

ASR BRIEF: Australian Services Industries - Definition and Data

1.1 Defining Services

Services encompasses a very broad and diverse range of activities, but tend to be intangible and difficult to measure. In its broadest sense, and to aid in the official classification of statistical data, the services sector is generally defined negatively – to include all economic activity other than mining, manufacturing, agriculture, forestry and fishing. Services are generally poorly understood, therefore, as activities that do not produce ‘things’ or ‘goods’.

This negative official definition of services is somewhat nonsensical in practice. Many services activities do in fact result, incidentally, in production of a ‘thing’ eg a restaurant ‘meal’, an Aussie ‘movie’ or a published consultancy ‘report’. Similarly, significant services sector activities are embedded within every goods-producing industry. Industry policy analysts have long known that services incidental to or embedded in manufacturing, mining and agriculture account for critical added value and competitive advantage.

We need a more positive and more insightful definition of services, therefore, in order to help focus attention directly on services activities in their own right, rather than merely as ‘incidental to’ or ‘embedded in’ or ‘bundled with’ the various goods producing industries. This is important if we are to make progress in identifying the drivers of competition and innovation specifically in the services activities and hence in defining a strategy to help meet the policy needs of actual and potential Australian services providers.

One definition, which has the support of the Australian Services Roundtable, and which emerged from early private sector research efforts at the end of the 1990s, is that services deliver help, utility or care; an experience, information or other intellectual content – and the majority of the value of that activity is intangible rather than residing in any physical product.

1.2 Measuring the Australian Services Sector

The Australian services sector makes up the largest proportion of the Australian economy in output terms. According to Australian Bureau of Statistics (ABS) data, the services sector accounted in 2004/5 for:

- 77.9 percent of Australia’s GDP (\$554 billion)
- 84.1 percent of employment (8,230,000 people)

- 60 percent of investment (\$71.1 billion)
- 22.8 percent of exports (\$35 billion)

In 2004-04, services sector GDP, employment, investment and exports grew at an average annual rate of 3.0 percent, 3.4 percent, 11.7 percent and 3.0 percent respectively. Department of Foreign Affairs and Trade figures indicate that services exports rose another 4 percent in 2005 to reach a record \$37.2 billion.

Gross Domestic Product (GDP)

The services clearly accounts for well over three quarters of the economy and close to four fifths. This is high by international standards, the share of services in the national economy having seen a rapid increase over the last 15 years with the shift to a knowledge-based economy. The economy will keep moving in this direction as services, especially business services, act as a catalyst for change and competitiveness not only in the services sector itself but also in other sectors of the economy.

Industry Value Added (GVA)

In 2004-05, the service industries' share of Australia's total industry gross value added was 66.8%. In volume terms, GVA for total service industries grew very rapidly by 13.4% between 2000-01 and 2004-05, compared with 10.1% for total goods producing industries. Estimates for 2006 suggest this figure has now risen to closer to 78 percent. The largest service industry is property and business services, which account for 13.8% of the total industry GVA, followed by finance and insurance services (8.3%). While tourism is not an industry in the conventional sense, it can be measured and compared to other industries by considering the relationship between the demand for goods and services by tourists and the value added of those industries which meet that demand. The tourism share of total GVA in 2004-05 was 3.2%.

Number of Services Firms

Austrade estimates that as many as 82 percent of Australian firms are services firms and remarkably, services firms account for 67 percent of the total population of 25,000 Australian firms that export. But is only a tiny segment (3 percent) of this vast services sector that is exporting (17,700 firms out of 577,158 services firms in Australia).

Small and Medium Sized Businesses

Business and professional services, especially consultancy, legal services, accountancy, communications and the media are among the fastest growing industries in Australia, with the numbers of firms doubling between 1994 and 1998. The vast bulk of these 120,000 odd firms in 1998 had less than 5 employees. But collectively, in 1998, they generated some \$34 billion of GDP.

Employment

Services industries already employ 8 out of every 10 Australians and no net job has been created in any other sector for the last two decades. The largest employer is retail trade, accounting for 20% of total services employment. Other large employing industries are

property and business services, health and community services and education. Tourism related activities accounted in 2004-05 for 5.6% of total employment.

1.3 Australia's Services Exports

Department of Foreign Affairs and Trade estimates that services exports rose by 4 percent in 2005 to reach \$37.2 billion.

- Exports of travel services rose by 5 percent to \$19.6 billion
- Transportation services exports rose by 2 percent to \$8.1 billion
- Short-term visitor arrivals rose 5 percent to \$5.5 million
- Other services exports were up 1 percent to \$9.4 billion, led by architectural and engineering services, legal, accounting and management services, insurance services and R & D services.

Exports of Services are Underestimated

At nearly 23 percent of exports, official estimates of Australia's services exports are now roughly on a par with manufactures exports and outdo Australia's rural exports. But trade in services is known to be notoriously difficult to measure and there is no doubt that the above figures are significant understatements.

First, Australia's services sector makes a much larger contribution to exports than its direct share, as services are often integrated with other goods; on average about one fifth of the value of Australia's goods exports is estimated to be composed of services. It is important to recognise that exporting rural goods of manufactures is not only about producing a world class Australian product but also about the efficiency of the services underpinning that product; services such as distribution and logistics, research and design, finance, communications, and business services of many different kinds.

Second, Balance of Payments statistics underestimate international trade in services by omitting

- Sales of services through Australian owned businesses operating in another country, i.e through franchises or through establishment of a subsidiary commercial presence in a foreign market
- Individuals temporarily travelling abroad to provide a service

Initial survey work undertaken by the ABS in 2005 of 100 percent Australian owned offshore affiliates suggests that the official data on services exports as measured by the Balance of Payments (BoP) has probably therefore been measuring less than one third of Australia's actually exports of services.

Top Export Performers

Tourism is said to be Australia's largest services export, and second largest export overall, representing 11.1 percent of total exports of goods and services, contributing \$18 billion in income and employing 550,000 Australians. (Strictly, tourism is not classified as an 'industry' (it encompasses restaurants, wineries, transport operators, tour guides,

hotels and a wide range of other businesses.) and is not defined separately as such within Australia's export statistics.)

Education is Australia's second largest services export industry and fourth largest export industry overall, behind coal, tourism and iron ore. According to the Department of Education, Science and Training, international education contributes more than \$7.5 billion to the Australian economy and supports over 50,000 jobs. There are now about 340,000 international students studying in Australia and about 100,000 students undertaking Australian courses overseas.

Export Destinations/Export Deficits

In current price terms, Australia's international trade in services balance in 2004-05 recorded a deficit of \$1.5 billion, a turnaround of \$2 billion on the \$0.5 billion surplus recorded in 2003-04. Services exports rose \$1.3 billion (3.7%) to \$36.5 billion and services imports rose \$3.3 billion to \$38 billion (9.6%).

The largest country contributor to the overall deficit on services was the United States of America, with a deficit of \$2 billion. Deficits were recording for most European trading partners, with Switzerland the largest at \$0.6 billion. Australia recorded a net surplus with a number of its Asian trading partners, the largest being Japan at \$1.3 billion. Australia also recorded a net surplus of \$0.6 billion with New Zealand.

Future Export Opportunities

The Productivity Commission maintains that international opportunities for Australian services exporters are likely to continue to grow in line with current trends. Australia has identified significant new export opportunities for Australian services firms in diverse markets across the globe, in business and finance, education and training, culture, media and entertainment, health and medical, ICT and tourism and hospitality.

Deficiencies in Services Export Data

The ABS compiles economic statistics, which include the trade in services statistics, within the framework of the System of National Accounts 1993 (SNA93) and the Balance of Payments Manual, fifth edition. Imports are defined as services delivered by non-residents to residents of Australia; exports are services delivered by residents to non-residents.

The only types of service exports on which data are available include passenger and freight transportation services, travel services, communication services, a range of business services such as computer and information services and financial services, and personal, cultural and recreational services.

A key supplementary source of data on service industries is the ABS's service industries program. Collections of selected service industries are undertaken supposedly in response to specifically identified user needs but to date do not reflect Australian industry priorities. Outputs for the 2003-04 reference year included public libraries, museums, accommodation, cafes and restaurants and travel agency services. Outputs for the 2004-

05 reference year will cover pubs, clubs sport and gambling services. Outputs for the 2005-06 reference year will cover retail and wholesale industries.

The ABS is nevertheless moving slowly and within very serious budget constraints, to develop better measures of services industries and their outputs. One of the key barriers to improved measurement of services is that they are intangible and can change in quality and nature quite rapidly. Constant improvements in technology also add to the complexity, for example with the development of new products and services in areas such as finance and communication. From an international trade perspective, the ability to provide services over the internet presents significant statistical challenges.