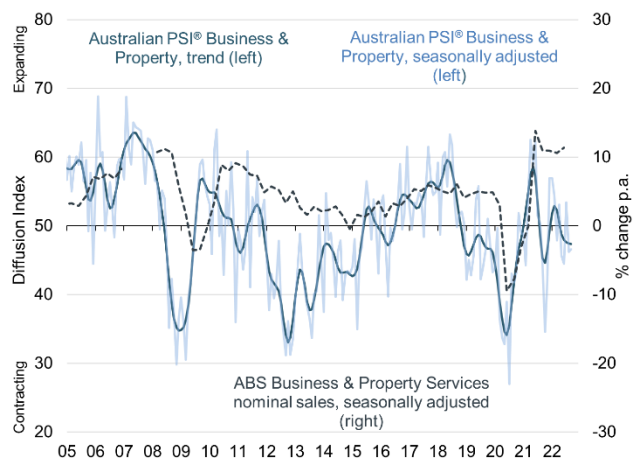
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	Historical average	Australian PSI® sectors (seasonally adjusted)	Index this month	Change from last month	Historical average
<b>Australian PSI® (s.a.)</b>	<b>48.0</b>	<b>-5.3</b>	<b>50.2</b>				
<i>Activity indexes</i>				<i>Business-oriented services</i>			
Sales	41.8	-10.1	50.6	Business & property	46.6	0.4	50.7
Employment	52.6	-0.6	50.5	Logistics	41.3	-9.8	47.9
New Orders	50.2	-7.1	50.9	Finance & insurance	n.a.	n.a.	n.a.
Supplier deliveries	43.1	-3.7	48.8	<i>Consumer-oriented services</i>			
Finished stocks	53.5	-3.4	49.1	Retail trade & hospitality	51.2	-11.9	48.0
Capacity Utilisation (%)	79.1	-4.6	76.7	Health & education	40.6	-16.9	51.8
<i>Prices and wages</i>				Personal, recreational & other services	61.3	15.5	53.1
Input Prices	73.4	4.7	64.3				
Selling Prices	58.3	-2.9	49.8				
Average Wages	65.9	-1.7	57.5	<b>Australian PSI® (trend)</b>	<b>49.6</b>	<b>-0.3</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.

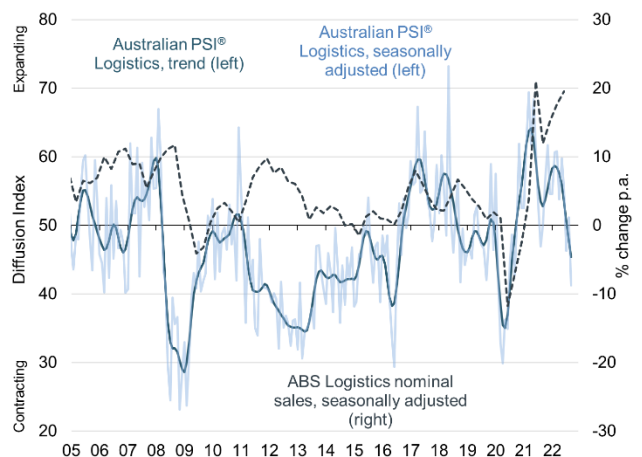
### Business and property services

- The index for business & property services rose by 0.4 points to 46.6 points in September 2022 (seasonally adjusted), indicating mild contraction.
- Comments from this diverse sector continue to be mixed as some respondents reported solid and stable demand and positive conditions. Others reported concerns about interest rate increases, a drop in demand from the construction sector, supply delays and staff shortages.
- 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).



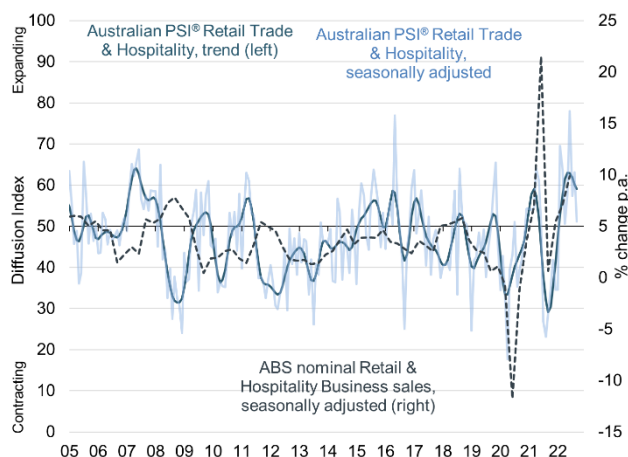
### Logistics services

- The logistics index fell by 9.8 points to 41.3 points, indicating substantial contraction in September from stability in August (seasonally adjusted).
- Following strong results in the first half of the year, logistics has reflected the volatility of the past few months. Sales, new orders and employment were all weak. Respondents reported concerns about future demand.
- 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 (7.9% of total employment).



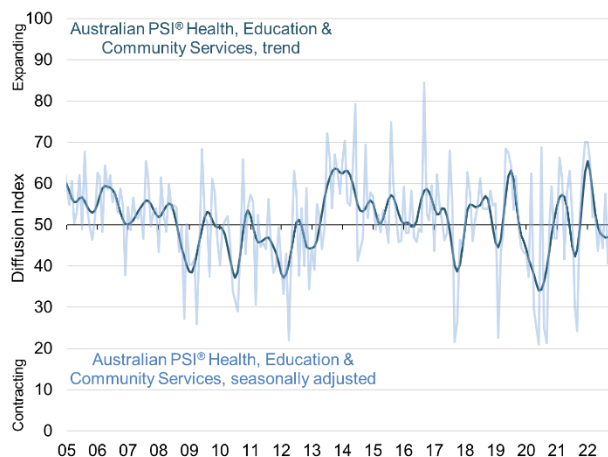
### Retail trade & hospitality services

- The index for the retail trade & hospitality sector fell by 11.9 points to 51.2 points in September. This indicates mild overall growth in activity, but is a dramatic fall from the expansionary environment in August.
- The growth in spending in retail and hospitality dissipated in September as compounding interest rate increases dampened demand. Although some businesses reported a reduction in absenteeism, shortages and burnout from current employees were a concern.
- 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).



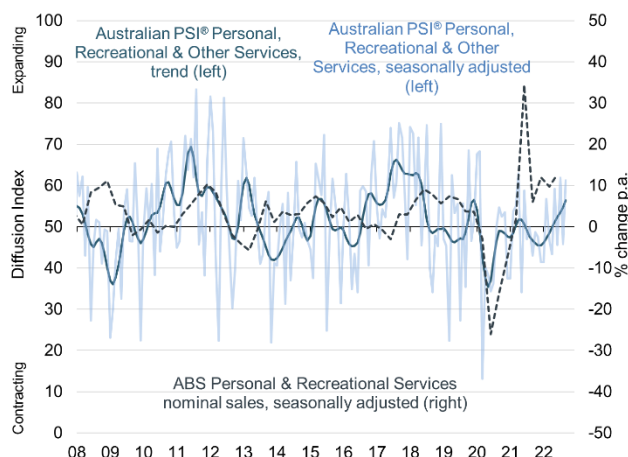
### Health, education & community services

- The index for this contracted sharply falling 16.9 points to 40.6 points in September.
- Demand for health, welfare services and education has been uneven since the start of the pandemic. Staff illness and leave contributed to lower activity in September.
- 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.

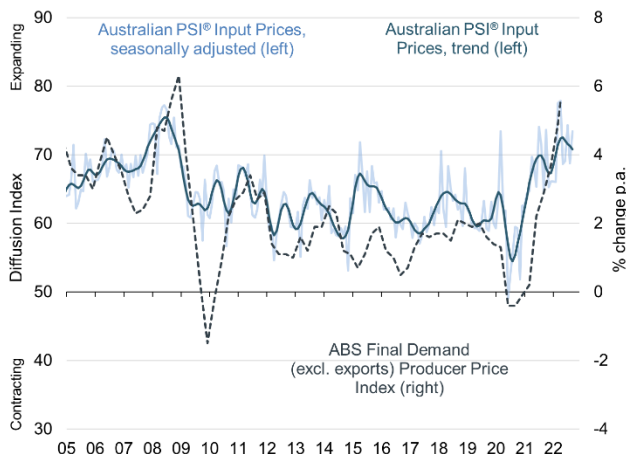


### Personal, recreational & other services

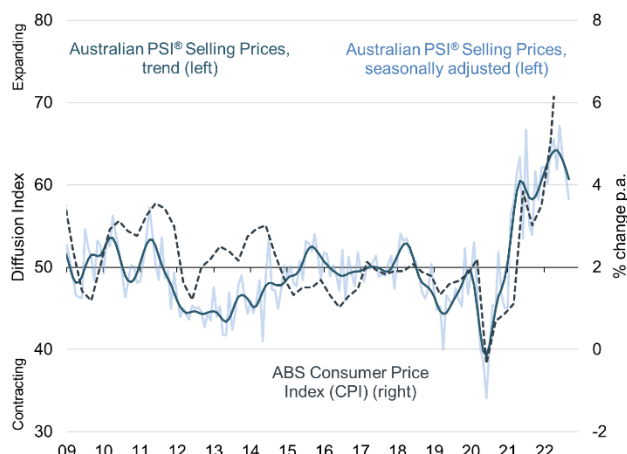
- The index for 'recreational, personal & other services' rose by 15.5 points to 61.3 in September (seasonally adjusted).
- This sector is particularly volatile and sensitive to changes in discretionary spending, in trend terms it has been improving for the past six months. Staff shortages were the predominant concern; some businesses were not able to service customer demand due to staffing issues.
- Personal, recreational, & other services produced \$50.1bn in real value-added output in the year to Q2 2022 (equal to 5.4% of GDP, ABS data).
- This sector employed 760,800 people in August 2022 (5.6% of total employment).



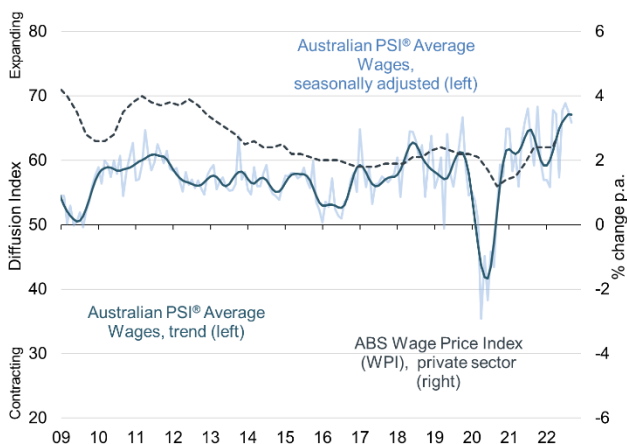
### Input prices



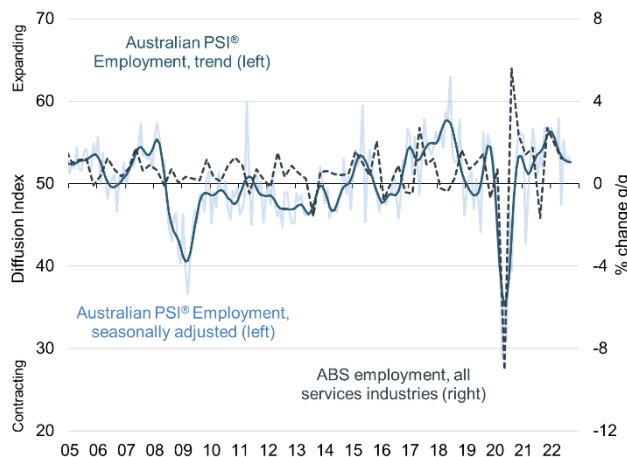
### Selling prices



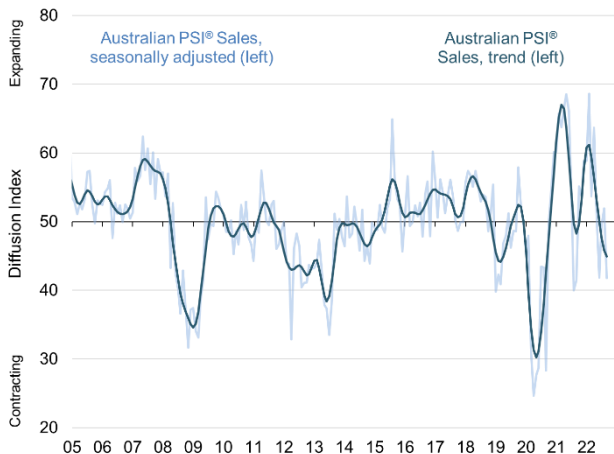
### Average wages



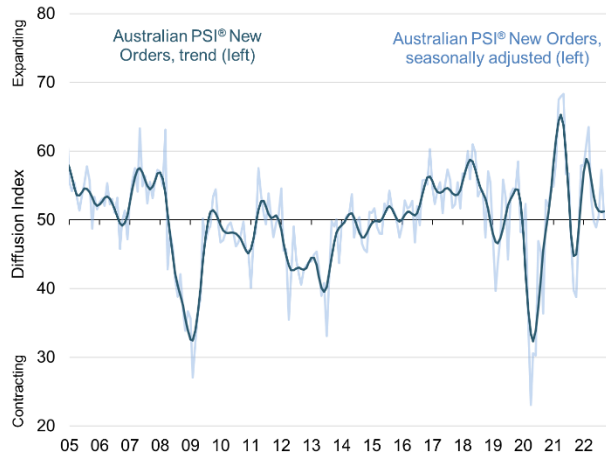
### Employment



### Sales

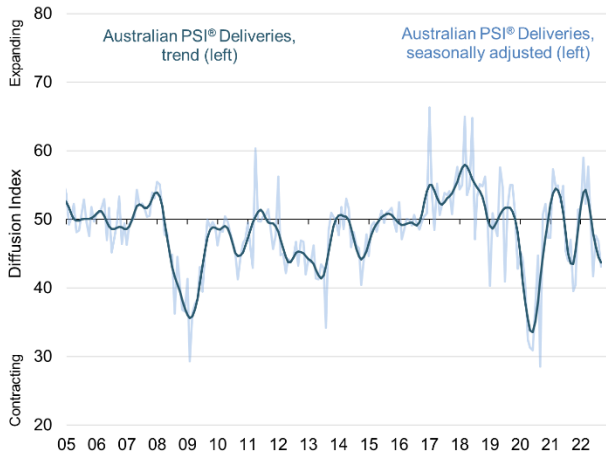


### New orders

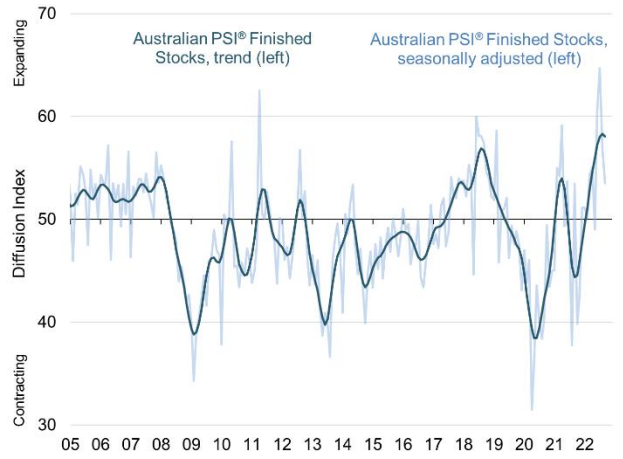




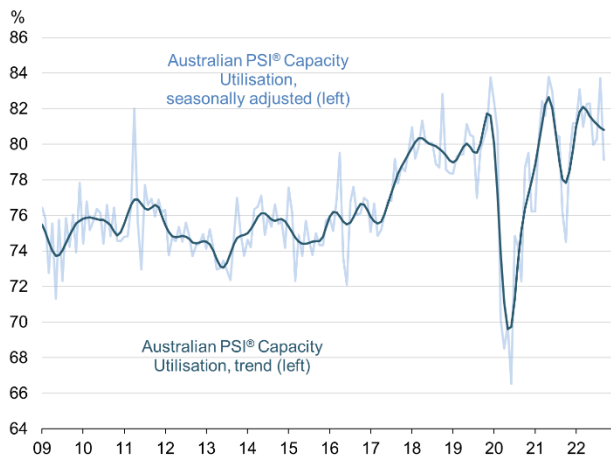
### Supplier deliveries



### 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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