PSI AUSTRALIAN
PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

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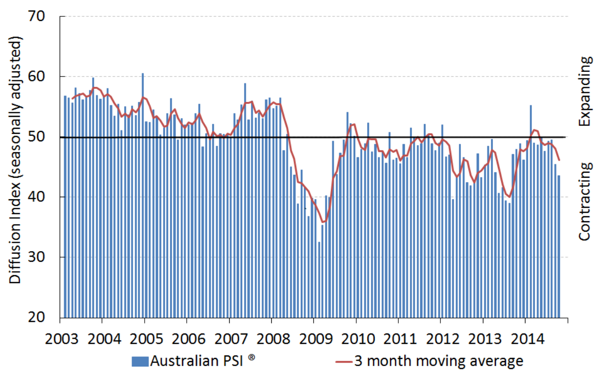
SERVICES SECTOR DROPS TO A 14-MONTH LOW IN OCTOBER

Australian PSI®	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Markit PSI	China HSBC PSI
Oct 2014: **43.6** ↓	Oct 2014: **57.3** ↓	Oct 2014: **52.4** -	Sep 2014: **58.7** ↓	Sep 2014: **52.5** ↑	Sep 2014: **52.3** ↓

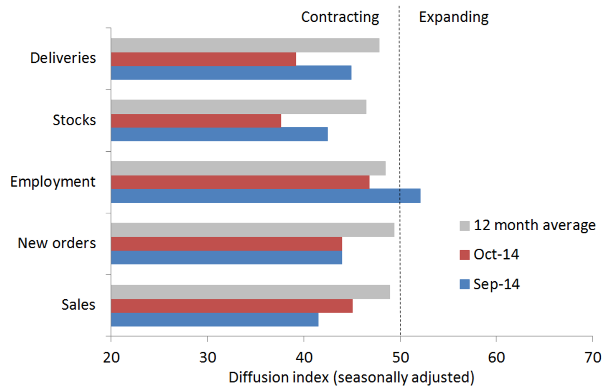
KEY FINDINGS

- The seasonally adjusted Australian Industry Group Australian Performance of Services Index **(Australian PSI®)** declined by 1.8 points to 43.6 points in October, the lowest reading since August 2013. The **Australian PSI®** has now contracted for eight consecutive months (readings below 50 points indicate contraction). The three-month moving average for the **Australian PSI®** moved lower to 46.1 points in October, the lowest level in a year.
- All of the activity sub-indexes in the **Australian PSI®** were below 50 points (i.e. contraction) this month. In particular, both supplier deliveries and stock levels contracted at their fastest pace since August 2013, suggesting a weak outlook for the upcoming crucial Christmas trading period by services businesses. The sales and new orders sub-indexes contracted for a second month in October. The employment sub-index also indicated contraction following a brief expansion in September.
- Only two out of the nine services sub-sectors showed mild expansion this month (above 50 points, three month moving averages), including accommodation, cafes and restaurants (50.5 points) and personal and recreational services (51.0 points). The very large health and community services sub-sector stabilised (49.9 points, three-month moving averages) in October, following an unusual contraction in conditions last month. Both the wholesale and retail trade sub-sectors, as well as business oriented services sub-sectors, contracted this month.
- Respondents to the **Australian PSI®** continued to raise concerns about the weak state of the local economy, the ongoing decline in mining construction activity and the manufacturing industry, as well as slow growth in household disposable income and subdued consumer sentiment.



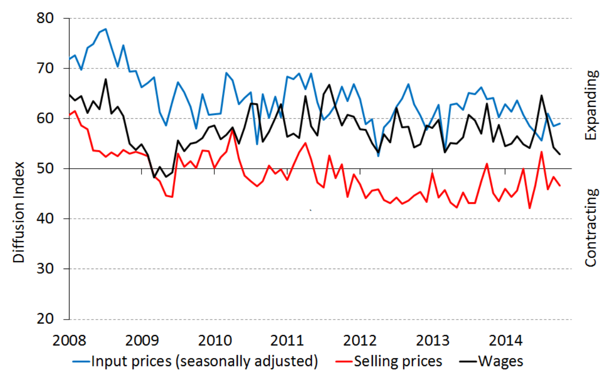
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** increased by 3.5 points to 45.0 points in October, pointing towards a second month of contraction (i.e. below 50 points). This followed broadly stable sales in the services industry between May and August 2014.
- The new orders sub-index in the **Australian PSI®** was unchanged this month, at 43.9 points, indicating a second month of contraction. This followed two months of expansion in new orders in July and August.
- In response to weak trading conditions over the past two months, services employment contracted in October, following a brief expansion in September. The employment sub-index in the **Australian PSI®** fell by 5.3 points to 46.8 points.
- Furthermore, the supplier deliveries sub-index fell for a third month by 5.8 points to 39.2 points in October, indicating the fastest pace of contraction since August 2013. The stocks (inventories) sub-index also dropped by 4.8 points to 37.6 points, a 14-month low. The faster pace of contraction in both supplier deliveries and stocks in October is of particular concern as services businesses typically build up their supplies at this time of the year to prepare for the extremely busy Christmas trading period.
- Reflecting the weakness in conditions this month, capacity utilisation across the services industries declined to 75.3% (down 2.2 percentage points) of capacity being utilised in October, indicating relatively high levels of spare capacity within the services sectors.



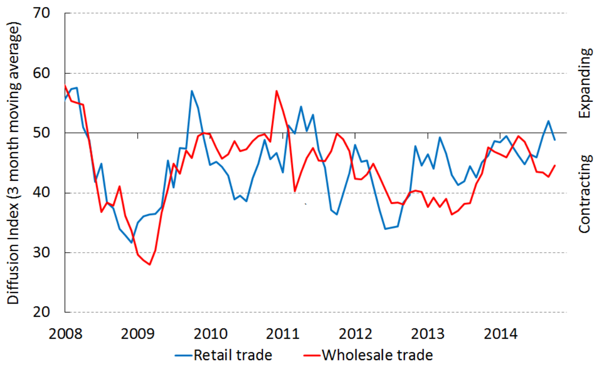
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** was almost unchanged in October, at 59.1 points (up 0.5 points). This indicates input prices continue to increase across the services industries on average.
- The average wages sub-index in the **Australian PSI®** declined slightly by 1.3 points, to 52.9 points in October, the lowest reading since June 2009. This suggests that annual private sector services wage growth is likely to remain low in the short term. The restraint in services wage growth reflects ongoing weakness in the national labour market (with the unemployment rate at 6.0% in September), as well as subdued background inflation, with the CPI increasing by just 2.3% p.a. in the September quarter of 2014.
- Selling prices in the services industries contracted (below 50 points) at a faster pace this month, with this sub-index decreasing by 1.7 points to 46.7 points in October. The ongoing decline in selling prices, combined with higher wages and other input costs, continue to exert significant downward pressures on service businesses' margins.



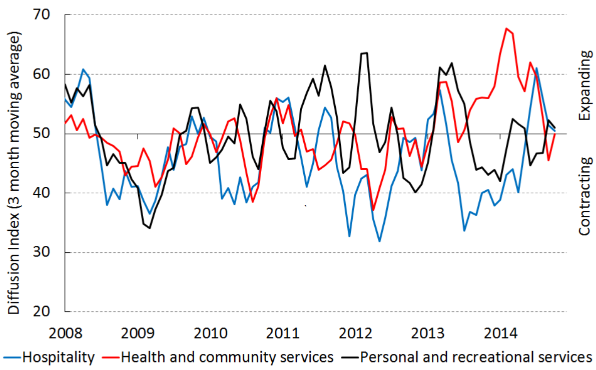
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector in the **Australian PSI**® contracted again in October, following a brief expansion last month. The sub-sector's index fell by 3.1 points to 48.9 points in October (three-month moving average). Sub-indexes suggested sales, new orders, employment and supplier deliveries have all deteriorated (i.e. below 50 points) in the retail trade sub-sector this month.
- The **wholesale trade** sub-sector index increased slightly in October, moving up by 1.8 points to 44.6 points (i.e. contraction; three-month moving average). This sub-sector has been in contraction for the 44th consecutive month now.
- Respondents in both the retail and wholesale trade sub-sectors suggest that consumers are still unwilling to increase their discretionary spending. Weak growth in disposable income, concerns about local economic outlook, employment and income security continue to dampen consumer confidence and constrain household spending. Ongoing decline in mining construction activity and the manufacturing industry have also affected consumer spending in certain geographic areas.



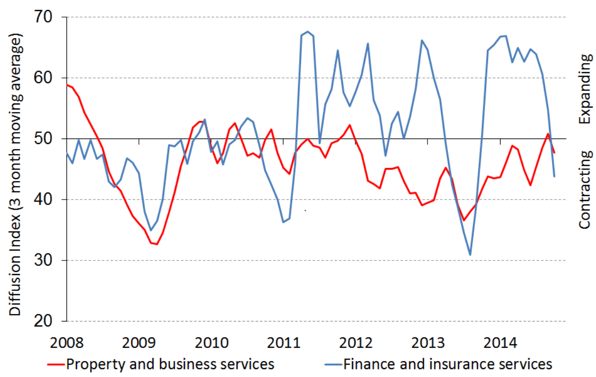
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector expanded for a fifth month in October, although the sub-sector's index decreased by 0.9 points, to 50.5 points (three-month moving average), indicating a very mild expansion.
- The **personal and recreational services** sub-index moved down by 1.2 points to 51.0 points in October, indicating a second month of expansion (three-month moving average). This result suggests consumers continue to increase their spending on local recreational services despite reining in their expenditure on discretionary goods.
- Conditions in the giant **health and community** services sub-sector stabilised this month, following an unusual contraction in September. The sub-sector index recovered by 4.4 points to 49.9 points in October (three-month moving average). Sub-indexes suggest that conditions have improved within this industry over the past month following a soft patch in the September quarter, although recurrent spending on health, education, welfare and related services by governments and consumers remain restrained.



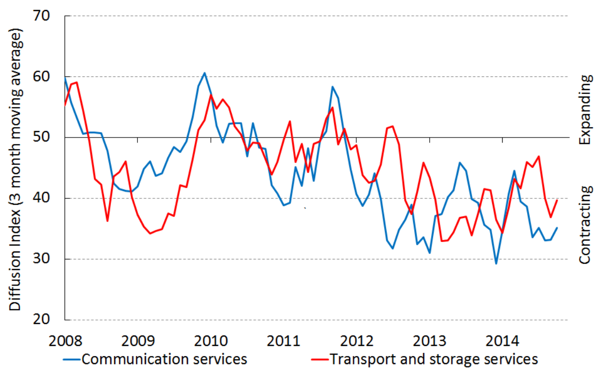
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business** services sub-sector's index decreased by 3.1 points to 47.8 points in October (three-month moving average), indicating a contraction. This followed a brief expansion in conditions (i.e. above 50 points) in this large industry in September.
- Subdued overall economic conditions, reduced investment and consulting activity from the mining and manufacturing industries, as well as a lack of public spending from governments, continue to reduce the flow of related work to business services segments such as accounting, legal, design, personnel and administrative services.
- The **finance and insurance** sub-sector contracted for the first time since October 2013. The sub-sector's index fell by 10.9 points to 43.9 points this month (three-month moving average). The deterioration in conditions in this sub-sector may have reflected weak performance and volatility in the local share market over the past two months. In addition, demand for services provided by the finance and insurance sub-sector, which includes the large and rapidly growing $1.7 trillion superannuation industry, has also been affected by the upcoming change from 1 January 2015 that account-based pensions will be treated the same as all other financial assets under the Centrelink Income Test. This could reduce retirees' entitlements to the aged pension.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index increased slightly in October, moving up 2.0 points to 35.2 points (three-month moving average). However, this level still indicated a severe contraction (well below 50 points) in the communications sub-sector, which has been in contraction since December 2011. Ongoing decline in mining construction activity, weak business investment, and persistent communication policy uncertainties continue to weigh heavily on demand for communications, IT and related services.
- The **transport and storage services** sub-sector's index increased by 2.8 points to 39.6 points in October (three-month moving average), pointing towards a slower pace of contraction. Nonetheless, the transport and storage services sub-sector has contracted for 27 consecutive months now. Respondents indicated that the decline in local automotive assembly, as well as subdued activity in wholesale and retail trade, continues to significant affect demand and prices for local freight transport services.



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®	**43.6**	**-1.8**	**48.5**	**Supplier Deliveries**	39.2	-5.8	47.8
Sales	45.0	3.5	48.9	**Input Prices**	59.1	0.5	60.3
New Orders	43.9	0.0	49.4	**Selling Prices** **	46.7	-1.7	46.5
Employment	46.8	-5.3	48.5	**Average Wages** **	52.9	-1.3	56.5
Stocks	37.6	-4.8	46.5	**Capacity utilisation** **	75.3	-2.2	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.