Box A: The Service Sectors

The service sectors have contributed strongly to economic growth in recent years. During the second half of 2000, in particular, growth in some service industries partially offset the weakness in output in those industries of the economy exposed to the downturn in dwelling construction (Graph A1). More recently, as the recovery of dwelling construction has gained momentum and growth in the goods-related sectors has thus recovered, there are signs that some service industries are slowing.

For this analysis the economy has been divided into four groupings, based on whether industries are primarily involved in goods production, goods distribution, supplying services to businesses or supplying services to households. On this basis, the service sectors, which encompass the latter two categories, account for around 45 per cent of total output and employment, about the same as the goods-related sectors (Table A1). Within the service sectors, services provided to businesses contribute the larger share of output, while those provided to households, which tend to be more labour intensive, account for a larger share of employment.

During the past decade, growth in the service sectors has, on average, been greater than that in the goods-related sectors. In the past few years, growth in the business services industries has been particularly

Graph A1

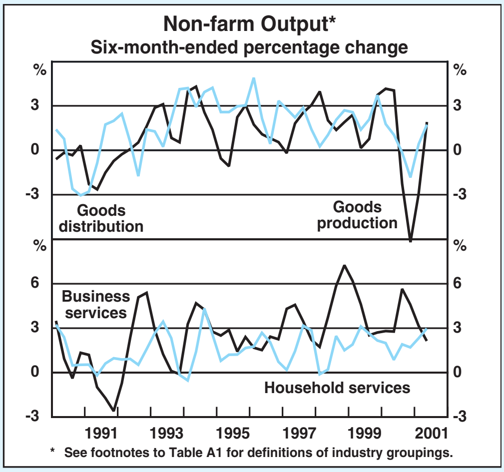


Table A1: Indicators of Activity by Industry Groups[(a)]
Per cent

	Share of output 2000/01	Share of employment 2000/01	Average output growth 1992/93–1999/2000
Goods production[(b)]	25.4	21.5	3.7
Goods distribution[(c)]	16.4	24.2	5.1
Business services[(d)]	22.8	17.6	6.2
Household services[(e)]	17.8	27.9	3.4

(a) The propensity of an industry to service households versus businesses was determined using input-output tables, and an industry was deemed to supply households if more than 50 per cent of its total supply was allocated to final consumption by households.
(b) Manufacturing, construction, mining and utilities.
(c) Wholesale and retail trade, and transport and storage.
(d) Property and business services, finance and insurance, and communications services.
(e) Accommodation, cafes and restaurants, education, health and community services, cultural and recreational services, and personal and other services.
Source: ABS

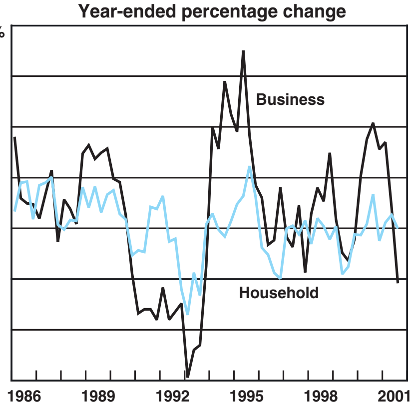
rapid, reflecting several factors such as the preparations for Y2K, the new tax system, and, to a lesser extent, the Olympics, as well as the expansion of telecommunications networks following the deregulation of the domestic telecommunications industry. Each of these developments created a large temporary increase in demand for specialist services, especially in the fields of information technology and communications (ITC), accounting and consultancy. The reduction in demand from these sources would have, of itself, contributed to a slowing in activity in the business services sector. It has, however, been exacerbated by the global downturn in ITC activity, and the more general cyclical slowing in growth that has taken place.

In recent years, growth in the household services sector has also been relatively strong, underpinned by growth in the health, accommodation, cafes and restaurants, and personal services industries. Over the past year, the resilience of the household services sector has been due mainly to the continued strength in demand for health services, with an easing in demand being recorded in many of the other major components. As discussed in the section on household consumption, the strength in demand for health services appears to be largely because of federal government incentives to take up private health insurance.

The disparate performances of the business and household service sectors has been reflected in the labour market. Business services employment is now lower than a year ago, the first such annual decline recorded since the early 1990s (Graph A2). Employment in household services, on the other hand, continues to grow relatively strongly.

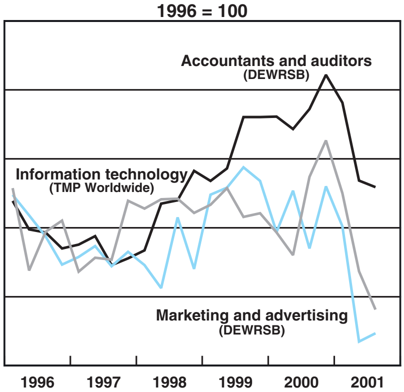
A continuation of the slowing in business services output is in prospect, with job vacancies falling sharply across a range of job types in the sector (Graph A3). This includes falls in vacancies in areas where special factors are no longer supporting demand – such as in ITC and accounting. However, falls are also evident in areas of the business services sector that are most exposed to changes in discretionary spending by firms, such as marketing and advertising.

Graph A2



* See footnotes to Table A1 for definitions of industry groupings.

Graph A3



While services supplied to households have recently been supportive of growth, their growth is also likely to slow. The potential for further strong growth in health services, for example, could be limited as coverage by private health insurance reaches saturation levels. The recent reduction in domestic and international airline travel will also have reduced demand for tourist-oriented services during the second half of 2001.