

# Services sector recovery continues to strengthen in April

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose by 2.3 points to 61.0 points (seasonally adjusted) in April 2021 indicating a stronger pace of recovery following the COVID-19 recession of 2020. This was the highest monthly result in the **Australian PSI®** since October 2003. Results above 50 points indicate expansion in the **Australian PSI®**, with higher numbers indicating a stronger expansion.

All five of the services sectors available in the **Australian PSI®** in April indicated expansion, with results above 50 points (trend). All five activity indicators - sales, new orders, employment, stocks and deliveries - showed positive and improving results in the month (results above 50 points and rising from last month, seasonally adjusted).

Participants this month said that business conditions on average continued to improve. Demand from construction sector customers remains especially robust. Increased demand for local tourism, new customers, a rise in demand for services and reduced competition all led to conditions moving closer to pre-pandemic levels across a greater range of sectors. Some respondents are concerned about input shortages and delivery disruptions, which seems to be particularly affecting materials and components for the construction sectors. Staff shortages and ongoing uncertainty about the outlook remain key concerns for many services sector businesses.

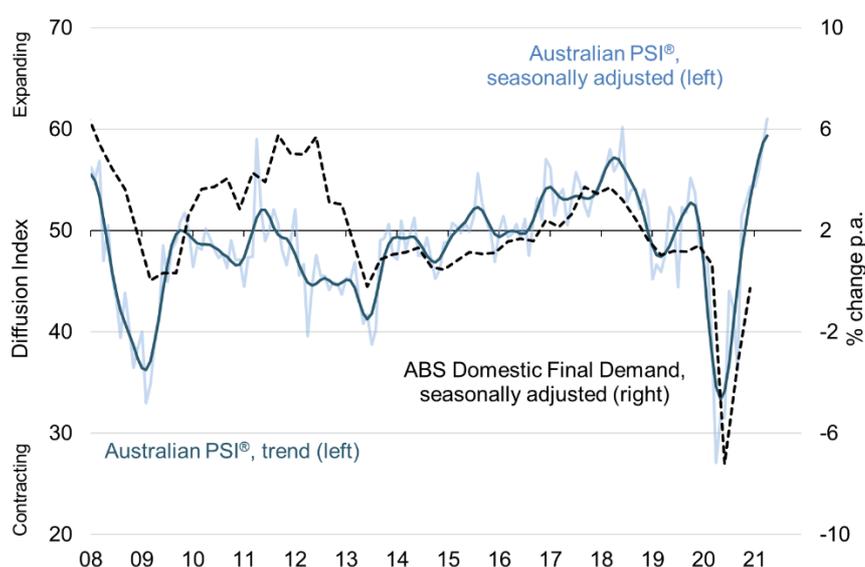
April 2021

## MEDIA CONTACT

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<b>Australian PSI®</b> ▲ 2.3 points (seasonally adjusted)	<b>61.0</b>
<b>Australian PSI®</b> ▲ 0.7 points (trend)	<b>59.4</b>
<b>Business &amp; property services</b> ▲ 2.2 points (trend)	<b>56.0</b>
<b>Logistics</b> ▲ 1.4 points (trend)	<b>64.1</b>
<b>Finance &amp; insurance</b>	<b>n.a.</b>
<b>Retail trade &amp; hospitality</b> ▲ 1.8 points (trend)	<b>59.9</b>
<b>Health &amp; community</b> ▼ 2.1 points (trend)	<b>53.4</b>
<b>Personal, recreation &amp; other services</b> ▲ 3.4 points (trend)	<b>56.0</b>

## Australian PSI® and ABS domestic final demand



**Business-oriented services sectors:** The business oriented sectors in the **Australian PSI®** expanded in April. Property and business services reported improved conditions, on average, due to a surge in demand (trend). Logistics improved further in the month, as strong demand and easing restrictions continued to boost activity for wholesale trade, freight transport and related services. Government stimulus for construction continued to boost demand for business and property services that supply or support residential construction (e.g. accounting, legal, design and real estate). Higher commodity prices and a recovery in local manufacturing activity benefited logistics and ‘business services’ respondents.

**Consumer-oriented services sectors:** All three consumer oriented sectors continued to recover in April (trend). Delayed spending in previous months, easing restrictions and improved confidence lifted demand from consumers. Stimulus to the construction sector, an improved outlook and low interest rates benefited businesses focused on selling home-based goods and services. Uncertainty, staff shortages and supply disruptions remain key areas of concern for these businesses.

**Services prices and wages:** The input price index rose further in April (seasonally adjusted). This marked nine months of input price increases and the highest rate since March 2020, following a record low for this index in June 2020. The average wage index moderated in April, indicating tempered wage pressures following a recent high in the summer period. Selling prices continue to recover. After reaching a series low in June 2020 this index recovered to a record high in April 2021.

**Services activity, orders, employment and deliveries:** The activity indices for sales, new orders, deliveries and inventories recorded a robust rate of growth in April (seasonally adjusted). The employment index indicated a mild improvement from the previous month. The headline index **Australian PSI®** was the highest in April 2021 since October 2003.

**Capacity utilisation** fell by 0.8 percentage points to 81.6% of available capacity being utilised across the services sectors in April 2021. This moderation follows the highest proportion of capacity in use in March 2021 for over a year, and is above the long-term average in the **Australian PSI®**. This suggests that businesses will need to increase business investment or employment levels to facilitate further growth in output during the remainder of 2021.

**Services highlights:** Many participants said their activity levels in April continued to improve following record lows in 2020. Businesses reported positive sales to household customers as easing restrictions merged with a large degree of pent-up demand. Respondents selling services into business sectors (e.g. wholesale trade and logistics) reported that their customers continue to deliberately increase their inventory levels, as a buffer against possible future supply disruptions. Hospitality businesses reported good demand for local tourism meals, accommodation and related services.

**Services concerns:** Businesses continued to report concerns about future uncertainty, staff shortages and the reliability of input deliveries in April. Some respondents told us they are building stock levels to hedge against future shortages, while others are delivering finished stocks to customers as soon as possible in order to avoid freight delays. International and interstate travel restrictions continue to dampen demand for tourism and accommodation services in capital cities.

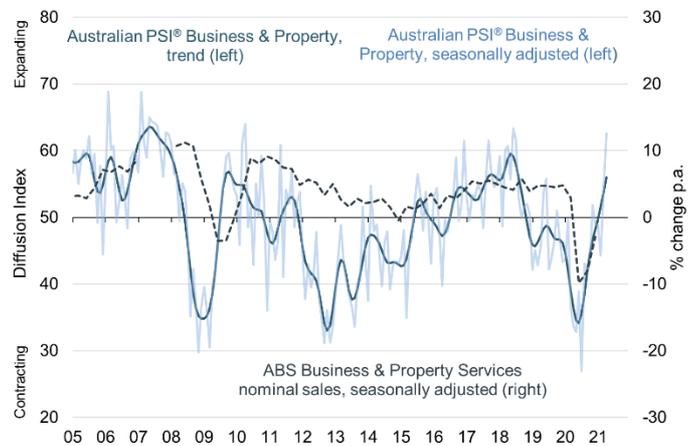
Australian PSI® key numbers (seasonally adjusted)	Index this month	Change from last month	12-month average	Australian PSI® sectors	Index this month	Change from last month	12-month average
<b>Australian PSI® (s.a.)</b>	<b>61.0</b>	2.3	<b>50.0</b>	<b>Australian PSI® (trend)</b>	<b>59.4</b>	<b>0.7</b>	<b>49.8</b>
<i>Activity indexes seasonally adjusted</i>				<i>Business-oriented services Seasonally adjusted</i>			
Sales	66.6	2.9	50.4	Business & property	56.0	2.2	50.4
Employment	52.9	3.9	50.2	Logistics	64.1	1.4	<b>47.1</b>
New Orders	67.9	0.4	50.7	Finance & insurance	na	na	na
Supplier deliveries	55.0	0.2	<b>48.8</b>	<i>Consumer-oriented services Seasonally adjusted</i>			
Finished stocks	59.1	4.9	<b>48.9</b>	Retail trade & hospitality	59.9	1.8	<b>47.8</b>
Capacity Utilisation (%)	81.6	<b>-0.8</b>	76.3	Health & education	53.4	<b>-2.1</b>	51.6
<i>Prices and wages</i>				Personal, recreational & other services	56.0	3.4	53.2
Input Prices	69.7	5.0	63.9				
Selling Prices	61.4	3.5	48.4				
Average Wages	55.9	<b>-5.1</b>	56.8				

Results above 50 points indicate expansion. Trend indexes in the Australia PSI® are calculated with a Henderson 13-month filter formula.

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

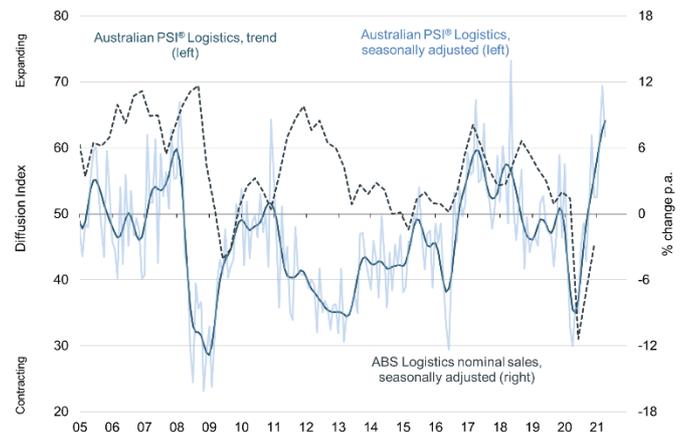
### Business and property services

- Business & property services include professional services (accounting, legal and consulting), IT, media, telecommunications, administrative services, real estate & property management services. This sector produced \$290.6bn in real value-added output in the year to Q4 2020 (equal to 15.1% of GDP, ABS data).
- Business & property services employed 2,029,400 people in February 2021 (15.6% of total employment).
- The index for business & property services rose by 2.2 points to 56.0 points (trend) in April 2021, indicating a further improvement in conditions and a second month of solid recovery.
- Government support for residential construction (HomeBuilder and other programmes), low interest rates and redirected household spending (e.g. from cancelled holidays) continued to support demand for residential property and related services in April. Uncertainty, travel restrictions and staff shortages continue to constrain some businesses' ability to meet demand in this sector.



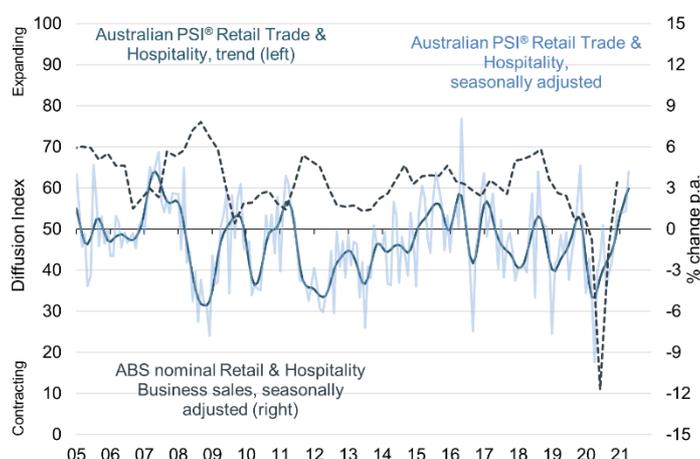
### Logistics services

- Logistics includes wholesale trade, transport and storage services. It produced \$147.6bn in real value-added output in the year to Q4 2020 (equal to 7.7% of GDP, ABS data).
- Logistics employed 1,064,800 people in February 2021 (8.2% of total employment).
- The logistics index improved by 1.4 points to 64.1 points in April, the highest trend result in the history of this index. This indicates a substantial and improving rate of recovery from the lows experienced in April and May of 2020.
- Businesses said their customers continue to increase stock levels as sales and new orders improve. They reported some customers are deliberately building up stock as a buffer against potential supply shortages in the future.
- Recovery in local manufacturing continued to contribute to higher activity in the logistics sector in April. Logistics businesses said their manufacturing customers are delivering finished stock earlier than previously, in order to secure freight availability and to lock in freight prices.



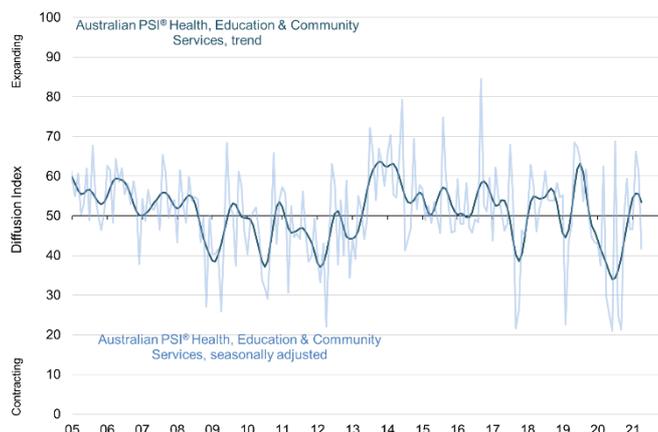
### Retail trade & hospitality services

- The retail & hospitality sector (including shops, restaurants, cafes, take-aways, hotels & accommodation) produced \$116.7bn in real value-added output in the year to Q4 2020 (equal to 6.1% of GDP, ABS).
- It employed 2,173,000 people in February 2021 (16.7% of total employment). Most retail & hospitality workers are part-time (under 35 hours per week).
- The index for the retail trade & hospitality sector lifted by 1.8 points to 59.9 points in April (trend), indicating that the recovery in activity is continuing to improve and is at the strongest rate since 2007.
- Businesses reported improved demand for local travel and increased spending over the Easter and holiday period, although this was tempered somewhat by some hospitality businesses constrained by local staff shortages. Retailers of household goods report improving supplies of new stock and robust demand for household goods.



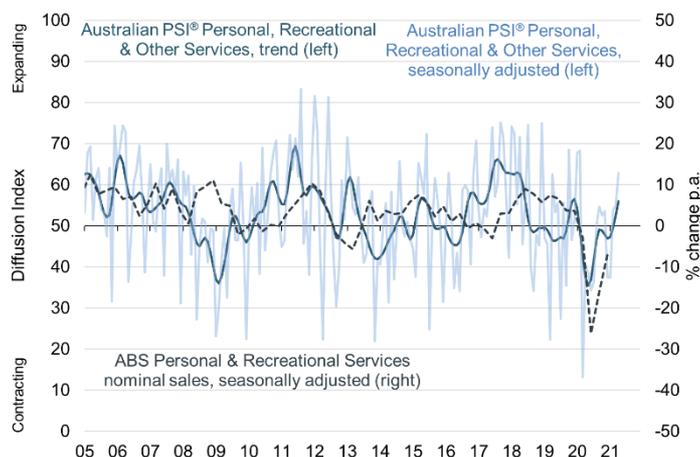
### Health, education & community services

- Health, education & community services produced \$239.3bn in real value-added output in the year to Q4 2020 (12.4% of GDP, ABS).
- This group of industries employed 2,899,300 people in February 2021 (22.3% 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 moderated by 2.1 points to 53.4 (trend) in April following a stronger recovery in February and March. This sector has spent the past couple of months catching up with delayed demand and while still positive, the intensity of demand seems to be reducing.

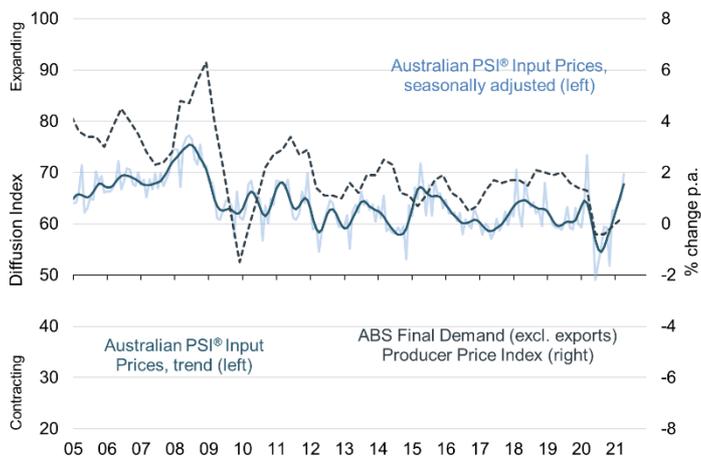


### Personal, recreational & other services

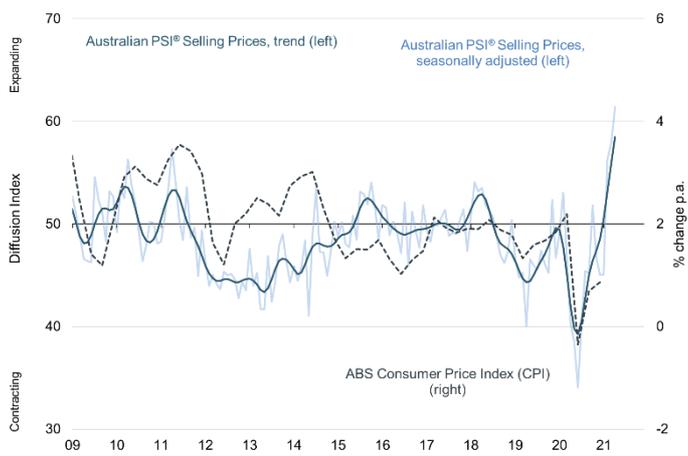
- Personal, recreational, & other services produced \$44.4bn in real value-added output in the year to Q4 2020 (equal to 2.3% of GDP, ABS data).
- This sector employed 747,800 people in February 2021 (5.7% of total employment).
- The index for 'recreational, personal & other' services rose by a further 3.4 points to 56.0 points (trend) indicating improving conditions in April.
- Respondents reported increased activity in April due to the combination of pent-up demand and easing restrictions combined.



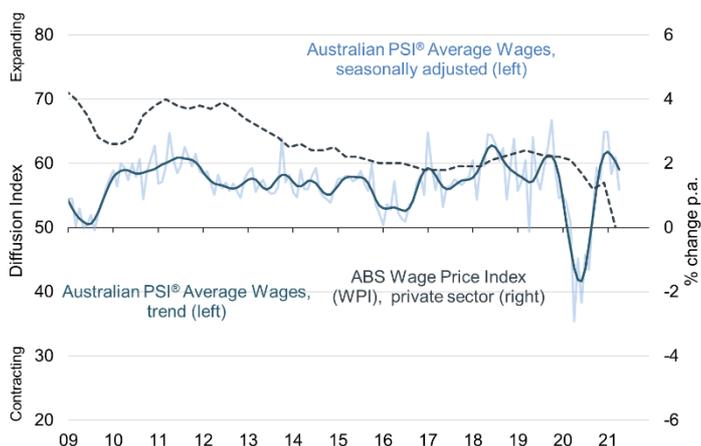
**Input prices**



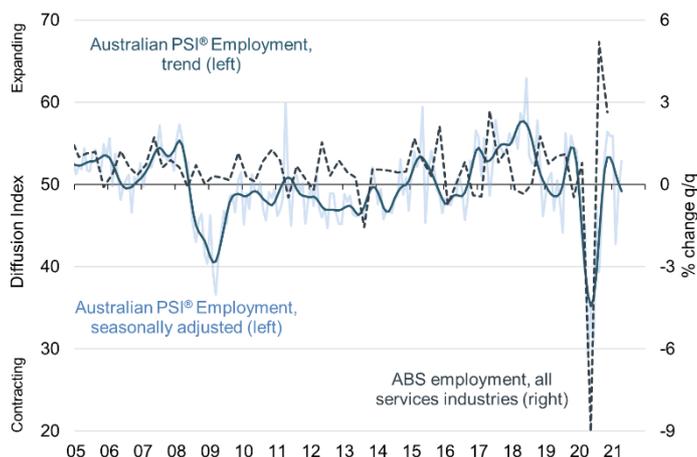
**Selling prices**



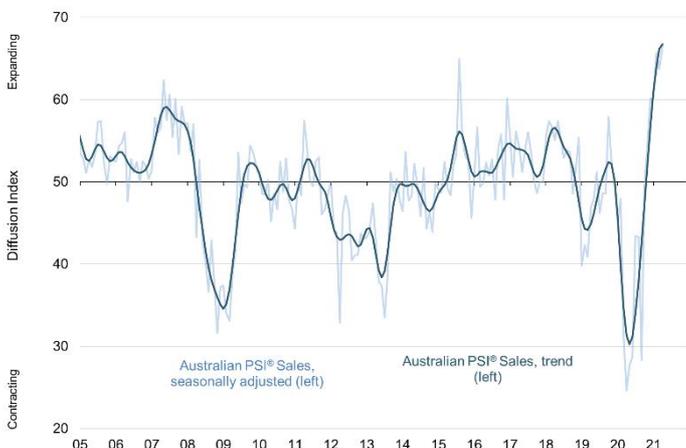
**Average wages**



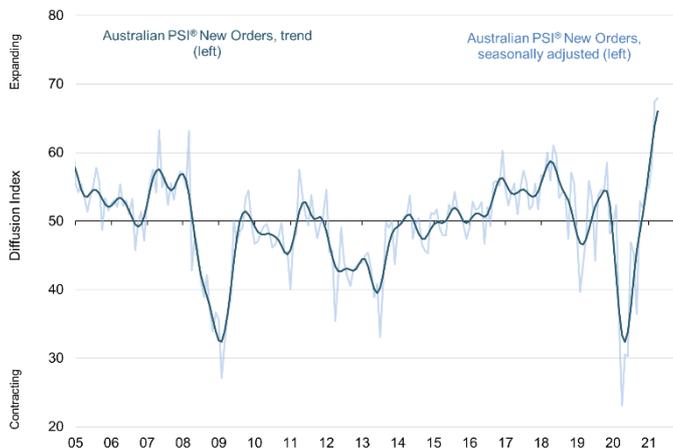
**Employment**



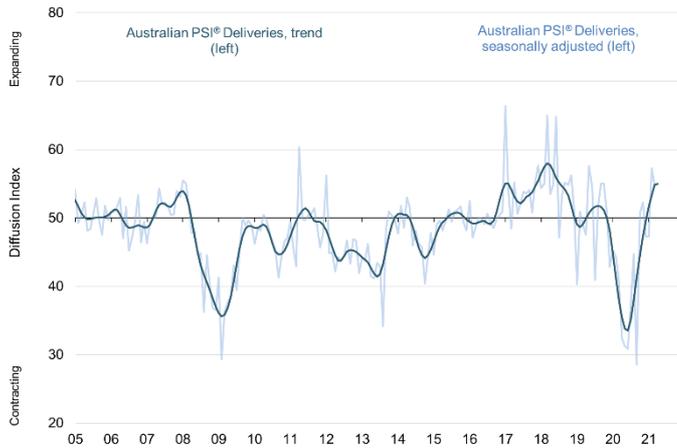
**Sales**



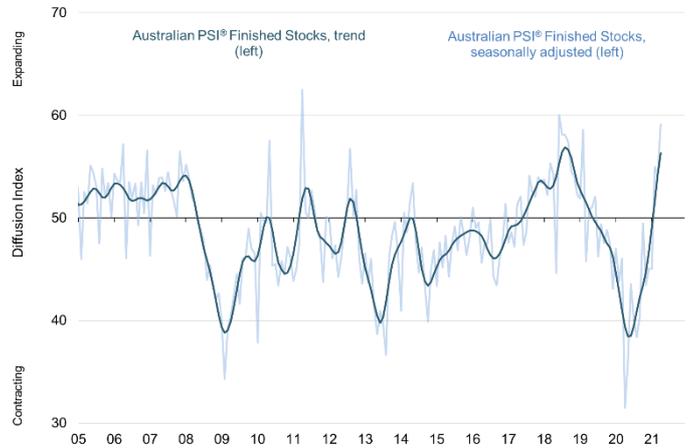
**New orders**



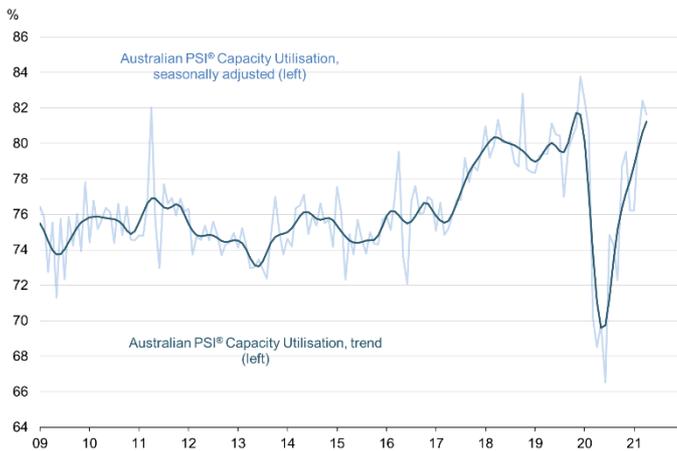
### Supplier deliveries



### 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 onselling, 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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