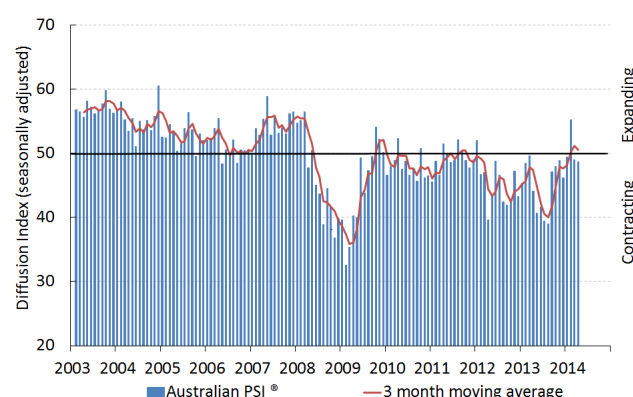


## SERVICES SECTOR SLIPS AGAIN IN APRIL

Australian PSI®	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Markit PSI	China HSBC PSI
Apr 2014: <b>48.6</b> ↓	Apr 2014: <b>54.2</b> ↓	Apr 2014: <b>53.1</b> ↑	Mar 2014: <b>57.6</b> ↓	Mar 2014: <b>52.2</b> ↑	Mar 2014: <b>49.3</b> ↓

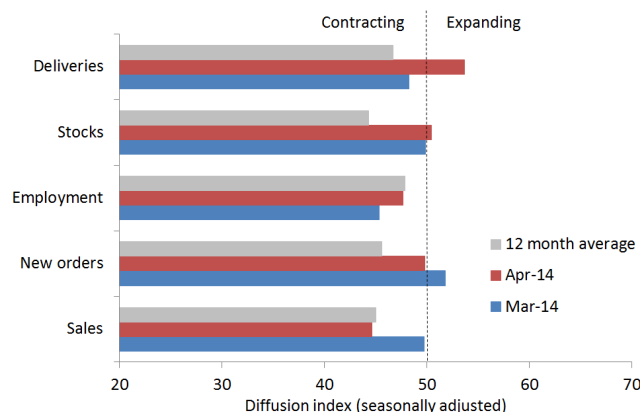
### KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) declined by 0.3 points to 48.6 points in April. This indicated a second month of mild contraction across the services industries (a reading below 50 points).
- The soft result this month was evident in the sales, new orders and employment sub-indexes, which were all below 50 points (indicating contraction). In particular, the sales sub-index of the **Australian PSI®** fell sharply in April to 44.6 points, the lowest reading since August 2013. The new orders index also moved lower, to below 50 points in April, following three months of expansion in new orders. Services employment continued to contract this month, albeit at a slower pace, as employers remain cautious about the near-term outlook.
- Just two of the nine services sub-sectors expanded in April. Growth continued to be concentrated in the health and community services (63.3 points) and finance and insurance (65.4 points). All other sub-sectors contracted. The index for the retail trade sub-sector declined by 1.0 point to 46.7 points, while that for the wholesale trade sector picked up 0.5 points to 48.3 points in April (three month moving averages).
- Respondents to the **Australian PSI®** this month continued to express concerns over the domestic economy and uncertainties surrounding the potential spending cuts in the upcoming Federal and state budgets. In particular, businesses cited policy uncertainties surrounding major capital projects and government-run programs (e.g. training), which may significantly affect demand for business related services.



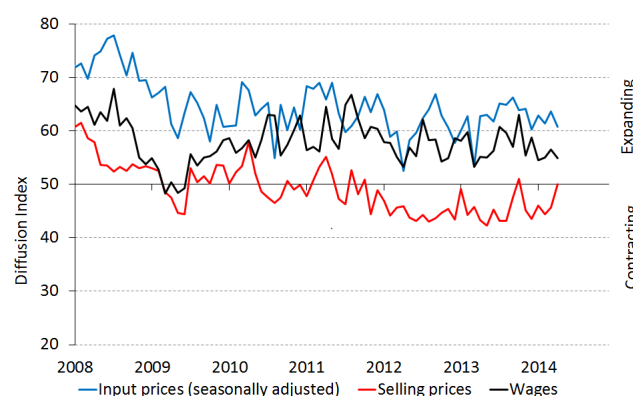
### ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** fell sharply again in April, dropping by 5.1 points to 44.6 points, the lowest reading since August 2013 and slightly below its 12-month average.
- The new orders sub-index in the **Australian PSI®** moved 2.0 points lower, to 49.8 points, following three months of expansion (readings above 50 points) in new orders in the first quarter of 2014.
- Services employment continued to contract this month, albeit at a slower pace, with the employment index in the **Australian PSI®** moving up by 2.4 points to 47.7 points.
- Supplier deliveries expanded in April, with the sub-index rising by 5.4 points to 53.7 points. Stock levels also strengthened slightly this month, possibly reflecting increased inventory holdings in the lead-up to this year's extended Easter holiday period. The inventories sub-index moved up by 0.6 points to 50.4 points. Both sub-indexes remain above their respective 12-month averages.
- Capacity utilisation across the services industries decreased by 1.2 percentage points to an average of 77.1% of current capacity being utilised in April.



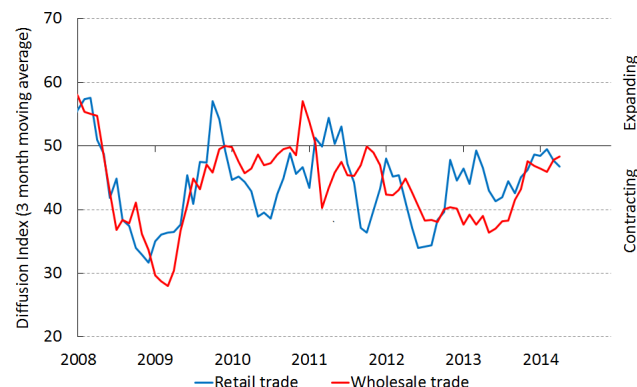
### PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** decrease by 2.9 points in April to 60.7 points, the lowest reading since March 2013 and below its 12-month average of 63.2 points.
- The average wages sub-index in the **Australian PSI®** also eased in April, declining by 1.7 points to 54.9 points, suggesting wage pressures remain modest this month.
- Selling prices in the services sector stabilised in April, with this sub-index in the **Australian PSI®** rising by 4.4 points to 50.1 points this month. This followed five months of contraction in selling prices in the services industry. This may be reflecting the very slight rise in annual inflation indicated by the ABS' measure of CPI in Q1 (2.9% p.a. from 2.7% p.a. in Q4 2013). Nonetheless, many services businesses are still finding it difficult to raise their selling prices in a challenging operating environment and they continue to face intense margin pressures.



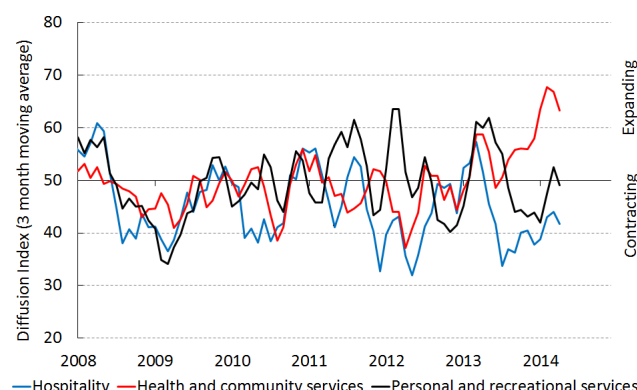
## RETAIL TRADE; WHOLESALE TRADE \*

- The **retail trade** sub-sector index in the **Australian PSI®** moved lower again this month, decreasing by 1.0 point to 46.7 points (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 three months. Respondents from this industry suggest that consumers' concerns about the local economy are affecting retail spending, in particular the non-food and non-essential (or 'discretionary') categories.
- The **wholesale trade** sub-sector index in the **Australian PSI®** picked up by 0.5 points to 48.3 points in April (three month moving averages), but this sub-sector has now contracted in every month over the past two and half years. Sub-indexes suggest that sales have contracted (readings below 50 points) in the wholesale trade industry over the past four months. The long-term performance gap between retail (stronger) and wholesale (weaker) trade may be reflecting an apparent trend among larger retailers to bypass wholesalers and source goods directly offshore.



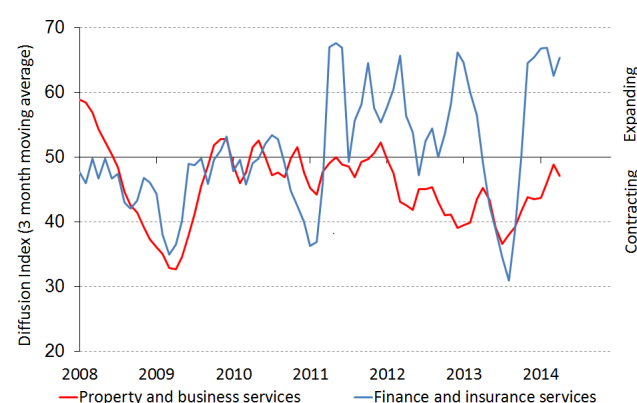
## HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES \*

- The **accommodation, cafes and restaurants** sub-sector ('hospitality') index decreased by 2.4 point to 41.7 points in April (three month moving average). This sub-sector has been contracting since May 2013 (readings below 50 points) as consumers continue to exercise caution in their spending on this particular area of services.
- The **personal and recreational services** sub-sector index fell by 3.4 points to 49.1 points this month, following an expansion (above 50 points) in March. Feedback suggests that consumers' uncertainties with regard to the economy and potential government Budget cuts are already affecting demand for this category of local discretionary and entertainment spending.
- The **health and community services** sub-sector expanded again this month, although its sub-index declined by 3.6 points to 63.3 points (three month moving averages). All sub-indexes and feedback from respondents continue to indicate solid conditions (i.e. well above 50 points in April) in this very large, consumer-oriented industry.



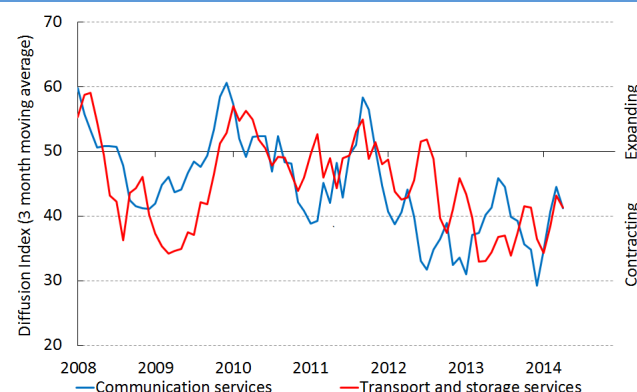
## PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES \*

- The **property and business services** sub-sector index declined by 1.7 points to 47.2 points in April, indicating a mild contraction in this industry (three month moving averages). While the recent improvement in building activity appears to be providing support to the property and business services sub-sector, many respondents expressed concerns about the domestic economy and potential Government spending cuts the Federal and state budgets. In particular, several businesses in this key sub-sector noted that policy uncertainties surrounding major capital projects and government-run programs (e.g. training programs) may be inhibiting demand for business-to-business services such as accounting, legal, engineering, designing, consulting, personnel and administrative services.
- The **finance and insurance** sub-sector continued to expand, with its index rising by 2.8 points to 65.4 points in April (three month moving averages). This sub-sector has been expanding strongly over the past seven months (above 50 points). Sub-indexes and feedback suggest business conditions remain buoyant in this large sub-sector.



## COMMUNICATION SERVICES; TRANSPORT SERVICES \*

- The **communications** sub-sector's index declined by 3.3 points to 41.2 points in April (three month moving averages). Conditions continue to be weak in this key business-to-business sub-sector, with all sub-indexes below 50 points this month. Feedback suggests that uncertainties about the economic outlook and changes to Government broadband and IT policy are weighing on demand for communications, IT and related services.
- The **transport and storage services** sub-sector index also moved lower this month, declining by 1.8 points to 41.3 points (three month moving averages). This sector has now contracted for 21 consecutive months and there are few signs that conditions are improving, despite the recent upturn in residential construction activity.



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>	<b>48.6</b>	<b>-0.3</b>	<b>46.1</b>	<b>Supplier Deliveries</b>	<b>53.7</b>	<b>5.4</b>	<b>46.7</b>
<b>Sales</b>	<b>44.6</b>	<b>-5.1</b>	<b>45.0</b>	<b>Input Prices</b>	<b>60.7</b>	<b>-2.9</b>	<b>63.2</b>
<b>New Orders</b>	<b>49.8</b>	<b>-2.0</b>	<b>45.6</b>	<b>Selling Prices **</b>	<b>50.1</b>	<b>4.4</b>	<b>45.6</b>
<b>Employment</b>	<b>47.7</b>	<b>2.4</b>	<b>47.8</b>	<b>Average Wages **</b>	<b>54.9</b>	<b>-1.7</b>	<b>57.2</b>
<b>Stocks</b>	<b>50.4</b>	<b>0.6</b>	<b>44.3</b>	<b>Capacity utilisation **</b>	<b>77.1</b>	<b>-1.2</b>	<b>75.1</b>

\* 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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