

## MEDIA CONTACT

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# SERVICES SECTOR EXPANDS IN FEBRUARY

**Australian PSI®**  
Feb 2014: **55.2** ↑

**USA Flash PSI**  
Feb 2014: **52.7** ↓

**Eurozone Flash PSI**  
Feb 2014: **51.7** ↑

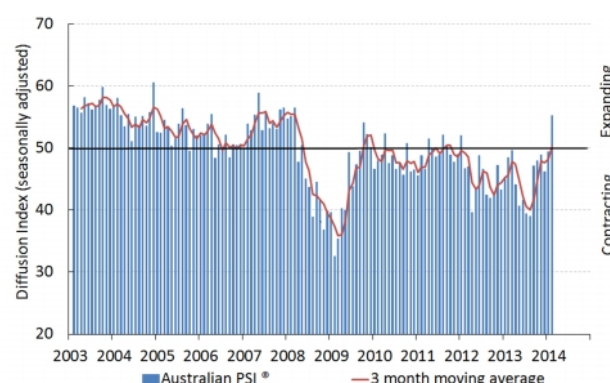
**UK Markit PSI**  
Jan 2014: **58.3** ↓

**Japan Markit PSI**  
Jan 2014: **51.2** ↓

**China HSBC PSI**  
Jan 2014: **50.7** ↓

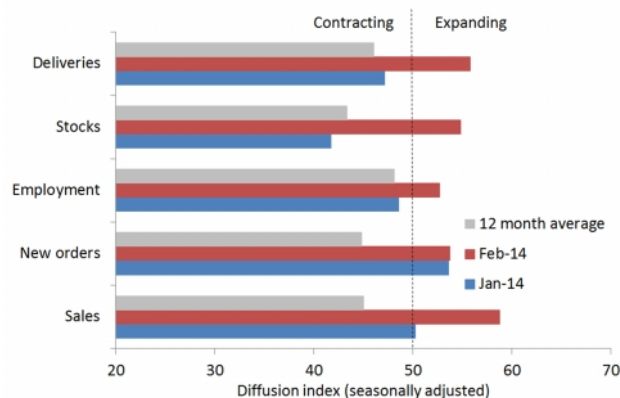
## KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) jumped by 5.8 points to 55.2 points in February.
- This was the first expansion for the **Australian PSI®** (a reading above 50 points) since January 2012 and the highest reading since March 2008.
- Despite the strong result in the **Australian PSI®** this month, growth was concentrated in just a few services sectors, primarily health and community services (67.7 points) and finance and insurance (67.0 points). Both of these sub-sectors have been performing more strongly than other services sub-sectors over the last six months, and both are relatively large – and therefore statistically dominant – in the **Australian PSI®**.
- Other sub-sectors improved but remained below 50 points. The large retail trade sub-sector moved very close to stabilising at 49.5 points (in 3 month moving averages).
- Feedback from respondents in many services sector indicates that local demand conditions remain challenging for a large number of services businesses and the outlook continues to be fragile for them.
- All of the activity sub-indexes of the **Australian PSI®** moved above 50 points in February. The sales sub-index rose to its highest level (58.8 points) since October 2009, while the new orders sub-index pointed towards a second month of expansion. Services employment also expanded in February following two months of contraction (readings below 50 points). In addition, both the supplier deliveries and stocks sub-indexes strengthened to above 50 points this month, suggesting businesses were replenishing their stock levels after the Christmas/New Year trading period.



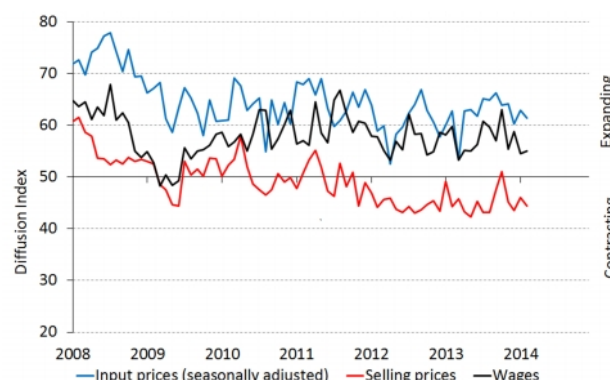
## ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** rose by 8.6 points (to 58.8 points) in February to reach its highest level since October 2009. Sales in the services sectors have expanded for two months now. This follows nine months of contraction (readings below 50 points) between April and December 2013.
- The new orders index in the **Australian PSI®** was almost unchanged in February at 53.7 points, signalling a second consecutive month of expansion (readings above 50 points) in new orders. This lift in new orders bodes well for the next few months.
- Reflecting the positive outcomes in sales and new orders, the employment sub-index in the **Australian PSI®** increased by 4.2 points to 52.7 points in February. This mild expansion (above 50 points) in services employment follows two months of contraction.
- Both supplier deliveries and inventories (stocks held by companies) moved into expansion (above 50 points) in February. The supplier deliveries sub-index picked up 8.6 points to 55.8 points while the inventories sub-index lifted by 13.1 points to 54.9 points, to be well above their respective 12-month averages. This suggests that businesses were replenishing their stocks after the Christmas/New Year trading period.
- Capacity utilisation across the services industries was almost unchanged, moving down 0.1 percentage points to 74.5% of current capacity being utilised in February.



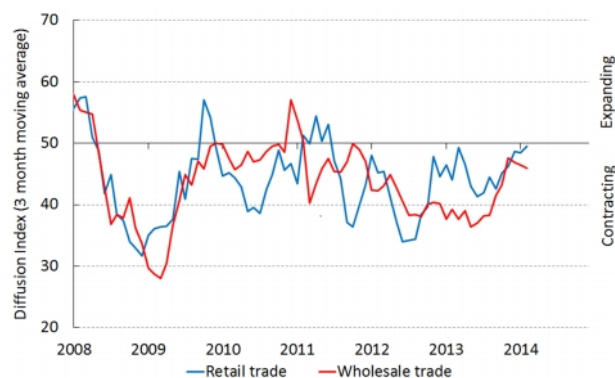
## PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** declined by 1.5 points to 61.4 points in February, to be slightly below its 12-month average of 62.5 points. Nevertheless, this sub-index still points towards elevated input cost pressures for service industry businesses, possibly reflecting the rise in prices for imports due to the lower dollar.
- Wage pressures remained relatively contained this month, with the average wages sub-index in the **Australian PSI®** increasing by 0.5 points to 55.0 points in February. This is on the back of a softening domestic labour market (zero employment growth over the year to January 2014 and a 6.0% unemployment rate) and follows the slowest private sector wage growth since 1997-98, of only 2.5% p.a. in December 2013.
- Despite increasing wage and input costs, selling prices contracted at a faster pace in February, with this sub-index in the **Australian PSI®** declining by 1.6 points to only 44.4 points (three month moving averages). Selling prices in the services industries have contracted since November 2013, suggesting limited ability by businesses to raise their selling prices even though conditions have improved over the past month.



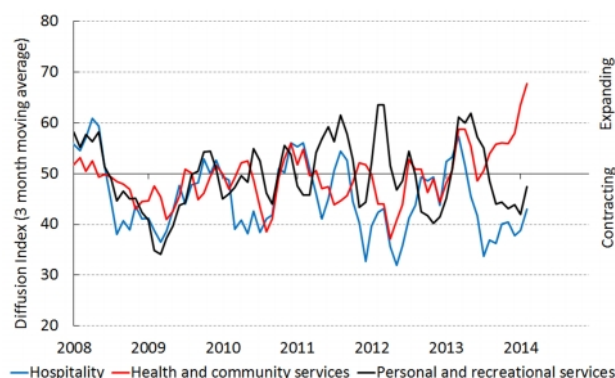
## RETAIL TRADE; WHOLESALE TRADE \*

- The **retail trade** sub-sector index in the **Australian PSI**<sup>®</sup> increased by 1 point to 49.5 points in February (three month moving average), to reach its highest level since June 2011. This sub-index suggests that the retail trade sub-sector is slowly edging towards stabilisation (50 points). This followed nominal retail sales growth of 0.5% m/m and 5.7% p.a. in December (seasonally adjusted), the strongest pace of annual sales growth since November 2009 (albeit largely concentrated in food retailing rather than goods).
- In contrast, the **wholesale trade** sub-sector index in the **Australian PSI**<sup>®</sup> moved lower again in February, to 46.0 points (three month moving average). The wholesale trade sub-sector has been contracting at a faster pace than retail trade over the past 16 months. This probably reflects ongoing weakness in the non-food parts of local retailing, as well as an apparent trend for more retailers to source their stock directly from overseas and bypass domestic wholesalers. Indeed, feedback from participants indicates that both sales and new orders remain very soft in wholesale trade.



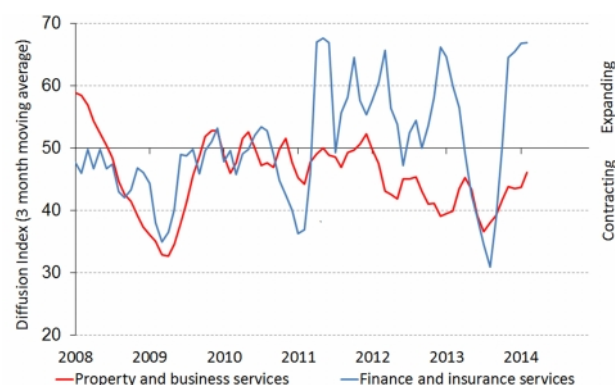
## HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES \*

- The **accommodation, cafes and restaurants** sub-sector ('hospitality') index strengthened by 4.2 point in February to 43.0 points (three month moving average). Nonetheless, this index indicates that the hospitality sub-sector has been contracting (index readings below 50 points) since May 2013, due to cautious consumer spending.
- The **personal and recreational services** sub-sector index also improved, increasing by 5.4 points to 47.4 points in February (three month moving averages). This index still points towards contraction in this sub-sector, as consumers remain very selective in their local discretionary and entertainment spending.
- The **health and community** services sub-sector expanded again, with this sub-index reaching another historical high this month, rising by 4.2 points to 67.7 points (three month moving averages). All sub-indexes for this very large consumer-oriented sub-sector continue to indicate expansion in February.



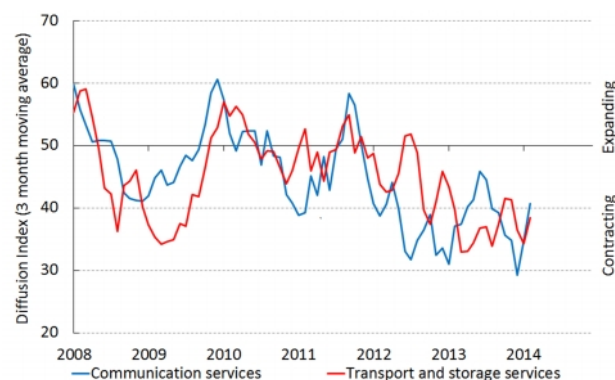
## PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES \*

- The **property and business** services sub-sector remained in mild contraction this month, but the sub-sector index picked up by 2.3 points to 46.1 points, the highest reading since February 2012 (three month moving averages). It is likely that the recent pick-up in building activity is starting to trickle through to increased demand for real estate and related business services. However, feedback from participants suggests conditions remain fragile in this sub-sector, which also provides widely used business-to-business services such as accounting, legal, engineering, designing, consulting, personnel and administrative services.
- The **finance and insurance** sub-sector's index edged up again in February to 67.0 points (three month moving average). This sub-sector has expanded strongly over the past five months (above 50 points) and all sub-indexes are pointing towards strong business conditions across this key sub-sector.



## COMMUNICATION SERVICES; TRANSPORT SERVICES \*

- The **communications** sub-sector's index increased for a second month to 40.7 points (three month moving average) after reaching an historical low in December 2013. Nevertheless, this sub-sector is still contracting at a rapid pace (well below 50 points). Feedback in this key business-to-business sub-sector suggests that uncertainties surrounding the NBN and the upcoming state elections in South Australia and Victoria may be weighing on business sentiment and commitments to spend on ICT services.
- The **transport and storage services** sub-sector index also increased in February, to reach 38.4 points (up 4.2 points, three month moving averages) but it is still indicating severe contraction in this sub-sector. This sub-sector has been contracting since August 2012, reflecting the long period of stagnation seen in its key customer segments such as local non-food retailing and construction. The recent upturn in residential construction activity is yet to lift demand for transport services, but may do so in coming months.



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
<b>Australian PSI</b> <sup>®</sup>	<b>55.2</b>	<b>5.8</b>	<b>45.7</b>	<b>Supplier Deliveries</b>	55.8	8.6	46.0
<b>Sales</b>	58.8	8.6	45.0	<b>Input Prices</b>	61.4	-1.5	62.5
<b>New Orders</b>	53.7	0.1	44.8	<b>Selling Prices **</b>	44.4	-1.6	45.0
<b>Employment</b>	52.7	4.2	48.1	<b>Average Wages **</b>	55.0	0.5	57.0
<b>Stocks</b>	54.9	13.1	43.3	<b>Capacity utilisation **</b>	74.5	-0.1	74.8

\* All sub-sector indexes in the **Australian PSI**<sup>®</sup> 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<sup>®</sup>?** The Australian Industry Group Australian Performance of Services Index (Australian PSI<sup>®</sup>) 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<sup>®</sup> 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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