

SERVICES SECTOR EXPANDS AGAIN IN MARCH

Australian PSI®
 Mar 2015: **50.2** ↓

USA Flash PSI
 Mar 2015: **58.6** ↑

Eurozone Flash PSI
 Mar 2015: **54.3** ↑

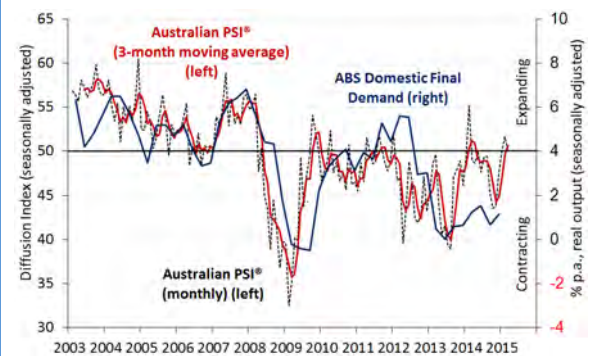
UK Markit PSI
 Feb 2015: **56.7** ↓

Japan Markit PSI
 Feb 2015: **48.5** ↓

China HSBC PSI
 Feb 2015: **52.0** ↑

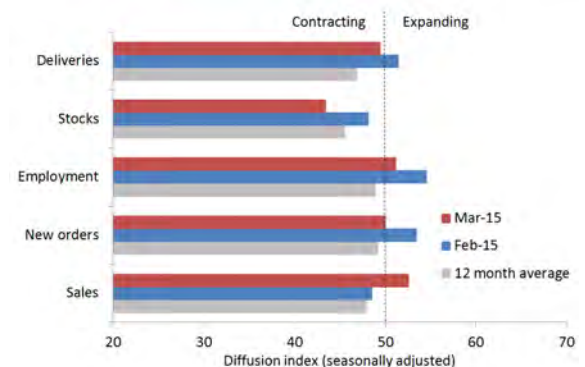
KEY FINDINGS

- The services sector expanded for the second consecutive month in March, albeit at a mild pace. The seasonally-adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) declined by 1.5 points to 50.2 points in March to remain above the critical 50 point level. Much of the growth was again concentrated in the health and community and financial and insurance services sub-sectors, while retail trade also expanded.
- The three-month moving average for the **Australian PSI®** also increased to 50.6 points this month, signalling the first expansion since April 2014. Recent results from the **Australian PSI®** suggest growth in Australian demand for goods and services (as measured by the ABS in the *National Accounts* as 'domestic final demand') may have picked up moderately in the 2015 March quarter.
- Three of the five activity sub-indexes in the **Australian PSI®** expanded (i.e. above 50 points) in March. Both the new orders and employment sub-indexes expanded for a third month while sales also returned to expansion following a brief contraction in February. However, supplier deliveries contracted in March after expanding last month while services businesses reduced their stock levels for a 10th consecutive month.
- Four of the nine services sub-sectors showed expansion this month. The very large health and community services sub-sector (57.5 points, three-month moving averages) expanded for a fifth month in March and the finance and insurance services sub-sector expanded for a third month (73.0 points). Personal and recreational services (50.4 points) also expanded and retail trade (52.6 points) expanded for the first time since September 2014. All other services sub-sectors contracted in March.
- Despite the benefits from a lower Australian dollar and a pickup in residential building activity over the past year, respondents to the **Australian PSI®** expressed ongoing concerns about weak local economic conditions, fragile consumer and business sentiment, a low appetite for investment by both the public and private sectors, as well as political uncertainties in Canberra and in New South Wales ahead of the state election.



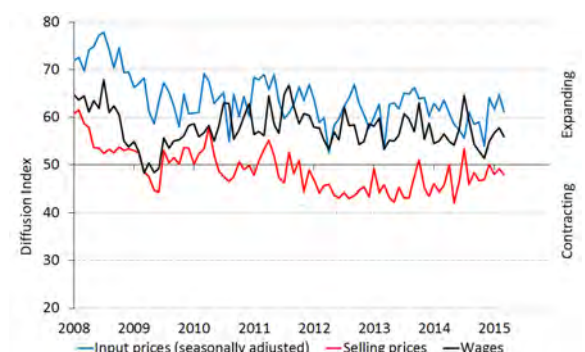
ACTIVITY SUB-INDEXES

- Services sales have been very patchy over recent months. The sales sub-index rose by 4.1 points to 52.6 points in March, signalling an expansion. This followed a brief contraction (below 50 points) last month and an expansion in January.
- The new orders sub-index in the **Australian PSI®** expanded for a third month in March, albeit at a very mild pace. The sub-index declined by 3.4 points to 50.1 points this month (from 53.5 points in February). The ongoing expansion in new orders suggests health activity levels in the services sector over the coming months.
- Services employment also expanded for a third month in March, although at a slower pace. The employment sub-index decreased by 3.4 points to 51.2 points this month.
- On the other hand, services businesses reduced their stocks levels for a 10th month, with the stocks sub-index declining by 4.7 points to 43.4 points in March. It last expanded in May 2014. The supplier deliveries sub-index returned to mild contraction in March (down 2.0 points to 49.5 points) following a brief expansion last month. Capacity utilisation across the services sectors decreased to 73.5% (down 2.5 percentage points) of capacity being utilised in March.



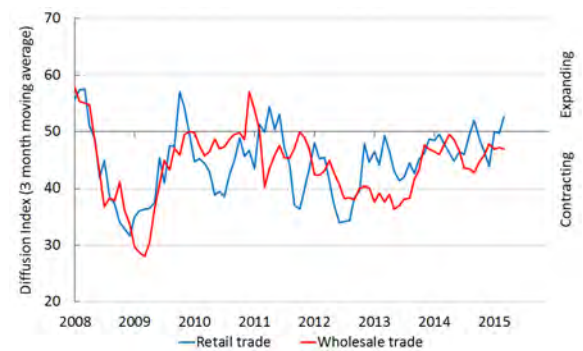
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** declined by 3.6 points to 61.2 points in March, although it remained above the 12-month average of 59.7 points. This likely reflected higher prices for imports as the effects of the lower dollar continue to flow through. Growth in input prices has accelerated somewhat over the past year but remains moderate, due to weak local demand and soft global and local inflation.
- The average wages sub-index in the **Australian PSI®** decreased by 1.9 points to 55.8 points in March. This suggests annual wage growth in the services industries is likely to remain subdued in the 2015 March quarter after a 2.5% p.a. increase in private sector wages in Q4 2014 (according to ABS wage index data). It reflects the weak national labour market, with employment growth of just 1.3% p.a. and a rising unemployment rate of 6.3% in February 2015, as well as weak consumer inflation (1.7% p.a. in December 2014).
- Selling prices in the services industries contracted for a third month in March. The selling prices sub-index decreased by 1.3 points to 47.9 points this month, indicating a faster pace of contraction. This has put services businesses' margins under further pressure amid ongoing increases in wages and other input costs.



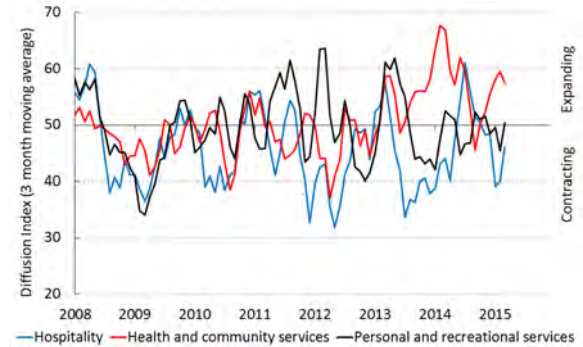
RETAIL STRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector expanded for the first time since September 2014. The sub-sector's index increased by 2.9 points to 52.6 points in March, signalling a moderate expansion in conditions (three-month moving average). Both sales and new orders for the retail trade sub-sector have expanded over the past five months.
- On the other hand, the **wholesale trade** sub-sector's index decreased marginally by 0.4 points to 46.9 points in March (three-month moving average). This sub-sector has been in contraction since a brief stabilisation in October 2011.
- Despite a lower dollar over the past year, weak consumer confidence, ongoing concerns about the local economy and political uncertainties in Canberra and in New South Wales ahead of the state election have weighed on household spending and investment. In addition, soft business sentiment and activity, particularly in the mining and manufacturing industries, are also dampening demand for wholesale trade services.



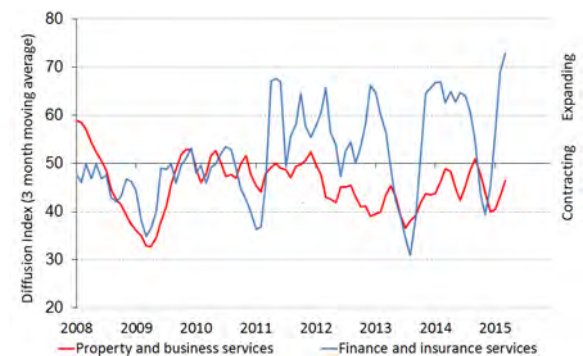
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector contracted for a fifth month in March, albeit at a slower pace. The sub-sector's index moved up by 6.0 points to 46.1 points (three-month moving average). The hospitality industry last expanded mildly between June and October 2014. Businesses and consumers continue to be very cautious towards this category of discretionary spending.
- The **personal and recreational services** sub-sector expanded very mildly in March, following three months of contraction. The sub-sector index rose by 4.9 points to 50.4 points this month (three-month moving average). Although a few respondents noted a slight pickup in business conditions over recent months, concerns about local economic conditions and policy uncertainties are still weighing on consumer spending on discretionary recreational services
- The enormous **health and community services** sub-sector expanded for a fifth month in March. The sub-sector's index decreased by 2.0 points to 57.5 points this month (three-month moving average), signalling a slower pace of expansion. Nevertheless, the health and community sub-sector has experienced the strongest growth among all the **Australian PSI**[®] sub-sectors over the past two years.



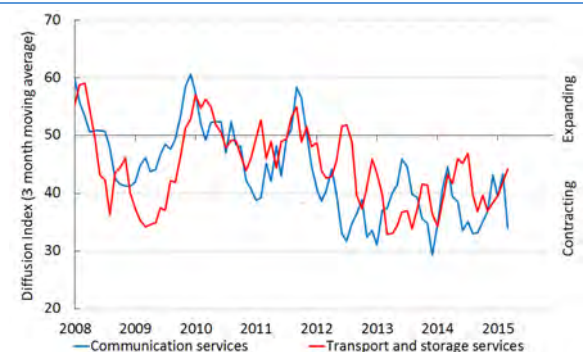
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index increased for a third month, up by 3.2 points to 46.4 points in March (three-month moving average). However, this signalled the sixth month of contraction in this large business-oriented sub-sector. It last expanded briefly in September 2014.
- Despite a lower Australian dollar and an increase in residential construction and transaction activity over the past year, concerns about local economic conditions and very weak business confidence continue to dampen conditions for the property and business services sector. The rapid decline in mining investment, ongoing structural change in the manufacturing industry, and very low appetite for investment by businesses and governments, have also weighed on demand for business-to-business services such as accounting, legal, design, consulting, personnel and administrative services.
- The large **finance and insurance** sub-sector expanded for a third month in March. The sub-sector's index rose by another 4.0 points to 73.0 points this month, a historical high (three-month moving average). This likely reflected the boost to the sector, including strong performance of the share market over recent months, the RBA's interest rate cut in early February and expectation of further rate cuts over the coming months. Conditions in this sub-sector are generally affected by interest rates, performance and volatility in financial markets, investment trends (e.g. the popularity of real estate over other assets at present), and legislative changes affecting the financial services and superannuation industries.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index dropped by 9.5 points to 33.8 points in March (three-month moving average), signalling an alarming pace of contraction. This sub-sector has contracted since December 2011 (i.e. below 50 points). Weak national economic conditions, business appetite for investment and generally uncertain telecommunications investment continue to weigh on demand for IT, communications and related services.
- The **transport and storage services** sub-sector's index increased for a fourth month, up by 2.2 point to 44.1 points in March (three-month moving average). Nonetheless, this signalled the 32nd consecutive month of contraction in this industry, which previously expanded in July 2012. Despite lower oil prices and higher residential building activity over the past year, soft business and consumer confidence, a sharp drop in mining construction and the progressive closure of local automotive assembly are weighing heavily on demand and prices for local freight transport and storage services.



Seasonally adjusted index	Index this month	Change from last month	12 month average	Seasonally adjusted index	Index this month	Change from last month	12 month average
Australian PSI [®]	50.2	-1.5	48.1	Supplier Deliveries	49.5	-2.0	46.8
Sales	52.6	4.1	47.9	Input Prices	61.2	-3.6	59.7
New Orders	50.1	-3.4	49.2	Selling Prices **	47.9	-1.3	47.9
Employment	51.2	-3.4	48.9	Average Wages **	55.8	-1.9	56.2
Stocks	43.4	-4.7	45.5	Capacity utilisation **	73.5	-2.5	75.8

* All sub-sector indexes in the **Australian PSI**[®] are reported as three month moving averages (3mma), so as to better identify the trends in these volatile monthly data. ** Unadjusted.

What is the Australian PSI[®]? The Australian Industry Group Australian Performance of Services Index (Australian PSI[®]) is a seasonally adjusted national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. An Australian PSI[®] reading above 50 points indicates services activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/economics>. *For further information on international PMI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>.

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