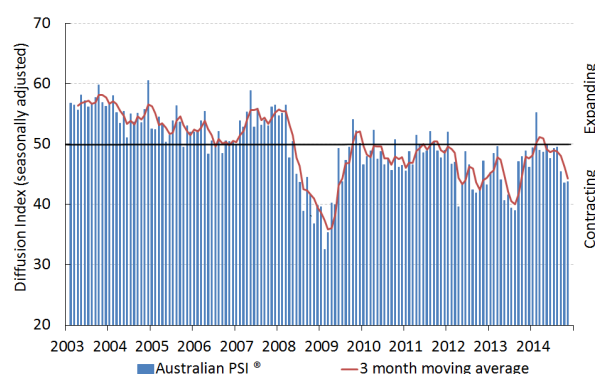


SERVICES SECTOR CONTINUES TO STRUGGLE IN NOVEMBER

Australian PSI®	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Markit PSI	China HSBC PSI
Nov 2014: 43.8 ↑	Nov 2014: 56.3 ↓	Nov 2014: 51.3 ↓	Oct 2014: 56.2 ↓	Oct 2014: 48.7 ↓	Oct 2014: 51.7 ↓

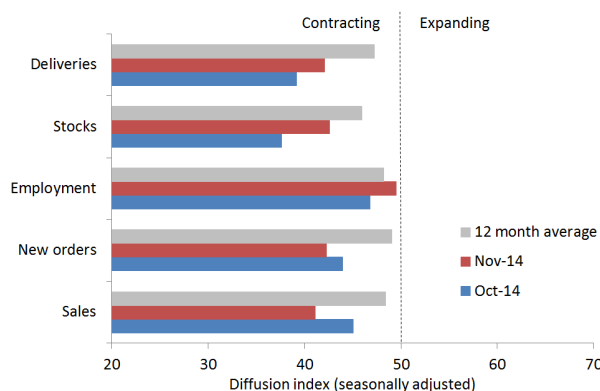
KEY FINDINGS

- After dropping to a 14-month low in October, conditions in the services industry have failed to rebound this month. The seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) was almost unchanged in November, at 43.8 points (up 0.2 points). The **Australian PSI®** has now contracted for nine consecutive months (readings below 50 points indicate contraction; the distance from 50 points indicates the strength of the decline). The three-month moving average for the **Australian PSI®** also declined further to 44.3 points in November.
- All of the activity sub-indexes in the **Australian PSI®** remained below 50 points (i.e. contraction) this month, suggesting a weak outlook for services businesses in the upcoming Christmas trading period. Both the sales and new orders sub-indexes contracted for a third month in November, while supplier deliveries and stocks levels have contracted for six consecutive months now. The employment sub-index picked up to 49.5 points, suggesting broadly stable services employment this month.
- Only two of the nine services sub-sectors showed expansion this month, including the very large health and community services sub-sector (52.3 points, three-month moving averages) and personal and recreational services (51.6 points). Other consumer oriented services sub-sectors such as hospitality and wholesale and retail trade, as well as business oriented services sub-sectors, continued to contract in November.
- Despite a pick-up in residential and commercial property activities, respondents to the **Australian PSI®** raised ongoing concerns about the weak local economy, fragile consumer and business sentiment, slower growth in household disposable income, the continuing decline in mining construction activity, and the flat manufacturing industry.



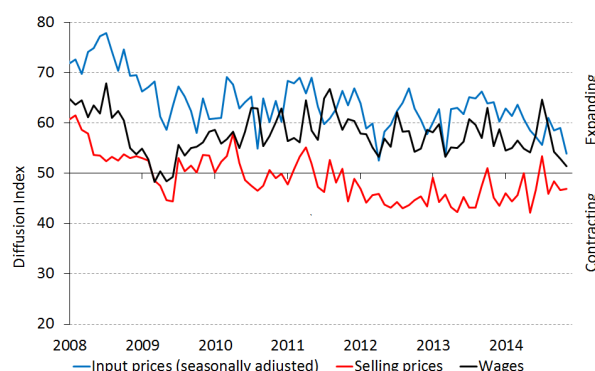
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** decreased by 3.9 points to 41.1 points in November, signalling a third month of contraction (i.e. below 50 points).
- The new orders sub-index in the **Australian PSI®** also declined this month, moving down by 1.6 points to 42.3 points. New orders in the services industry have contracted for three consecutive months now and the pace of contraction has accelerated further in November.
- In response to weak trading conditions over the past three months and subdued near term business outlook, services businesses continued to reduce their supplier deliveries and stock levels. The supplier deliveries sub-index sat at only 42.1 points in November (up 2.9 points), pointing towards a sixth month of contraction. Services businesses' stock levels have also contracted for six consecutive months, with the stocks (inventories) sub-index recovering slightly by 5.0 points to 42.6 points this month.
- More positively, services employment appears to have stabilised in November, with the employment sub-index in the **Australian PSI®** increasing by 2.7 points to 49.5 points.
- Capacity utilisation across the services industries also recovered slightly this month, moving up to 76.5% (up 1.2 percentage points) of capacity being utilised in November. Although services businesses are busy preparing for the extremely busy Christmas trading period, there remain relatively high levels of spare capacity within the services sector.



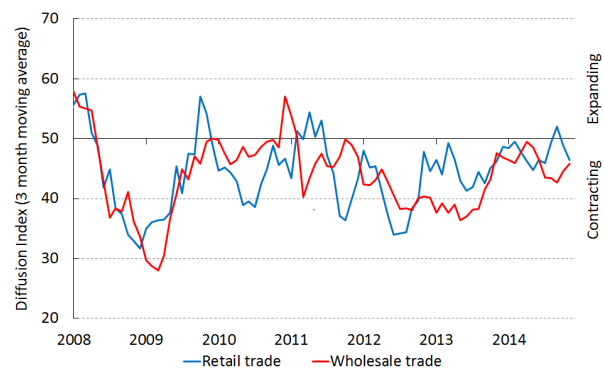
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** declined by 5.1 points to 53.9 points in November, the lowest level since March 2013. This slower pace of input price increase may reflect lower utility costs following the removal of the carbon price on 1 July, as well as weak conditions across the local economy in general.
- The average wages sub-index in the **Australian PSI®** decreased by 1.4 points to 51.4 points in November and remains near the lowest level since mid-2009, suggesting annual private sector services wage growth is likely to remain low in the short term. This reflects the weak national labour market with employment growth of only 1.0% in the year to the end of October and the unemployment rate sitting at 6.2%, as well as subdued background inflation, with the CPI increasing by just 2.3% in the year to the end of September 2014.
- Despite moderating pressures from higher wages and other input costs, selling prices in services industries continued to contract this month, with the sub-index almost unchanged at 46.9 points in November (up 0.2 points). This continues to put major downward pressures on service businesses' margins.



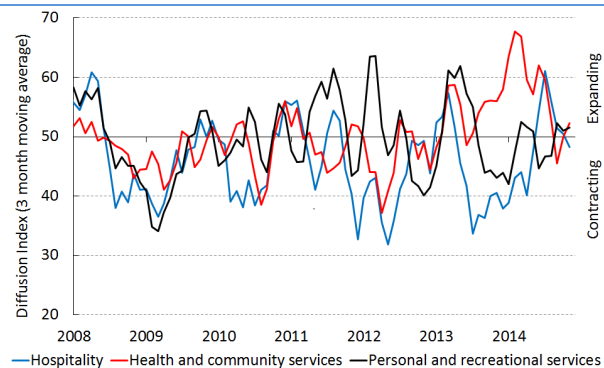
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector in the **Australian PSI**[®] contracted for a second month in November, with sub-sector's index declining by 2.4 points to 46.5 points this month (three-month moving average). The retail trade industry has contracted in every month since July 2011 except for September 2014.
- The **wholesale trade** sub-sector index increased by 1.3 points to 45.8 points in November (i.e. contraction; three-month moving average). However, this sub-sector has been in contraction since March 2011. Sub-indexes suggest there are few signs that conditions are improving in the wholesale trade sub-sector.
- Feedback from both the retail and wholesale trade sub-sectors suggest that consumer sentiment remains fragile. Despite stronger housing activity across the country, households are still unwilling to increase their discretionary spending amid slower growth in disposable income and concerns about local economic outlook, employment and income security. Rapid decline in mining construction activity and the flat manufacturing industry, as well as uncertainties around the government's environment policy, have also dampened consumer spending in certain geographic locations.



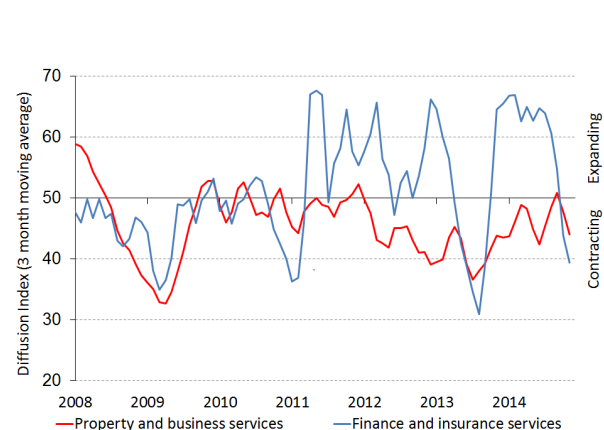
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector contracted for the first time since June 2014. The sub-sector's index decreased by 2.3 points, to 48.3 points (three-month moving average) in November, indicating a very mild contraction.
- The **personal and recreational services** sub-index moved up by 0.5 points to 51.6 points in November, marking the third month of expansion in this sub-sector (three-month moving average). This result suggests consumers continue to direct their spending towards local recreational services instead of discretionary goods.
- The giant **health and community services** sub-sector returned to expansion this month. The sub-sector index increased by 2.4 points to 52.3 points in November (three-month moving average). Despite the renewed strength in business conditions in this industry, ongoing spending on health, education, welfare and related services by governments and consumers remains constrained.



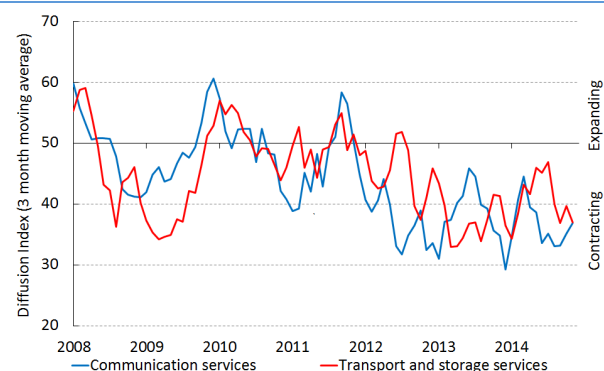
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index decreased by 3.8 points to 44.0 points in November (three-month moving average), signalling a second month of contraction. This followed a brief expansion in business conditions (i.e. above 50 points) in this large industry in September.
- The property and business services sub-sector provides services such as accounting, legal, design, personnel and administrative services. Weak overall economic conditions, ongoing decline in investment and consulting activity from the mining and manufacturing industries, as well as constrained public spending, have overshadowed higher demand for business services from the residential and commercial property market. This has reduced the amount of business service work available and put downward pressure on prices.
- The **finance and insurance** sub-sector contracted for a second month in November. The sub-sector's index fell again by 4.5 points to 39.4 points (three-month moving average), indicating a faster speed of contraction this month. This followed solid expansion between October 2013 and September 2014. The decline in business conditions in the finance and insurance sub-sector likely reflected weak performance and volatility in the local share market since September. Respondents noted that softer growth in household disposable income, combined with higher living costs and employment insecurity, has also constrained demand for services provided by the finance and insurance sub-sector.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index increased for a second month in November, moving up 1.7 points to 36.9 points (three-month moving average). However, this sub-sector continued to contract at a severe pace (i.e. well below 50 points), which has been in contraction for three consecutive years now. Rapid decline in mining investment activity, weak business appetite for investment and persistent communication policy uncertainties still continue to significantly affect demand for communications, IT and related services.
- The **transport and storage services** sub-sector's index declined by 2.7 points to 37.0 points in November (three-month moving average), signalling a faster and concerning pace of contraction. The transport and storage services sub-sector has been in contraction since August 2012. Respondents indicated that an ongoing lack of confidence about local economic conditions, the decline in local automotive assembly, and weak activity in wholesale and retail trade have weighed heavily on 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[®]	43.8	0.2	48.1	Supplier Deliveries	42.1	2.9	47.2
Sales	41.1	-3.9	48.4	Input Prices	53.9	-5.1	59.4
New Orders	42.3	-1.6	49.0	Selling Prices **	46.9	0.2	46.6
Employment	49.5	2.7	48.2	Average Wages **	51.4	-1.4	56.2
Stocks	42.6	5.0	46.0	Capacity utilisation **	76.5	1.2	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>.
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