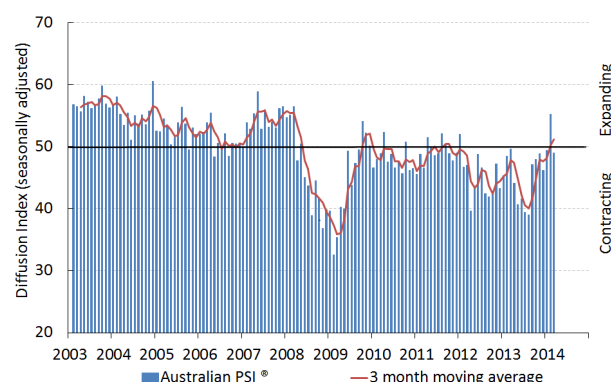


SERVICES SECTOR SLIPS IN MARCH

Australian PSI® Mar 2014: 48.9 ↓	USA Flash PSI Mar 2014: 55.5 ↑	Eurozone Flash PSI Mar 2014: 52.4 ↓	UK Markit PSI Feb 2014: 58.2 ↓	Japan Markit PSI Feb 2014: 49.3 ↓	China HSBC PSI Feb 2014: 49.8 ↓
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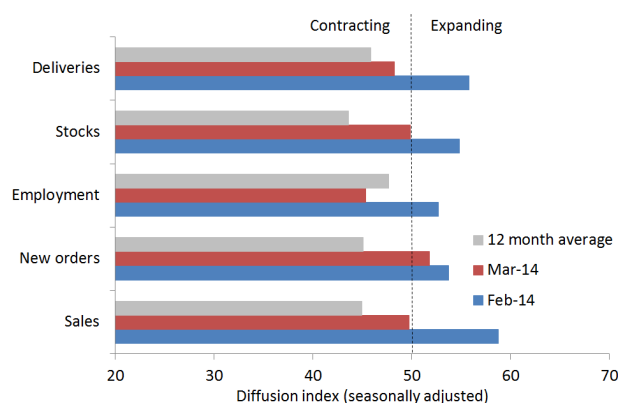
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) dropped by 6.2 points to 48.9 points in March. This followed a strong expansion in the **Australian PSI®** (a reading above 50 points) last month. The weaker result this month result was evident across all sub-indexes except the new orders sub-index, which remained above 50 points (indicating expansion).
- Although the sales sub-index of the **Australian PSI®** fell by 9.1 points in March, at 49.7 points it retained the gains made in the previous two months of expansion (above 50 points).
- The services employment sub-index contracted this month indicating continuing caution by employers about the near-term outlook.
- Growth continued to be concentrated in just a few services sectors, primarily health and community services (66.9 points) and finance and insurance (62.6 points). Personal and recreational services (52.5 points) expanded for the first time since July 2013, but the index for the large retail trade sub-sector declined by 1.8 points to 47.7 points (3 month moving averages).
- The other, more business-oriented, services sub-sector indexes improved in March but remained below 50 points, indicating ongoing contraction (3 month moving averages).
- Feedback from businesses participating in the **Australian PSI®** this month indicates that conditions remain challenging for many service businesses. In particular, concerns over the domestic economy and uncertainties surrounding potential spending cuts in the Federal and state budgets have reportedly dampened demand for services.



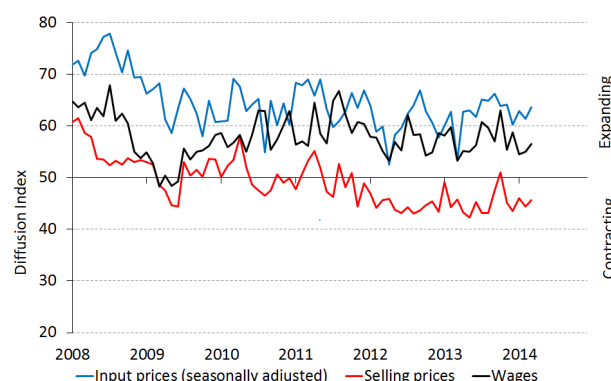
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** fell sharply by 9.1 points (to 49.7 points) in March, following two months of expansion (above 50 points). Nevertheless, at just under 50 points, this sub-index suggests sales were broadly stable this month.
- The new orders index in the **Australian PSI®** declined by 1.9 points to 51.8 points this month, but it still signalled a third consecutive month of expansion (readings above 50 points) in new orders. This growth in new orders suggests a mildly positive outlook for the services industry over the next few months.
- Services employment contracted more rapidly in March, with the employment sub-index in the **Australian PSI®** slipping by 7.4 points to its lowest point since December 2012. This followed a mild expansion (above 50 points) in services employment last month.
- Both supplier deliveries and inventories (stocks held by companies) moved back to mild contraction in March, following an expansion last month. The supplier deliveries sub-index fell 7.5 points to 48.3 points while the inventories sub-index dropped by 5.0 points to 49.8 points. Both sub-indexes remain above their respective 12-month averages.
- Capacity utilisation across the services industries rose by 3.7 percentage points to 78.2% of current capacity being utilised in March, the highest capacity utilisation rate since April 2011.



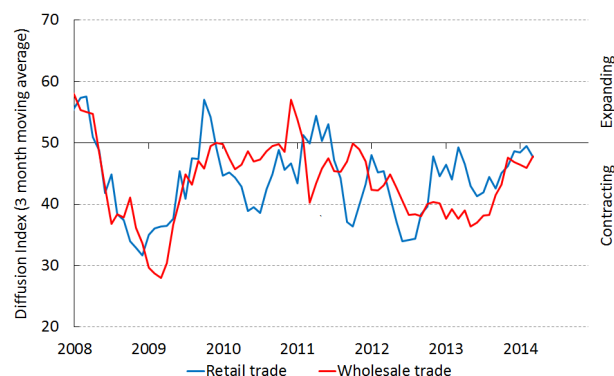
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** increased by 2.3 points in March to reach a four-month high of 63.7 points. This sub-index continues to indicate elevated input cost pressures for service industry businesses, possibly reflecting the rise in prices for imports due to the lower dollar over the past year.
- Wage pressures remained relatively contained this month, although the average wages sub-index in the **Australian PSI®** increased by 1.5 points to 56.5 points in March. The labour market continues to soften as the national unemployment rate climbed to 6% in February and the total number of people employed grew by only 0.6% p.a. (ABS data).
- Selling prices in the services sector contracted again in March, with this sub-index in the **Australian PSI®** recording 45.6 points this month (up 1.3 points). Selling prices in the services industries have contracted for five months now, reflecting the limited scope for many businesses to raise their selling prices in a difficult operating environment.



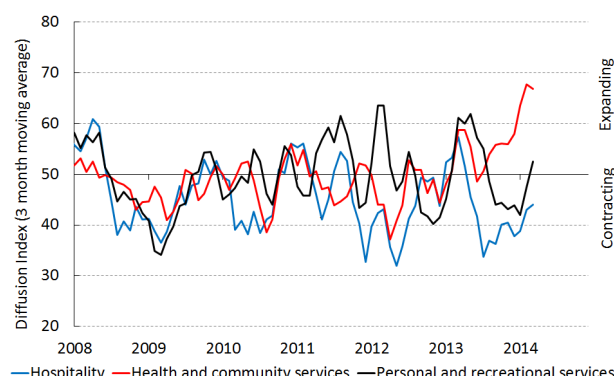
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector index in the **Australian PSI®** decreased by 1.8 point to 47.7 points in March (three month moving average). The sub-indexes suggest that both sales and new orders have contracted (below 50 points) in the retail trade sub-sector over the past two months. Feedback suggests that consumers are still very cautious towards retail spending, particularly in the non-food and non-essential categories.
- The **wholesale trade** sub-sector index in the **Australian PSI®** picked up by 1.9 points to 47.8 points this month (three month moving averages). The wholesale trade sub-sector has been contracting since November 2011. The sales, deliveries and stocks sub-indexes of this sub-sector have all pointed towards contraction (readings below 50 points) over the past three months.



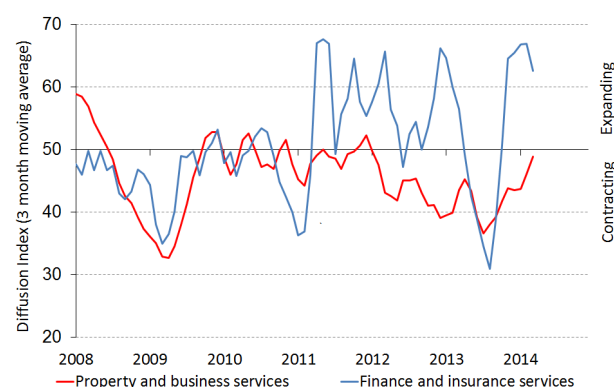
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** sub-sector ('hospitality') index increased by 1.0 point in March to 44.1 points (three month moving average). This sub-sector has contracted for 11 months now (readings below 50 points), largely due to ongoing cautious consumer spending on local goods and services.
- The **personal and recreational services** sub-sector index improved this month, rising by 5.1 points to indicate the first expansion in this sector (52.5 points) since July 2013. There are some signs that a low interest rate environment may be boosting this particular category of local discretionary and entertainment spending.
- The **health and community services** sub-sector continued its expansion, although its sub-index declined marginally to 66.9 points (down 0.8 points, three month moving averages). All sub-indexes for this very large consumer-oriented sub-sector continue to indicate strong conditions (i.e. well above 50 points) in March.



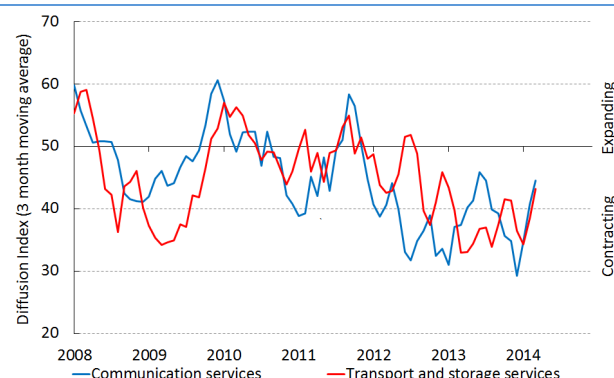
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector index moved up by 2.8 points to 48.9 points in March, from a recent low of just 36.6 points in July 2013 (three month moving averages). This sub-index suggests that the property and business services sector is edging towards stabilisation (50 points). The recent pick-up in building activity appears to be flowing through to increased demand for real estate and related business services. However, a large number of respondents continue to report weak conditions. Feedback suggests that concerns about the economy and uncertainties surrounding potential spending cuts the Federal and state budgets may be dampening demand for business-to-business services such as accounting, legal, engineering, designing, consulting, personnel and administrative services.
- The **finance and insurance** sub-sector's index decreased by 4.4 points to 62.6 points in March (three month moving averages). This sub-sector has been expanding solidly since October 2013 (above 50 points) and all sub-indexes continue to indicate strong business conditions across this key sub-sector.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index moved up for a third month to 44.5 points (up 3.8 points, three month moving averages) after reaching a historical low in December 2013. However, conditions remain weak in this key business-to-business sub-sector, with feedback indicating that the soft economic environment and constrained public spending continue to weigh on demand for communications, IT and related services.
- The **transport and storage services** sub-sector index also recovered by 4.7 points to reach 43.2 points in March (three month moving averages). This sector has been contracting for 20 consecutive months now. The recent upturn in residential construction activity is yet to strengthen by enough to help the transport services sector move into stabilisation or expansion, but it 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
Australian PSI®	48.9	-6.2	45.7	Supplier Deliveries	48.3	-7.5	45.9
Sales	49.7	-9.1	44.9	Input Prices	63.7	2.3	63.3
New Orders	51.8	-1.9	45.1	Selling Prices **	45.6	1.3	45.0
Employment	45.3	-7.4	47.7	Average Wages **	56.5	1.5	57.2
Stocks	49.8	-5.0	43.6	Capacity utilisation **	78.2	3.7	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>.

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