PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

MEDIA CONTACT
Tony Melville
Australian Industry Group
Tel: 02 6233 0716

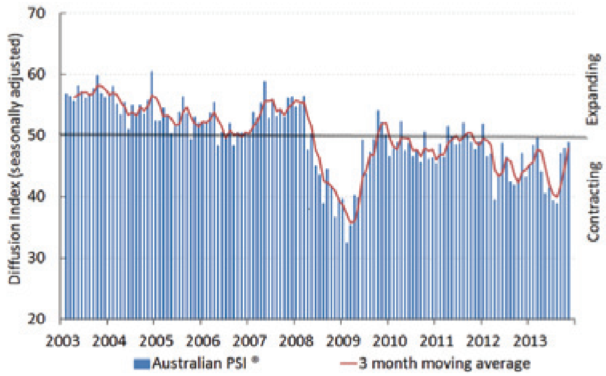
NOVEMBER 2013

SERVICES SECTOR MOVES CLOSER TO GROWTH

Australian PSI®	USA flash PSI	Eurozone flash PSI	UK Markit PSI	Japan Markit PSI	China HSBC PSI
Nov 2013: **48.9** ↑	Nov 2013: **57.1** ↑	Nov 2013: **50.9** ↓	Oct 2013: **62.5** ↑	Oct 2013: **55.3** ↑	Oct 2013: **52.6** ↑

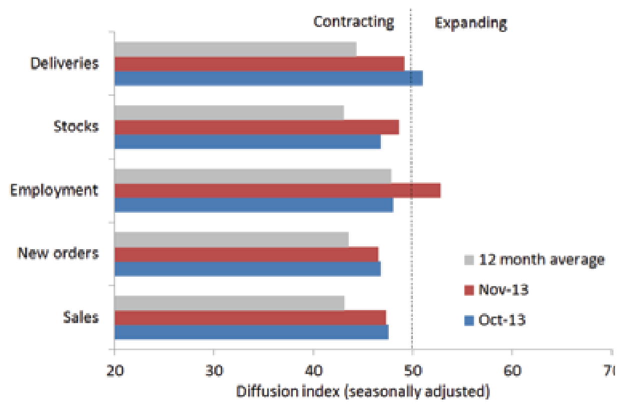
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) moved just 1 point higher to 48.9 points in November.
- 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 for almost two years, since January 2012, which is its longest run of continuous contraction since this data series commenced in 2003.
- The **Australian PSI®** improved very slightly in each of the last two months. In November, this lift was driven by an improvement in the employment sub-index, to 52.8 points. This is the first time the employment sub-index has moved above 50 points since March 2013. The activity sub-indexes for sales and new orders fell slightly in October and again in November and remain below 50 points.
- Among the sub-sectors that make up the **Australian PSI®,** only the health and community services sub-sector and the finance and insurance sub-sector expanded in November (56.0 points and 64.6 points respectively, three month moving averages).
- Businesses noted that consumer confidence is returning but it is still slow and faint. This pre-Christmas period is crucial for many consumer services and they feel it should be busier than it is right now. In business-to-business services, respondents note they are still seeing only minimum levels of maintenance and servicing and a reluctance to commit to longer-term contracts. Slower government orders and spending are also an ongoing hindrance.



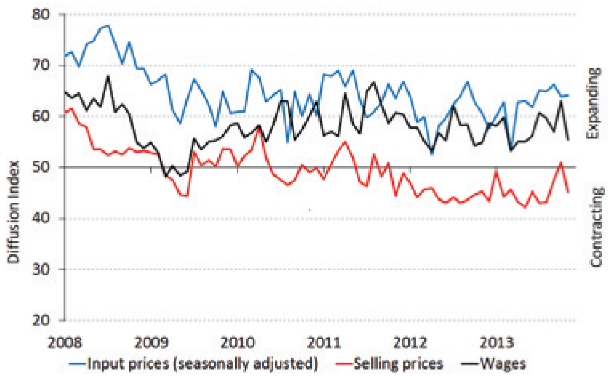
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** eased by another 0.3 points to 47.3 points in November, after jumping to a recent high of 48.4 points in September 2013. This sub-index has been indicating contraction (readings below 50 points) since March 2013 (50.8 points).
- The new orders index in the **Australian PSI®** also eased further in November, after hitting a recent high of 47.9 points in September. This leading indicator of demand for services has been indicating contraction (readings below 50 points) since June 2012 (50.3 points).
- The employment sub-index in the **Australian PSI®** improved by 4.7 points in November, taking it into expansion (52.8 points) for the first time since March 2013. This was the strongest reading for the employment sub-index since April 2011. It indicates more optimistic hiring among services businesses in the lead-up to the busy Christmas period.
- Supplier deliveries eased in November, with this sub-index falling 1.8 points to 49.2 points. This suggests delivery levels were broadly stable in November, after some slight growth in October (51.0 points).
- Inventories (stocks held by companies) continued to contract in November, albeit at a milder pace. The inventories sub-index improved by 1.8 points to 48.6 points in November.
- Capacity utilisation across the services industries slipped 1.2 percentage points to 75.7% of current capacity being utilised in November, just above its recent average of 75%.



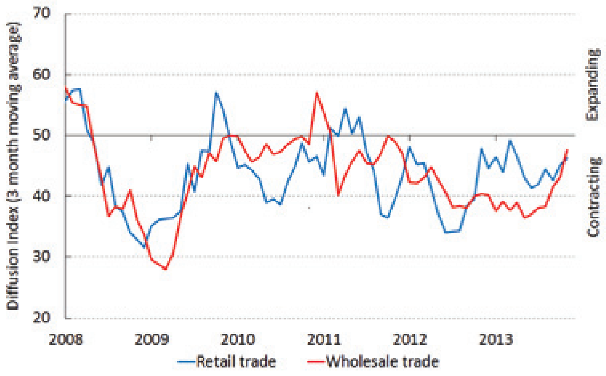
PRICES SUB-INDEXES

- Input prices rises strengthened very slightly in November after easing in October. The input costs sub-index in the **Australian PSI®** rose by 0.2 points to 64.1 points in November.
- Wage pressures eased in November, with the average wages sub-index in the **Australian PSI®** falling 7.5 points to 55.4 points in November. This more than reversed October's surprising spike in the wages sub-index, and better reflects the lower levels of labour demand and the slower inflation environment of recent months.
- The selling prices sub-index in the **Australian PSI®** fell by 5.8 points to 45.2 points in November. This took this sub-index back to its recent average (45.3 points over the last 12 months) and offset October's very mild price rises (51.0 points). The stabilisation in selling prices in October may have reflected better confidence among local services businesses (fewer of whom felt the need to cut prices) that has not been sustained into November.



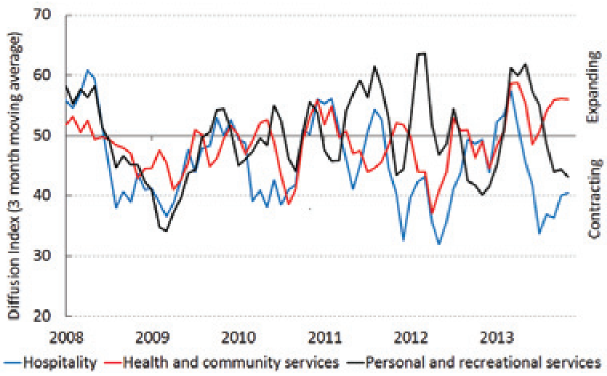
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector in the **Australian PSI®** improved by 1.2 points to 46.2 points in November (three month moving average), but continues to signal weak demand. This was the best reading for this sub-sector index since April. The retail trade sub-sector's index has been in contraction (under 50 points) since June 2011, reflecting a protracted period of tough trading conditions due to the high dollar and limited consumer spending on local discretionary goods. Retail trade is Australia's second largest employing industry (after health and community services), so this ongoing weakness in local retail sales is a significant drag on national aggregate jobs growth.
- The **wholesale trade** sub-sector in the **Australian PSI®** increased by another 4.5 points in November, improving to 47.6 points (three month moving average). This was the best reading for this sub-sector since November 2011, but the wholesale trade sub-sector has nevertheless 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.



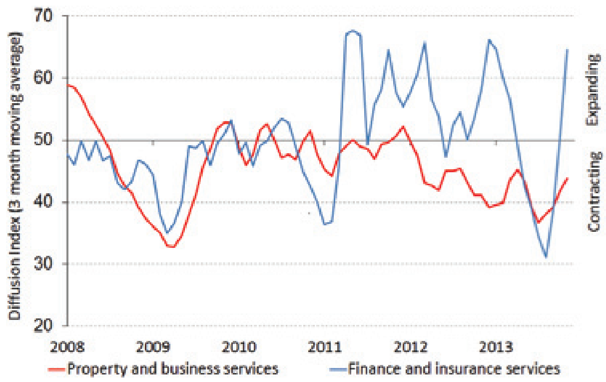
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** sub-sector ('hospitality') index was broadly stable in November at 40.5 points (up just 0.5 points, three month moving average). This sub-sector has contracted sharply (readings below 50 points) since May 2013, after a relatively good period in the first quarter of 2013. This sector might pick up over summer if the mood of consumer caution lifts and if the lower dollar stems the current leakage in local holiday spending to overseas destinations and weak inbound tourism numbers.
- The **personal and recreational services** sub-sector has lost ground in recent months, after a good run of expansion earlier in 2013. This sub-sector's index fell to 43.1 points in November, its lowest reading since last December (three month moving averages).
- The large **health and community services** sub-sector was broadly stable at 56.0 points in November. It has indicated expansion in activity in all but two months of 2013 to date. It was one of only two sub-sectors to show expansion this month in the **Australian PSI®** (in three month moving averages).



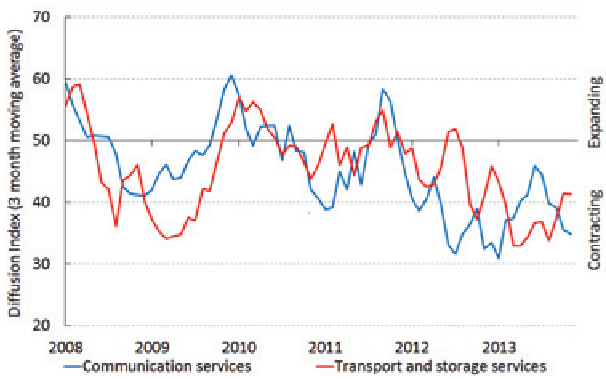
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business** services sub-index improved by 2.1 points to 43.8 points in November. 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 picked up immediately after the Federal election, actual demand remains relatively fragile.
- The **finance and insurance** sub-sector's index jumped by another 13.9 points to 64.6 points in November, its highest reading since January (three month moving average). This rebound may be reflecting the stronger levels of transactions of late (e.g. in property and other asset markets), after six months of contraction this year (from April to September, in three month moving averages). In NSW, bushfire-related insurance claims, re-financing and property work may be providing a very localised boost in activity for some types of financial, legal and property services.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index fell a further 0.8 points to 34.8 points in November, its lowest level since January. The index for this sub-sector has remained below 50 points since November 2011 (three month moving average). Conditions are not yet improving in this key business-to-business sub-sector, with comments suggesting that delays and changes to the NBN network may be having an impact on activity and orders.
- The **transport and storage services** sub-sector was broadly stable in November, at 41.3 points. This sub-sector's index has been in contraction (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. With construction activity now beginning to pick up again after a prolonged trough, transport orders may improve in 2014.



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®	**48.9**	**1.0**	**44.6**	**Supplier Deliveries**	49.2	-1.8	44.3
Sales	47.3	-0.3	43.1	**Input Prices**	64.1	+0.2	62.1
New Orders	46.6	-0.2	43.6	**Selling Prices ****	45.2	-5.8	45.3
Employment	52.8	+4.7	47.8	**Average Wages ****	55.4	-7.5	57.7
Stocks	48.6	+1.8	43.1	**Capacity utilisation ****	75.7	-1.2	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.