

SERVICES SECTOR EXPANDS FOR THE FIRST TIME IN A YEAR

Australian PSI®
 Feb 2015: **51.7** ↑

USA Flash PSI
 Feb 2015: **57.0** ↑

Eurozone Flash PSI
 Feb 2015: **53.9** ↑

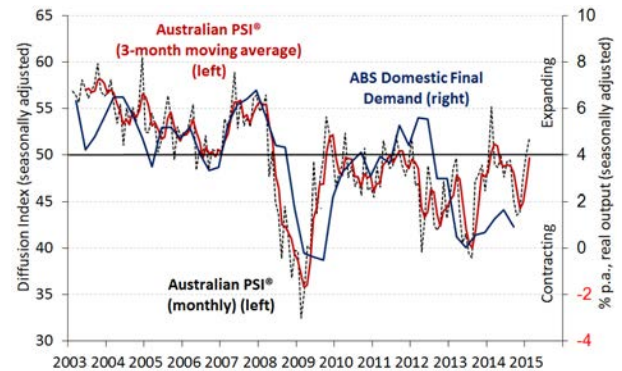
UK Markit PSI
 Jan 2015: **57.2** ↑

Japan Markit PSI
 Jan 2015: **51.3** ↓

China HSBC PSI
 Jan 2015: **51.8** ↓

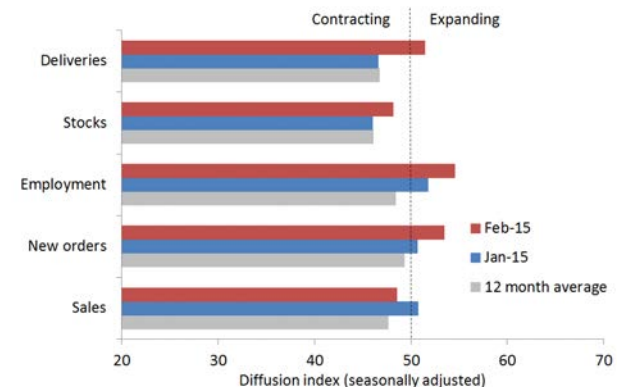
KEY FINDINGS

- The services sector expanded for the first time in 12 months in February, following generally stable conditions in January. The seasonally-adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) improved again by 1.8 points to 51.7 points in February. Much of this growth was concentrated in the health and community and financial and insurance services sub-sectors.
- The three-month moving average for the **Australian PSI®** also increased to 49.7 points this month. Recent results from the **Australian PSI®** suggest growth in Australian demand for goods and services (as measured by the ABS in the *National Accounts* each quarter as 'domestic final demand') may have picked up slightly in the 2015 March quarter.
- Three of the five activity sub-indices in the **Australian PSI®** expanded (i.e. above 50 points) in February. Both the new orders and employment sub-indices expanded for a second month while supplier deliveries also expanded after eight months of contraction. However, sales across services businesses contracted this month after a brief expansion in January while stock levels contracted for a ninth consecutive month.
- Two of the nine services sub-sectors showed expansion this month. The very large health and community services sub-sector (59.5 points, three-month moving averages) expanded for a fourth month in February and the finance and insurance services sub-sector expanded again (68.9 points). All other services sub-sectors contracted in February.
- Although the pick-up in residential building activity over the past year and a lower Australian dollar have boosted demand for certain services (e.g. tourism, real estate), respondents to the **Australian PSI®** continue to raise concerns about weakness in the local economy and ongoing fragile consumer and business sentiment. The rapid decline in mining construction, continued malaise in the manufacturing industry, and a general lack of willingness to invest by both the public and private sectors, are dampening demand for business services such as accounting, legal, personnel and administrative services.



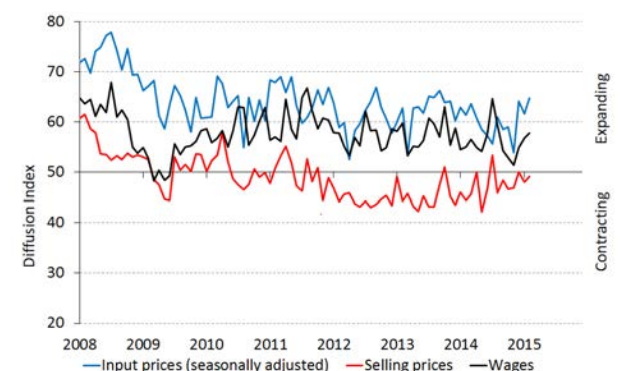
ACTIVITY SUB-INDEXES

- The sales sub-index declined by 2.2 points to 48.6 points (i.e. contraction) in February. This followed a brief expansion (above 50 points) in services sales last month.
- More positively, the new orders sub-index in the **Australian PSI®** expanded for a second month in February, moving up by 2.8 points to 53.5 points. The expansion in services new orders bodes well for activity over coming months.
- Services employment also expanded again in February after contracting between October and December 2014. The employment sub-index increased by 2.8 points to 54.6 points this month to reach its highest level since April 2011.
- In addition, the supplier deliveries sub-index returned to expansion this month (up 4.9 points to 51.5 points) following eight months of contraction. However, services businesses' stocks levels contracted for a ninth month, with the stocks sub-index at 48.1 points in February (up 2.1 points). It last expanded in May 2014.
- Capacity utilisation across the services industries decreased slightly this month to 76.1% (down 0.7 percentage points) of capacity being utilised in February.



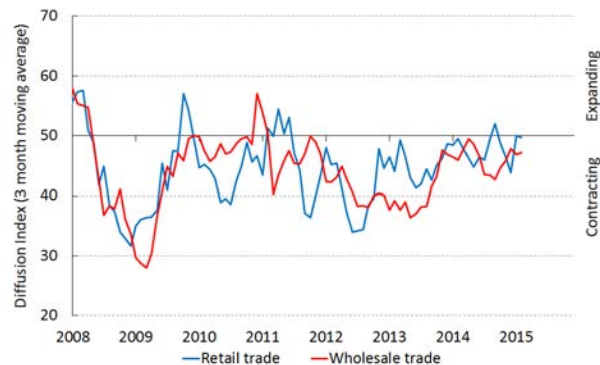
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** moved up by 3.1 points to 64.8 points in February, well above its 12-month average of 59.9 points. This likely reflected higher prices for imports due to the further depreciation of the Australian dollar since September 2014. Nonetheless, growth in input prices has been relatively contained over the past year, due to weak local demand and soft global and local inflation.
- The average wages sub-index in the **Australian PSI®** increased by 1.0 points to 57.7 points in February. This suggests annual wage growth in the services industries is likely to remain weak in the 2015 March quarter following a 2.5% p.a. increase in private sector wages in Q4 2014 (according to ABS wage index data). It reflects the weak national labour market, with employment growth of just 1.4% p.a. and a rising unemployment rate of 6.3% in January 2015, as well as weak consumer inflation (1.7% p.a. in December 2014).
- Selling prices in the services industries contracted marginally in February. The selling prices sub-index increased by 1.1 points to 49.2 points this month. As a result, services businesses' margins remain under intense pressure amid ongoing increases in wages and other input costs and ongoing difficulties in raising selling prices to cover them.



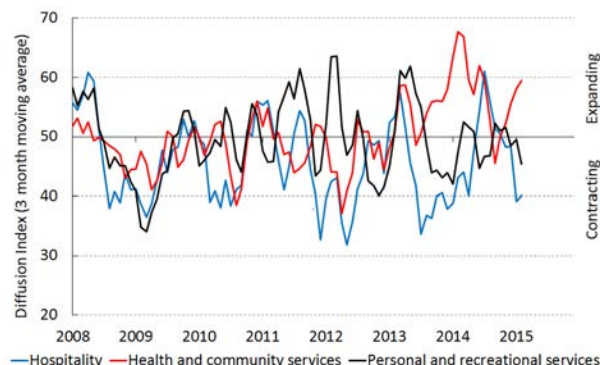
RETAIL TRADE; WHOLESALE TRADE *

- Conditions in the **retail trade** sub-sector remained broadly stable in February. The sub-sector's index was down marginally by 0.3 points to 49.7 points this month, following a stabilisation in January (i.e. 50.0 points) (three-month moving average). Both sales and new orders for the retail trade sub-sector have expanded over the past four months.
- The **wholesale trade** sub-sector's index increased marginally by 0.3 points to 47.2 points in February (three-month moving average). This sub-sector has contracted after a brief stabilisation in October 2011.
- Despite a pickup in the residential property market and a lower Australian dollar over the past year, fragile consumer confidence, ongoing concerns about the local economy, and uncertainties around Federal and state government policies continued to affect household spending and investment decisions. Furthermore, weak business sentiment and activity is also dampening demand for wholesale trade services.



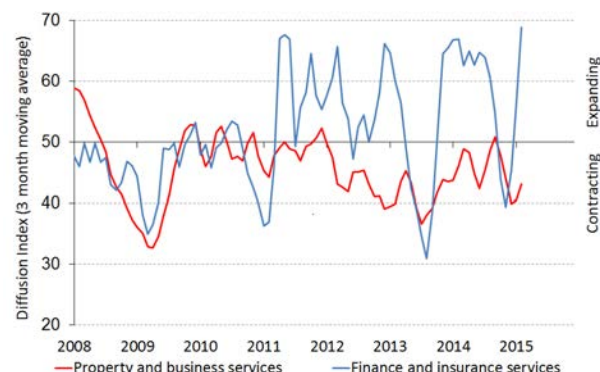
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector contracted for a fourth month in February. The sub-sector's index moved up slightly by 1.0 points to 40.2 points (three-month moving average). This followed a period of mild expansion in this sub-sector between June and October 2014. Feedback suggests businesses and consumers remain cautious towards this category of discretionary spending.
- The **personal and recreational services** sub-sector contracted for a third month in February. The sub-sector index fell by 4.1 points to 45.4 points this month (three-month moving average), signalling a faster pace of contraction. Uncertainties around both Federal and state policies and concerns about local economic conditions have continued to weigh on consumer spending on discretionary recreational services.
- The giant **health and community services** sub-sector expanded for a fourth month in February. The sub-sector's index increased by 1.4 points to 59.5 points this month (three-month moving average). The health and community sub-sector has experienced the strongest growth among all the **Australian PSI**® sub-sectors over the past two years.



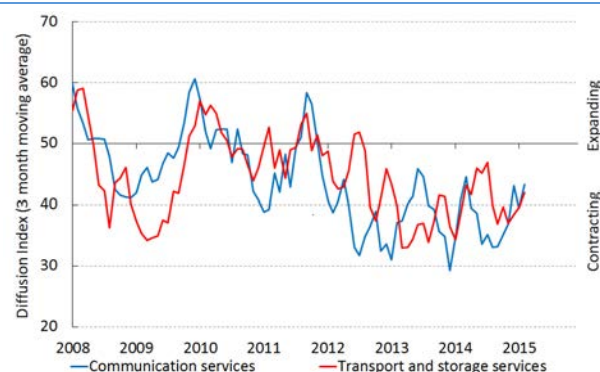
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index improved by 2.6 points to 43.2 points in February (three-month moving average). However, this signalled a fifth month of severe contraction in this large business-oriented sub-sector, which last expanded briefly in September 2014.
- Although the pickup in residential building activity over the past year and a lower Australian dollar have boosted local demand and exports for a few respondents, the property and business services sub-sector remains generally concerned about local economic conditions and very weak business confidence. In particular, the ongoing rapid decline in mining investment, the continued malaise in the manufacturing industry, as well as a general unwillingness to invest by businesses and governments, have heavily dampened demand for business-to-business services such as accounting, legal, design, consulting, personnel and administrative services.
- One source of strength has been the large **finance and insurance** sub-sector, which expanded for a second month in February. The sub-sector's index rose by another 12.4 points to a historical high of 68.9 points this month (three-month moving average). This likely reflected the boost to the sector, including strong performance of the share market, from the RBA's interest rate cut in early February. Conditions in this sub-sector are generally affected by interest rates, performance and volatility in financial markets, investment trends (e.g. the popularity of real estate over other assets at present), and legislative changes affecting the financial services and superannuation industries.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index increased by 3.9 points to 43.3 points in February (three-month moving average). This sub-sector has been in contraction since December 2011 (i.e. below 50 points). Demand for IT, communications and related services continue to be affected by fragile global and national economic conditions, weak business appetite for investment and generally uncertain telecommunications investment.
- The **transport and storage services** sub-sector's index increased for a third month, up by 2.4 point to 41.9 points in February (three-month moving average). Nonetheless, this indicated the 31st consecutive month of contraction. This sub-sector last expanded in July 2012. Although lower oil prices and increased residential building activity over the past year have benefitted the transport and storage sub-sector somewhat, weak business and consumer confidence, a sharp decline in mining construction activity and the progressive closure of local automotive assembly continue to weigh 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 ®	51.7	1.8	48.0	Supplier Deliveries	51.5	4.9	46.7
Sales	48.6	-2.2	47.6	Input Prices	64.8	3.1	59.9
New Orders	53.5	2.8	49.3	Selling Prices **	49.2	1.1	47.8
Employment	54.6	2.8	48.4	Average Wages **	57.7	1.0	56.3
Stocks	48.1	2.1	46.1	Capacity utilisation **	76.1	-0.7	76.2

* 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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