AUSTRALIAN PSI
PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

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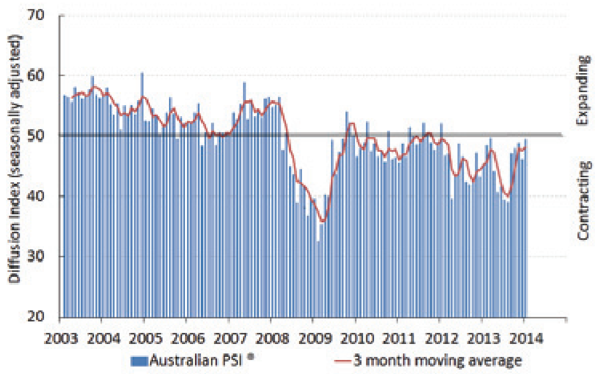
SERVICES EDGES CLOSE TO EXPANSION

Australian PSI®	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Markit PSI	China HSBC PSI
Dec 2013: **49.3** ↑	Jan 2014: **56.6** ↑	Jan 2014: **51.9** ↑	Dec 2013: 58.8 ↓	Dec 2013: **52.1** ↑	Dec 2013: **50.9** ↓

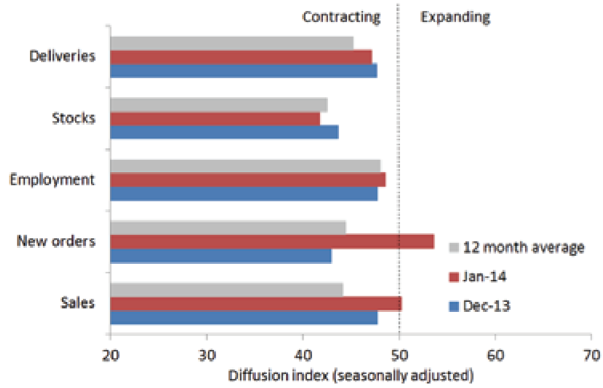
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index **(Australian PSI®)** improved by 3.2 points to 49.3 points in January.
- This was the highest level for the **Australian PSI®** since March 2013 and the index is edging towards expansion (readings above 50 points). Nonetheless, the **Australian PSI®** continues to indicate contraction (readings below 50 points) in the services industries, as has been the case over the past 24 months.
- The lift in the **Australian PSI®** in January was driven by a marked improvement in new orders and sales. The new orders sub-index picked up 10.6 points to 53.6 points, signalling the first expansion on this measure since June 2012. The sales sub-index also moved up 2.5 points to be just above 50 points and signalling a net expansion. The remaining activity sub-indexes, however, remained below 50 points this month.
- The health and community services and the finance and insurance sub-sectors (63.5 points and 66.9 points respectively, three month moving averages) remained the only two sub-sectors that expanded in the **Australian PSI®** in January.
- Seasonal factors (e.g. Christmas and New Year holidays) and the extreme heat across parts of Australia appeared to have affected the services industries this month more than usual. Abstracting from these, respondents continued to suggest that a lack of confidence, in particular uncertainties surrounding the outlook for the domestic economy, is weighing on business activity. However, there are some green shoots that suggest conditions are improving for a number of services businesses.



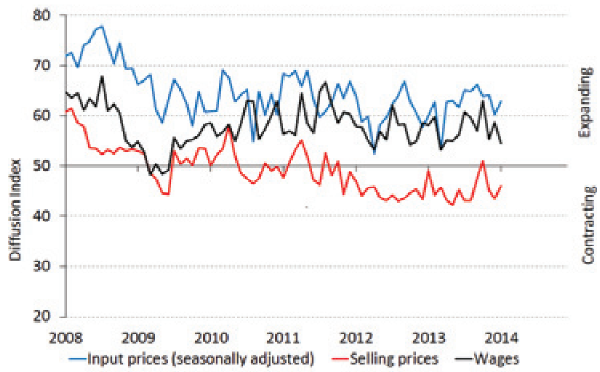
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** improved by 2.5 points to 50.2 points in January, indicating the first, albeit marginal, expansion (above 50 points) since March 2013. This sub-index improved notably following the 2013 Federal election, after it had recorded four months of severe contraction between May and August 2013 (with all four readings below 40 points).
- The new orders index in the **Australian PSI®** also lifted sharply in January to 53.6 points, signalling the first expansion (above 50 points) since June 2012.
- Despite this solid improvement in both sales and new orders, the employment sub-index in the **Australian PSI®** only increased by 0.8 points to 48.6 points in January and still pointed towards mild contraction. This soft reading suggests that many services businesses are still reluctant to increase their headcount, reflecting ongoing uncertainties surrounding the domestic economic outlook in general.
- Supplier deliveries deteriorated marginally in January and remained in contraction (under 50 points), with this sub-index decreasing 0.5 points to 47.1 points. This sub-index has only expanded in one month (October 2013) during the past 24 months.
- Inventories (stocks held by companies) contracted again in January. The inventories sub-index declined by another 1.9 points to 41.8 points. In line with the readings on the sales and supplier deliveries indexes, this suggests that businesses have reduced their stocks further after the Christmas and New Year trading period.
- Capacity utilisation across the services industries remained broadly unchanged, moving up 0.1 percentage points to 74.6% of current capacity being utilised in January.



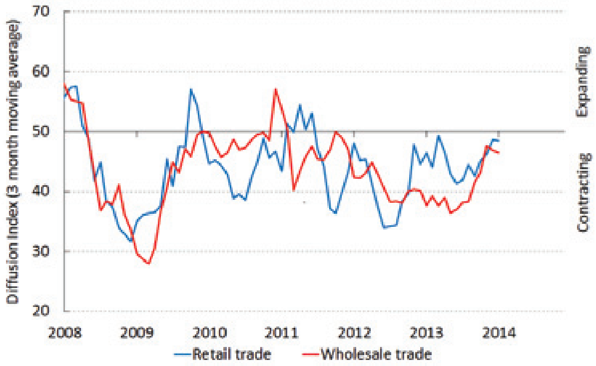
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** increased by 2.6 points to 62.9 points in January, just above its 12-month average of 62.6 points. This elevated sub-index indicates that input cost pressures remain high for service industry businesses.
- On the other hand, wage pressures eased this month, with the average wages sub-index in the **Australian PSI®** falling by 4.3 points to 54.4 points in January, the lowest reading since March 2013. Nevertheless, wages are still expanding among services businesses.
- Despite increasing wage and input costs, selling prices contracted for a third consecutive month in January, with the relevant sub-index in the **Australian PSI®** remaining below 50 points this month (at 46 points, three month moving averages). While both sales and new orders in the services industries expanded in January, businesses still appear to be reluctant to raise their selling prices significantly.



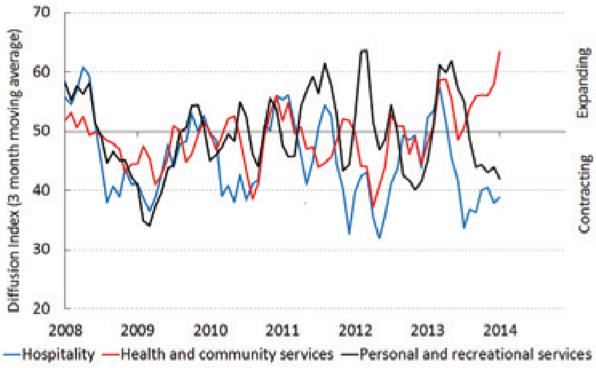
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector index in the **Australian PSI®** stayed broadly unchanged this month (down 0.1 points to 48.5 points, three month moving average). Although the index is indicating ongoing mild contraction in this sub-sector (below 50 points), sales have been expanding (i.e. above 50 points) in this industry over the past four months and new orders have also been expanding since November 2013, suggesting that the benefits from a lower dollar and a lower cash rate is starting to flow through. However, this expansion in sales and new orders is yet to be matched by a similar improvement in hiring activity, possibly reflecting retailers' ongoing lack of confidence about the domestic economic outlook.
- The **wholesale trade** sub-sector index in the **Australian PSI®** declined for a second consecutive month in January to 46.5 points (three month moving average). While the wholesale trade sub-sector shares similar challenges to those faced by its major customer, the retail trade sub-sector, it experienced a more severe contraction during 2013, possibly reflecting the fact that more retailers are apparently sourcing their stock directly from overseas and bypassing domestic wholesalers.



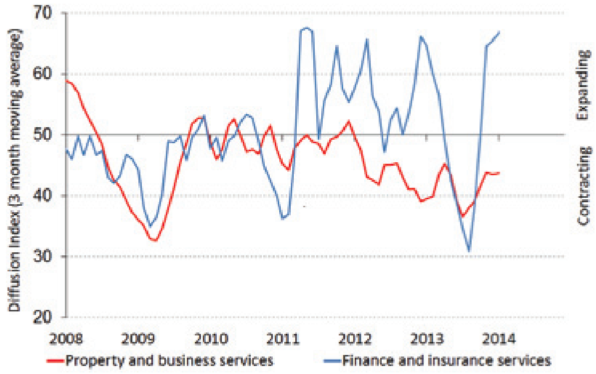
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** sub-sector ('hospitality') index moved up by 1 point in January to 38.8 points (three month moving average). This sub-sector continues to contract at a severe rate (readings well below 50 points). Despite the recent depreciation in the Australian dollar, this did not translate into increased local hospitality activity during the crucial Christmas / New Year trading period.
- The **personal and recreational services** sub-sector index declined by 1.9 points to 42 points this month (three month moving averages). This suggests that consumers remain constrained in their local discretionary and entertainment spending. The holiday season and the extreme heat appear to have had a negative effect on this sub-sector this summer.
- Expansion in the large **health and community** services sub-sector picked up speed in January with the index reaching an all-time peak of 63.5 points (three month moving averages). All sub-indexes for this sub-sector have been expanding since October 2013, and at an accelerating rate.



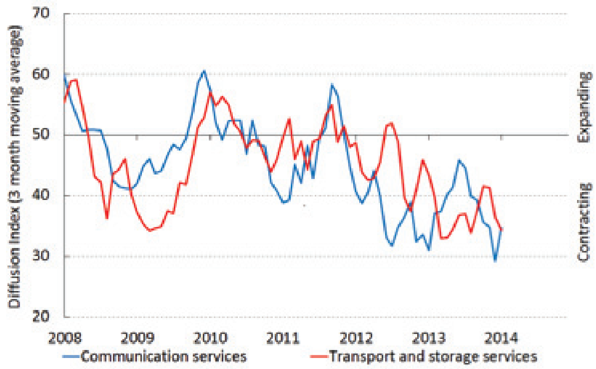
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business** services sub-sector remained in mild contraction this month (43.7 points, three month moving averages), with sales and new orders sub-indexes both below 50 points and yet to show signs of expansion. In addition to the usual seasonal holidays, survey participants indicated that domestic economic uncertainties continue to weigh on business confidence and activity levels. This sub-sector provides business-to-business services such as real estate, accounting, legal, engineering, consulting, recruitment and administrative services.
- The **finance and insurance** sub-sector's index edged up further in January (66.9 points, three month moving average) to be at its highest level since June 2011. This sub-sector has been expanding since October last year, likely reflecting stronger levels of transactions (e.g. in property and other asset markets) in late 2013.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index recovered to 34.7 points (three month moving average) after reaching its lowest ever point in the previous month. This sub-sector continues to contract (well below 50 points) at a rapid pace and conditions remain critical in this key business-to-business industry. Respondents indicated that an ongoing reluctance by businesses to invest is affecting sales activities.
- The **transport and storage services** sub-sector contracted again in January, with this sub-sector's index declining by 2.2 points to 34.3 points (three month moving averages), the lowest reading since August 2013. New transport orders are yet to expand, with the relevant sub-index remaining well below the 50-point mark. This is despite the recent recovery in both residential and commercial construction activity across the country.



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®	**49.3**	**3.2**	**45.2**	**Supplier Deliveries**	47.1	-0.5	45.2
Sales	50.2	2.5	44.1	**Input Prices**	62.9	2.6	62.6
New Orders	53.6	10.6	44.4	**Selling Prices ****	46.0	2.5	45.0
Employment	48.6	0.8	48.0	**Average Wages ****	54.4	-4.3	57.4
Stocks	41.8	-1.9	42.5	**Capacity utilisation ****	74.6	0.1	74.9

* 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.