AUSTRALIAN PSI
PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

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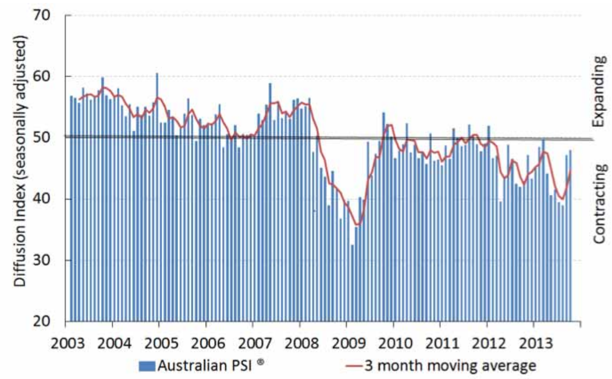
Services sector inches closer to stabilising in October

Australian PSI®	USA ISM PSI	Eurozone flash PSI	UK CIPS PSI	Japan Markit PSI	China HSBC PSI
Oct 2013: **47.9** ↑	Sep 2013: **54.4** ↓	Oct 2013: **50.9** ↓	Sep 2013: **60.3** ↓	Sep 2013: **53.0** ↑	Sep 2013: **52.4** ↓

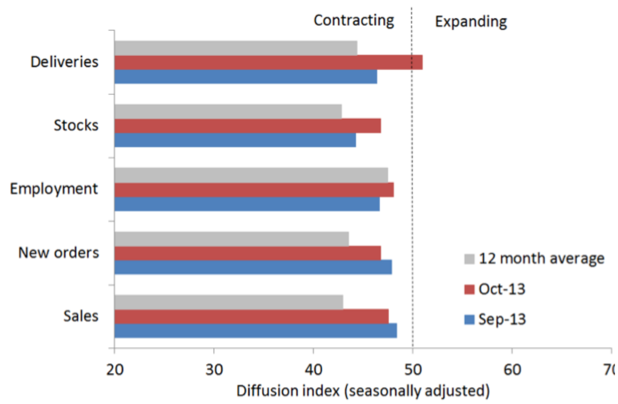
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) inched 0.8 points higher to 47.9 points in October.
- This was the highest level for the **Australian PSI®** since March 2013 (49.6 points), but it remains below the 50 point mark that separates expansion from contraction in this survey.
- The **Australian PSI®** has been below 50 points since January 2012, which is its longest run of continuous contraction since this data series commenced in 2003.
- The slight improvement in the **Australian PSI®** in October was driven by a lift in supplier deliveries (indicating expansion in the month at 51.0 points) and a small improvement in the employment sub-index (up to 48.1 points, but still indicating mild contraction). The activity sub-indexes for sales and new orders fell slightly in October and remained below 50 points.
- Among the sub-sectors that make up the **Australian PSI®,** the health and community services sub-sector and the finance and insurance sub-sector expanded in October (56.1 points and 50.7 points respectively, three month moving averages).
- The selling prices sub-index improved by 3.5 points to 51.0 points in October. This prices sub-index moved into expansion (over 50 points) for the first time since October 2011.
- Businesses noted that customer confidence has improved modestly in September and October following the Federal election, but they also noted that consumers remain reluctant to spend on local discretionary goods and services. Local business-to-business spending is still reported to be slow, although some businesses are noticing a more positive mood.



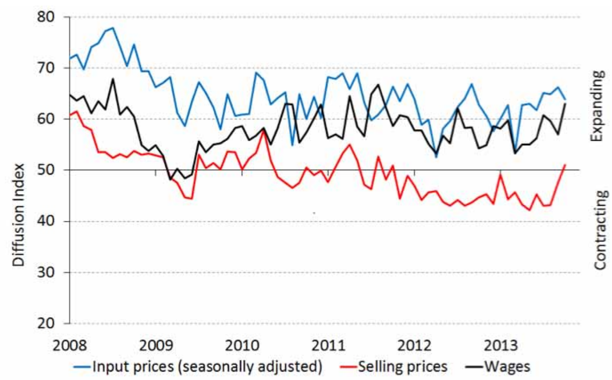
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** eased by 0.8 points to 47.6 points in October, after jumping by 12.9 points in September 2013. This was the highest level for the sales sub-index in the **Australian PSI®** since March 2013 (50.8 points), but it is still indicating a net contraction in the value of sales across the services industries.
- The new orders index in the **Australian PSI®** also eased in October, after jumping by 8.0 points in September. This leading indicator of demand for services has been indicating contraction (with readings below 50 points) in every month since June 2012.
- The employment sub-index in the **Australian PSI®** improved again in October, up 1.4 points to 48.1 points. This sub-index has been indicating contraction since March 2013.
- Supplier deliveries improved strongly in September and again in October, reaching 51.0 points and indicating a mild net expansion in deliveries overall (over 50 points).
- Inventories (stocks held by companies) continued to contract in October, albeit at a milder pace. The inventories sub-index improved by 2.5 points to 46.8 points in October.
- Capacity utilisation across the services industries nudged 0.7 percentage points higher, to 76.9% of current capacity being utilised in October, the highest such rate since March 2013.



PRICES SUB-INDEXES

- Input prices rises eased in October after rising strongly in September. The input costs sub-index in the **Australian PSI®** fell by 2.4 points to 63.9 points, from September's recent high points (highest since September 2012).
- Wage pressures increased again in October, with the average wages sub-index in the **Australian PSI®** rising 5.9 points to 63.0 points in October. This was the highest level for the wages sub-index since August 2011, which was somewhat surprising given the cooling in labour demand and lower inflation environment of recent months. It may suggest many services businesses still need to pay more, in order to get the right staff into key positions.
- The selling prices sub-index in the **Australian PSI®** improved by 3.5 points to 51.0 points in October, taking this sub-index over 50 points and into expansion for the first time since October 2011. This stabilisation in prices indicates a rise in confidence among local services businesses, fewer of whom are feeling pressure to cut their prices to attract customers.
- This recent lift in prices for local services' inputs and outputs reflects the more general price spike in the September quarter that was evident in the latest consumer inflation data from the ABS, which showed the consumer price index (CPI) rose by 1.2% q/q in September, to be up 2.2% p.a.

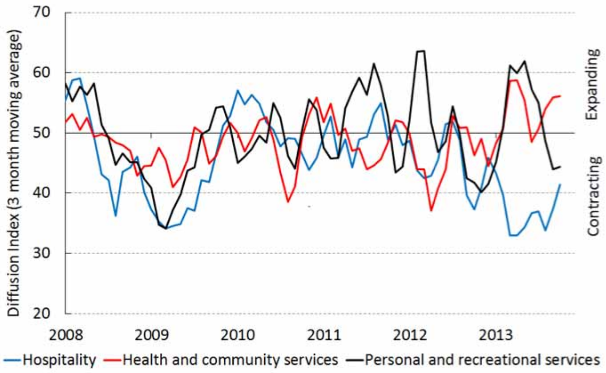


RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector in the **Australian PSI®** improved by 2.5 points to 45.1 points in October (three month moving average), but continues to exhibit weak demand. The retail trade sub-sector's index has been under 50 points (indicating net contraction) in every month since June 2011, reflecting a protracted period of tough trading conditions due to the high dollar and cautious consumer spending on discretionary (mostly non-food) goods.
- The **wholesale trade** sub-sector in the **Australian PSI®** increased by another 1.6 points in October, improving to 43.2 points (three month moving average). The wholesale trade sub-sector has been in net contraction (under 50 points) in every month since February 2011 (three month moving averages). This reflects a similar range of challenges to those faced by the retail trade sub-sector, which is the wholesale trade sub-sector's major customer.

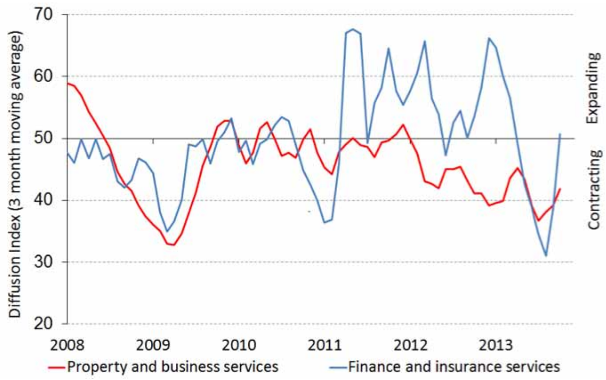
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** sub-sector ('hospitality') index also improved in October, rising 3.7 points to 40.0 points (three month moving average). This sub-sector has been indicating contraction (readings below 50 points) since April 2013. It is affected by the same consumer caution regarding local discretionary spending as retail trade, plus significant leakage in local holiday spending to popular overseas holiday destinations as well as weak inbound tourism flows. These factors may turn around if the dollar falls again.
- The **personal and recreational services** sub-sector has lost ground in recent months, after a good run of expansion earlier in 2013. This index improved by just 0.4 points to 44.3 points in October, after falling below 50 points in August (three month moving averages).
- The large **health and community services** sub-sector was one of only two sub-sectors to show expansion this month in the **Australian PSI®.** It improved by 0.3 points to 56.1 points, in a fourth consecutive month of expansion (above 50 points, three month moving average).



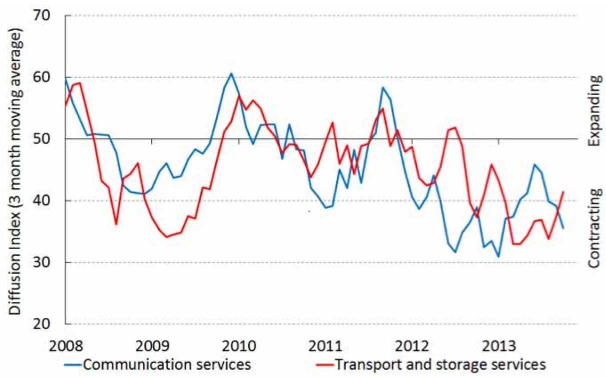
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business** services sub-index improved by 2.6 points to 41.8 points in October. This sub-sector's index has been below 50 points since December 2011 (three month moving averages), signifying an extended period of tough trading conditions for business-to-business services such as real estate, accounting, legal, engineering, consulting, recruitment and administrative services. Although business confidence appears to have picked up since the Federal election, actual demand remains relatively fragile.
- The **finance and insurance** sub-sector's index jumped by 12.1 points to 50.7 points in October (three month moving average), taking this sub-sector back into expansion (readings over 50 points) for the first time since March. This may signal a reprieve after six months of contraction this year (from April to September, in three month moving averages).



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index indicates demand remains weak, with the index falling a further 3.6 points to 35.6 points in October. The index for this sub-sector has remained below 50 points since November 2011 (three month moving average), including an extended period below 40 points throughout 2012 and early 2013. This further fall suggests conditions are not yet improving in this key business-to-business sub-sector.
- The **transport and storage services** sub-sector's index improved by another 4.0 points to 41.5 points in October, following an extended period below 40 points from January to September 2013. This index has recorded readings below 50 points since July 2012 (three month moving averages). This transport downturn reflects the flow-on effects of weak consumer demand for discretionary goods in the retail sector as well as relatively low residential and commercial building activity levels, all which mean that less goods and materials need to be transported. Businesses said transport orders picked up in October as construction activity slowly recovers, but overall demand remains relatively weak.



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®	**47.9**	**+0.8**	**44.4**	**Supplier Deliveries**	51.0	+4.6	44.4
Sales	47.6	-0.8	43.0	**Input Prices**	63.9	-2.4	61.9
New Orders	46.8	-1.1	43.6	**Selling Prices ****	51.0	+3.5	45.3
Employment	48.1	+1.4	47.5	**Average Wages ****	63.0	+5.9	57.6
Stocks	46.8	+2.5	42.9	**Capacity utilisation ****	76.9%	+0.7	75.0%

* 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.