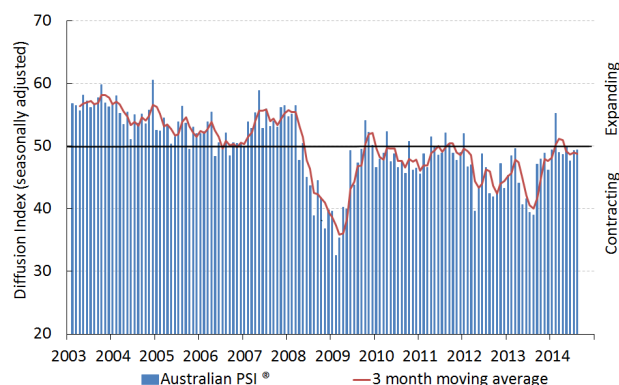


SERVICES SECTOR SALES AND NEW ORDERS GROW IN AUGUST

Australian PSI® Aug 2014: 49.4 ↑	USA Flash PSI Aug 2014: 60.8 ↓	Eurozone Flash PSI Aug 2014: 53.5 ↓	UK Markit PSI Jul 2014: 59.1 ↑	Japan Markit PSI Jul 2014: 50.4 ↑	China HSBC PSI Jul 2014: 51.6 ↓
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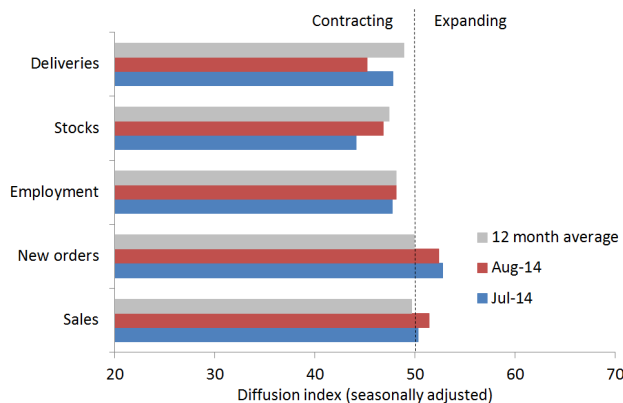
KEY FINDINGS

- The seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) was almost unchanged in August, at 49.4 points (49.3 points in July). This suggests conditions have been broadly stable within the services industries over the past two months (index readings below 50 points indicate contraction, with the distance from 50 points indicative of the strength of the contraction). The three-month moving average for the **Australian PSI®** was marginally lower this month, at 48.8 points.
- Encouragingly, both the sales and new orders sub-indexes in the **Australian PSI®** remained above 50 points in August, indicating a mild expansion. In contrast, the supplier deliveries, stocks and employment sub-indexes all continued to contract (below 50 points) this month, as service businesses remain very cautious about the economic outlook and continue to rein in their input costs.
- Respondents to the **Australian PSI®** continued to raise concerns about the weak local economy and uncertainties surrounding various Federal Budget proposals. Consumer-oriented services sub-sectors such as health and community services (52.7 points), finance and insurance (which includes superannuation) (60.6 points), and accommodation, cafes and restaurants (55.9 points) continued to expand this month (three month moving averages) and retail trade stabilised. But the downturn in mining-related construction and ongoing weakness in the manufacturing industry have reduced the flow of work available to the more business-oriented services sub-sectors.



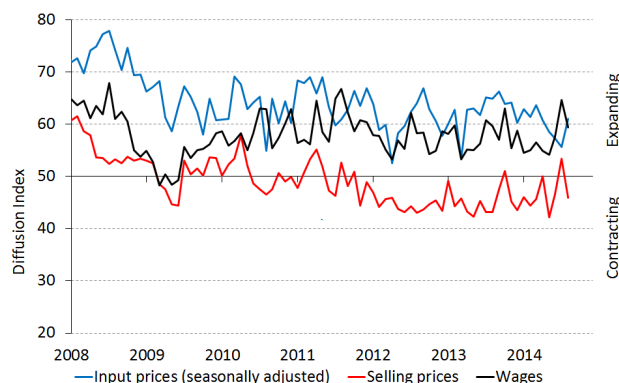
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** increased by 1.1 points to 51.4 points in August. This result suggests that sales across the services sectors expanded slightly this month. This followed broadly stable sales (i.e. around 50 points) in the services industry over the previous three months.
- The new orders sub-index in the **Australian PSI®** was marginally lower this month, decreasing by 0.4 points to 52.4 points. This indicated a second month of expansion in new orders after a mild contraction in June. This expansion provides a positive outlook for activity levels across the services sectors over the coming months.
- Despite the expansion in both sales and new orders, services businesses continued to reduce their supplier deliveries and stock levels this month in response to the fragile economic outlook. The supplier deliveries sub-index declined by 2.6 points to 45.2 points in August, while the stocks (inventories) sub-index moved up by 2.7 points to 46.9 points. Both sub-indexes were below their 12-month averages and indicated a contraction.
- Services employment contracted for a sixth consecutive month in August. The employment sub-index in the **Australian PSI®** was nearly unchanged, at 48.1 points, signalling a reluctance to hire more workers ahead of a stronger pick-up in demand.
- Capacity utilisation across the services industries deteriorated further this month, to 73.4% of capacity being utilised, the lowest reading since August 2013. This indicated significant levels of spare capacity within the services sectors.



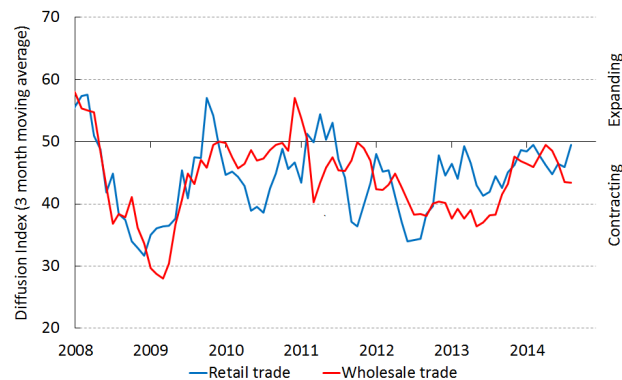
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** increased by 5.3 points to 61.0 points in August, the highest level since March 2014, as average input prices continued to increase across the services industries.
- The average wages sub-index in the **Australian PSI®** declined by 5.3 points this month, to 59.3 points. This followed a spike of 6.9 points in July when the national minimum and award wage rates increased by 3.0%, and the Superannuation Guarantee rate lifted to 9.5% from 1 July. Aside from this seasonal spike, national wage growth remains relatively constrained, with the ABS private sector Wage Price Index (WPI) decelerating in Q2 2014 to 2.4% p.a., an historical low since the series started in 1997. This reflects the weak national labour market at present, with soft employment growth (0.9% p.a.) and a rising national unemployment rate (6.4% in July, the highest level since 2002).
- Selling prices in the services industries dropped sharply in August, with this sub-index falling by 7.4 points to 45.9 points (i.e. contraction). This followed a brief expansion in this sub-index in July. With the selling price sub-index generally staying below 50 points over the past two years, service businesses' margins remain under significant pressure as their costs continue to creep up but cannot be passed on to customers via higher prices.



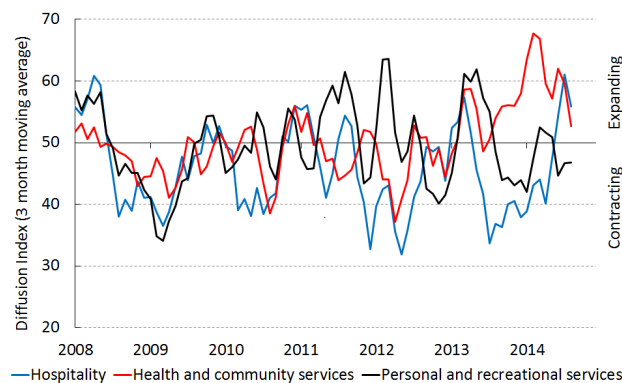
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-index in the **Australian PSI®** improved in August, increasing by 3.5 points to 49.5 points. Although this result signalled the 38th consecutive month of contraction in the retail industry, this sub-sector is now much closer to stabilising.
- The **wholesale trade** sub-sector index in the **Australian PSI®** stayed the same in August, at 43.5 point (three month moving averages). This sub-sector last expanded (above 50 points) in February 2011. All of its activity sub-indexes stayed below 50 points this month.
- Respondents in both the retail and wholesale trade sub-sectors suggest that consumers remain very cautious towards discretionary spending amid ongoing uncertainties around Federal Budget proposals that may affect household disposable incomes. Employment and income security are also becoming a concern for more households, as the national unemployment rate rises.



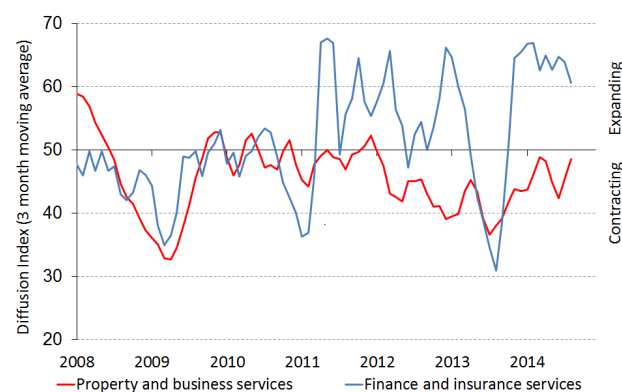
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector expanded for a third month in August. However, the sub-sector's index retracted by 5.2 points to 55.9 points this month, after reaching a seven-year high of 61.1 points in July (three month moving average). Consumer demand for this type of discretionary spending has been solid over recent months, with ABS data showing that nominal sales for cafes, restaurants and takeaway food grew by 10.6% over the year to June 2014 (most recent).
- The **personal and recreational services** sub-index was almost unchanged in August, at 46.8 points, indicating a third month of contraction in this sub-sector. This followed three months of mild expansion between March and May 2014. Constrained government and consumer spending on recreational services continues to weigh on this sub-sector.
- The giant **health and community services** sub-sector expanded for the 14th consecutive month in August, although its sub-index decreased by 6.8 points to 52.7 points, the lowest level since August 2013 (three month moving averages). Although this sub-sector has grown strongly over the past year, these latest readings suggest the pace of growth is slowing, as governments and consumers seek to reign in more discretionary spending.



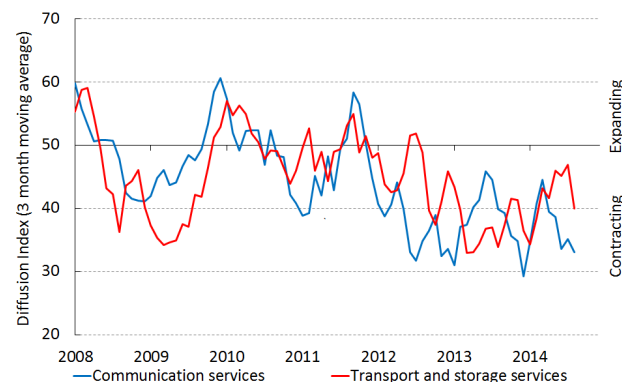
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index increased again this month, moving up by 3.2 points to 48.6 points in August (three month moving averages). This result indicated another mild contraction in this large industry, after remaining in negative territory since January 2012. This reflected 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 remain concerned about the economy outlook, as well as the uncertainties surrounding policies proposed in the Federal Budget. The decline in mining-related construction investment this year, the ongoing decline in manufacturing activity and reduced investment and consulting work from Governments have all lowered the flow of related work to this sub-sector.
- The **finance and insurance** sub-sector expanded for an 11th consecutive month in August. Although this sub-sector's index moved lower by 3.4 points to 60.6 points this month (three month moving averages), sub-indexes suggest that conditions remain solid in the finance and insurance sub-sector. This sub-sector includes the large and rapidly growing \$1.7 trillion superannuation (pension funds) industry.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index declined by 2.0 points to 33.1 points in August (three month moving averages), signalling severe contraction (well below 50 points). This sub-sector has been in contraction since December 2011 and all sub-indexes continue to indicate very challenging conditions in this key business-to-business sub-sector. Weak business conditions and national communication policy uncertainties remain as key impediments to growth for communications, IT and related services.
- The **transport and storage services** sub-sector's index deteriorated significantly this month, falling by 6.9 points to just 40.0 points (three month moving averages), indicating another contraction. The transport and storage services sub-sector last expanded in June 2012. Slow activity in non-food wholesale and retail trade continues to dampen demand and prices for local freight transport services. Despite the recent pick-up in residential construction activity and related transport services, all of the sub-indexes for the transport and storage sub-sector remained below 50 points in August.



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®	49.4	+0.1	49.0	Supplier Deliveries	45.2	-2.6	48.9
Sales	51.4	+1.1	49.7	Input Prices	61.0	+5.3	61.3
New Orders	52.4	-0.4	50.0	Selling Prices **	45.9	-7.4	46.8
Employment	48.1	+0.4	48.1	Average Wages **	59.3	-5.3	57.6
Stocks	46.9	+2.7	47.4	Capacity utilisation **	73.4	-1.6	75.8

* 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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