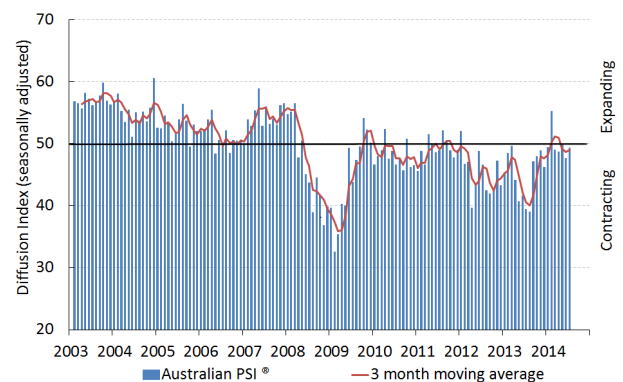


## SERVICES INDEX IMPROVES SLIGHTLY IN JULY

<b>Australian PSI<sup>®</sup></b> Jul 2014: 49.3 ↑	<b>USA Flash PSI</b> Jul 2014: 61.0 ↓	<b>Eurozone Flash PSI</b> Jul 2014: 54.4 ↑	<b>UK Markit PSI</b> Jun 2014: 57.7 ↓	<b>Japan Markit PSI</b> Jun 2014: 49.0 ↓	<b>China HSBC PSI</b> Jun 2014: 52.4 ↑
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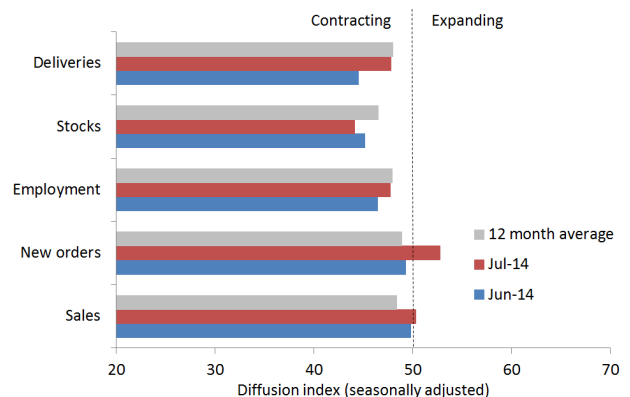
### KEY FINDINGS

- Sales and new orders growth drove a slight improvement in the seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI<sup>®</sup>**) in July. While remaining in contraction territory for the fifth straight month, the index was up 1.7 points to 49.3 points. Readings below 50 points indicate contraction. The three-month-moving-average for the **Australian PSI<sup>®</sup>** increased marginally, to 48.9 points.
- This month, both the sales and new orders sub-indexes in the **Australian PSI<sup>®</sup>** moved to slightly above 50 points, indicating a stabilisation or very mild expansion. In contrast, the supplier deliveries, stocks and employment sub-indexes all remained in contraction (below 50 points) in July, indicating that service businesses are still unwilling to commit more working capital or to hire more staff due to the relatively flat economic outlook.
- Only three of the nine sub-sectors in the **Australian PSI<sup>®</sup>** expanded in July, as was the case in June. Growth remains concentrated in the health and community services (59.6 points), finance and insurance (64.0 points), and accommodation, cafes and restaurants (61.1 points) sub-sectors (three month moving averages). The other services sub-sectors all continued to contract this month.
- The weakness of the local economy remains the key concern for respondents to the **Australian PSI<sup>®</sup>**. Ongoing uncertainties surrounding Federal Budget proposals for welfare, family payments and employment policy appear to be weighing on sentiment and dampening demand for both consumer and business services. The downturn in mining-related investment and construction activity this year has also reduced the flow of work to the business services sector.



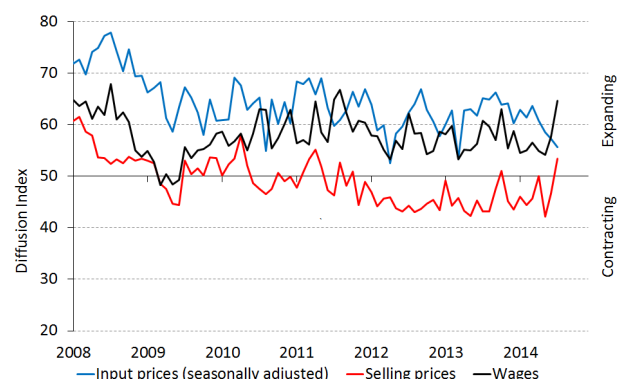
### ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI<sup>®</sup>** increased marginally by 0.5 points to 50.3 points in July. At just above 50 points, the sales sub-index suggests that sales across the services sectors have been broadly stable over the past three months.
- The new orders sub-index in the **Australian PSI<sup>®</sup>** rose by 3.5 points to 52.8 points this month, indicating an expansion in new orders after a mild contraction in June. This expansion in new orders provides a positive indication for activity levels across the services sectors over the coming months.
- Despite the improvement in both sales and new orders, services businesses continued to reduce their supplier deliveries and stock levels this month. The supplier deliveries sub-index moved up by 3.3 points to 47.8 points in July, signalling a mild contraction. Stock levels (inventories) fell again this month at a faster pace, with the inventories sub-index declining by 1.1 points to 44.1 points. This suggests that service businesses remain cautious about the outlook and are reigning in their input costs in response.
- Services employment contracted for a fifth month in July. The employment sub-index in the **Australian PSI<sup>®</sup>** moved up slightly to 47.7 points, indicating a moderation in the pace of this decline. The employment sub-index last indicated expansion in February.
- Capacity utilisation across the services industries deteriorated this month, to 75.0% of capacity being utilised (76.3% in June and 75.6% on average over the past 12 months).



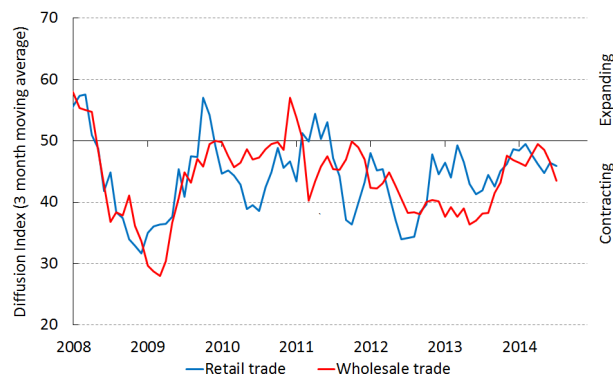
### PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI<sup>®</sup>** decreased by 1.6 points to 55.7 points in July. This reading still indicates that average input prices continued to increase across the services industries, albeit at a relatively contained speed.
- The average wages sub-index in the **Australian PSI<sup>®</sup>** rose by 6.9 points this month, to 64.6 points, the highest level since August 2011. This reflected the 3% increase in the national minimum and award wage rates, as well as the increase in the Superannuation Guarantee rate to 9.5% from 1 July. Inflation has also accelerated recently, but the weakness in the national labour market may help to contain any further acceleration in private wage growth. This is reflected in the latest ABS data, showing employment growth of only 0.9% p.a. and an unemployment rate of 6.0% in June.
- Selling prices in the services industries expanded in July, with this sub-index rising by 6.7 points to 53.4 points. This increase may only partly offset the cost pressures faced by service businesses, with prices generally declining over the past two years. This result followed two months of contraction in selling prices in the services industries.



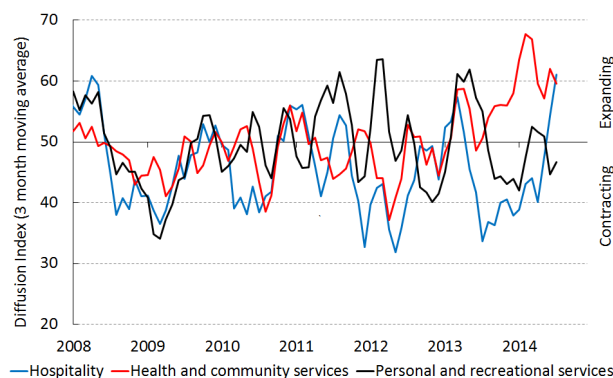
## RETAIL TRADE; WHOLESALE TRADE \*

- The **retail trade** sub-index in the **Australian PSI**<sup>®</sup> was mostly unchanged in July, decreasing by 0.5 points to 46.0 points. This result indicates further contraction in the retail industry, which last expanded in June 2011. Both the sales and new orders sub-indexes have been below 50 points in the retail trade sub-sector for six months now.
- The **wholesale trade** sub-sector index in the **Australian PSI**<sup>®</sup> moved lower in July, falling by 3.1 points to 43.5 points, the lowest level since October 2013 (three month moving averages). This sub-sector has now contracted for 33 consecutive months.
- Respondents in both the retail and wholesale trade sub-sectors suggest that discretionary spending remains weak in July in part associated with uncertainties around the Federal Budget proposals to welfare, family payments and employment policy. Mild weather appears to have affected winter sales in some locations.



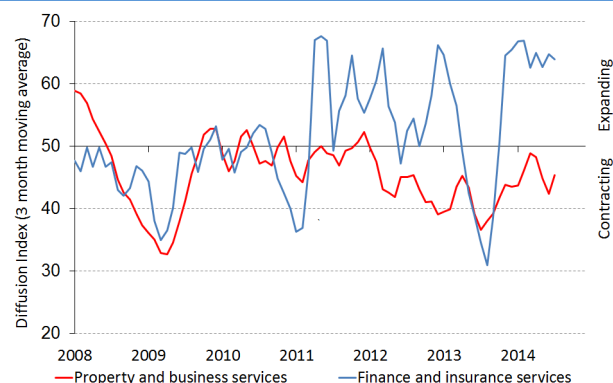
## HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES \*

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector expanded for a second month in July. The sub-sector's index rose by another 6.8 points to 61.1 points this month, the highest level since May 2007 (three month moving average). Feedback suggests that consumer demand for this type of discretionary spending has been solid in recent months. ABS data also suggest that cafes, restaurants and takeaway food sales are improving, with nominal growth of 11.7% p.a. in May 2014 (most recent ABS data).
- The **personal and recreational services** sub-index recovered by 2.1 points to 46.7 points in July, pointing towards a second month of contraction in this sub-sector. This followed three months of mild expansion between March and May 2014. Feedback suggests that government spending on recreational services is reducing, while consumers continue to spend carefully on these types of services.
- The giant **health and community services** sub-sector continued to expand in July, although its sub-index declined by 2.5 points to 59.6 points (three month moving averages). This consumer-oriented sub-sector has had strong growth over the past year. Health services is now the single largest employing industry in Australia, with almost 1.4 million workers (12% of the total) in May 2014. Another 902,000 (8%) work in education.



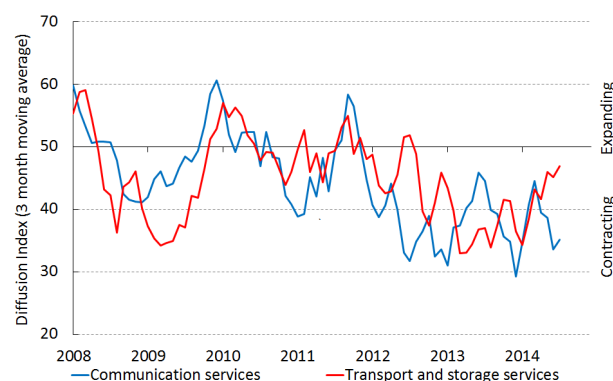
## PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES \*

- The **property and business services** sub-sector's index increased by 3.0 points to 45.4 points in July (three month moving averages). This large industry has been in contraction since January 2012, reflecting weak business-to-business demand in areas such as accounting, legal, designing, consulting, personnel and administrative services.
- Respondents from the property and business services sub-sector continued to raise concerns about the local economy and about the uncertainties surrounding policies proposed in the Federal Budget. The decline in mining-related construction investment and activity this year has also reduced the flow of related work to this sub-sector.
- The **finance and insurance** sub-sector continued to expand this month. This sub-sector's index was almost unchanged at 64.0 points in July (three month moving averages). This sub-sector has expanded strongly (well above 50 points) for ten consecutive months now.



## COMMUNICATION SERVICES; TRANSPORT SERVICES \*

- The **communications** sub-sector's index remained in severe contraction in July (well below 50 points), despite moving up by 1.6 points to 35.1 points (three month moving averages). This sub-sector's index last expanded in November 2011 and all sub-indexes indicate that difficult conditions persist in this key business-to-business sub-sector. Industry participants noted that weak business conditions and national policy uncertainties continue to depress demand for communications, IT and related services.
- The **transport and storage services** sub-sector's index increased a touch this month, moving up by 1.7 points to 46.8 points (three month moving averages). However, the transport and storage services sub-sector has been in contraction since July 2012. Subdued non-food wholesale and retail activity continue to affect demand for local freight transport services, while the recent pick-up in residential construction and related transport services is yet to lift the transport and storage sub-sector into expansion.



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>49.3</b>	<b>1.7</b>	<b>48.2</b>	<b>Supplier Deliveries</b>	<b>47.8</b>	<b>3.3</b>	<b>48.0</b>
<b>Sales</b>	50.3	0.5	48.4	<b>Input Prices</b>	55.7	<b>-1.6</b>	61.6
<b>New Orders</b>	52.8	3.5	48.9	<b>Selling Prices</b> **	53.4	6.7	46.6
<b>Employment</b>	47.7	1.3	47.9	<b>Average Wages</b> **	64.6	6.9	57.6
<b>Stocks</b>	44.1	<b>-1.1</b>	46.5	<b>Capacity utilisation</b> **	75.0	<b>-1.2</b>	75.6

\* 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?** 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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