

## SERVICES SECTOR TREADS WATER IN APRIL

**Australian PSI®**  
 Apr 2015: 49.7 ↓

**USA Flash PSI**  
 Apr 2015: 57.8 ↓

**Eurozone Flash PSI**  
 Apr 2015: 53.7 ↓

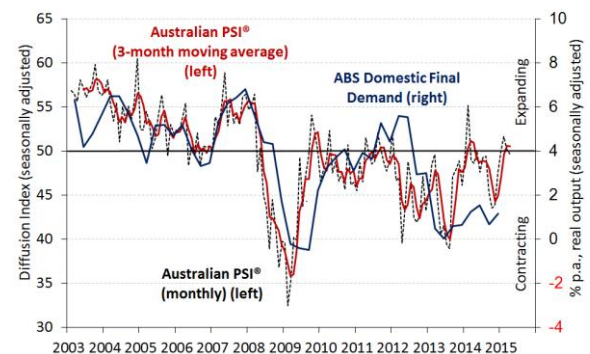
**UK Markit PSI**  
 Mar 2015: 58.9 ↑

**Japan Markit PSI**  
 Mar 2015: 48.4 ↓

**China HSBC PSI**  
 Mar 2015: 51.8 -

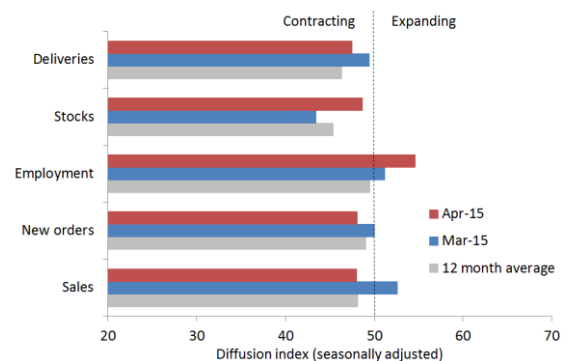
### KEY FINDINGS

- After two months of mild expansion, conditions in the services sector eased in April 2015. The seasonally-adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) declined marginally by 0.5 points to 49.7 points this month, signalling broadly stable conditions across the services industry.
- On the other hand, the three-month moving average for the **Australian PSI®** remains almost unchanged, at 50.5 points in April, signalling the second month of expansion. Recent results from the **Australian PSI®** suggest growth in Australian demand for goods and services (as measured by the ABS in the *National Accounts* as 'domestic final demand') may have picked up moderately in first four months of 2015.
- Only one of the five activity sub-indexes in the **Australian PSI®** expanded (i.e. above 50 points) in April. The new orders sub-index returned to contraction after three months of expansion while services sales have been patchy over recent months and contracted again in April following an expansion in March. Supplier deliveries contracted for a second month in April while services businesses reduced their stock levels for an 11<sup>th</sup> consecutive month. More positively, services employment expanded for a fourth month in April.
- Five of the nine services sub-sectors showed expansion this month. The very large health and community services sub-sector (51.5 points, three-month moving averages) expanded for a sixth month in April and the finance and insurance services sub-sector expanded for a fourth month (72.0 points). Both retail trade (54.0 points) and personal and recreational services (53.8 points) expanded a second month. The accommodation, cafes and restaurants ('hospitality') sub-sector (50.9 points) also expanded mildly in April after five months of contraction. All other services sub-sectors contracted in April.
- Although conditions in household services sectors appear to have firmed over recent months due to a lower Australian dollar and an improvement in residential building activity, respondents raised ongoing concerns about subdued consumer sentiment and household spending. In addition, soft business confidence, concerns about local economic and political uncertainties, as well as a low appetite for spending and investment by both the public and private sectors, are still weighing heavily on demand for business services.



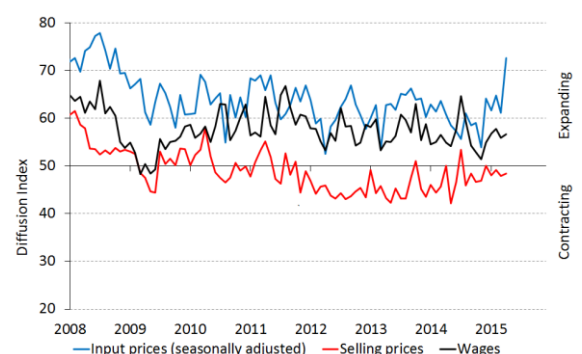
### ACTIVITY SUB-INDEXES

- Services sales remain very patchy. The sales sub-index in the **Australian PSI®** dropped by 4.6 points to 48.0 points in April, pointing towards a contraction. Services sales expanded (above 50 points) in March and January but contracted in February 2015.
- The new orders sub-index also contracted in April after three months of expansion. The sub-index declined by 2.0 points to 48.1 points this month. This contraction in new orders, if prolonged, is likely to impinge activity levels in the services sector over the coming months.
- Meanwhile, services businesses reduced their stock levels for an 11<sup>th</sup> month, although at a milder pace. The stocks sub-index increased by 5.2 points to 48.7 points in April. It last expanded in May 2014. The supplier deliveries sub-index contracted for a second month in April (down another 1.9 points to 47.5 points) after a brief expansion in February.
- More positively, services employment expanded for a fourth month. The employment sub-index increased by 3.4 points to 54.6 points in April. Capacity utilisation across the services sectors also increased to 74.7% (up 1.2 percentage points) of capacity being utilised in April.



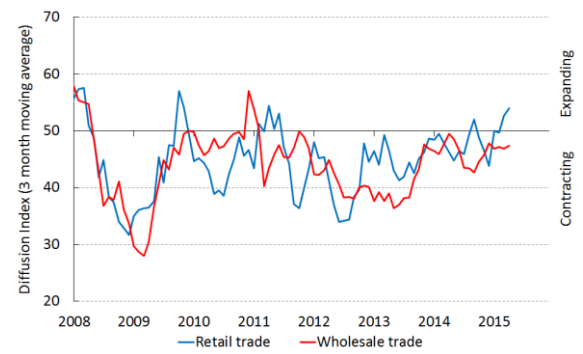
### PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** rose by 11.4 points to 72.6 points in April, the highest level since October 2008. This likely reflected higher prices for imports as the effects of the lower dollar continue to flow through. Despite this recent acceleration, growth in input prices remains contained, due to weak local demand and soft global and local inflation.
- The average wages sub-index in the **Australian PSI®** increased slightly by 0.8 points to 56.7 points in April. This suggests annual wage growth in the services industries is likely to remain moderate in the first four months of 2015 after a 2.5% p.a. increase in private sector wages in Q4 2014 (ABS wage price index). This reflects ongoing weakness in the national labour market, with employment growth of just 1.6% p.a. and a very high unemployment rate of 6.1% in March 2015, as well as weak consumer inflation (1.3% p.a. in March 2015).
- Services sales prices contracted for a fourth month in April after a brief stabilisation in December 2014. The selling prices sub-index increased marginally by 0.4 points to 48.4 points this month. This limited ability to raise services selling prices, combined with ongoing increases in wages and other input costs, has put services businesses' margins under further pressure.



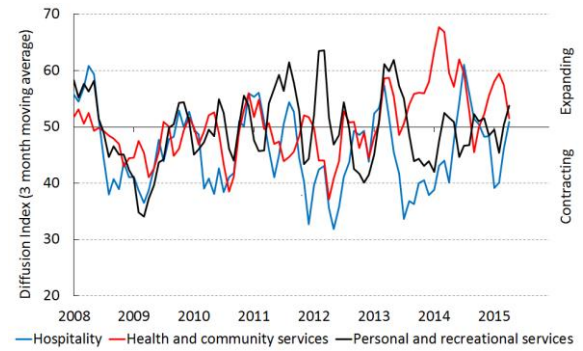
## RETAIL STRADE; WHOLESALE TRADE \*

- The **retail trade** sub-sector expanded for a second month in April. The sub-sector's index increased by 1.4 points to 54.0 points in April, the highest reading since April 2011 (three-month moving average). Both sales and new orders for the retail trade sub-sector have expanded for six consecutive months now.
- On the other hand, the **wholesale trade** sub-sector remained in contraction in April. The sub-sector index increased by 0.5 points to 47.3 points this month (three-month moving average). This signalled the 42<sup>nd</sup> consecutive month of contraction in this sub-sector, which briefly stabilised in October 2011.
- Although a lower Australian dollar and buoyant housing market appear to have supported local consumption and tourism related activity, a general lack of consumer confidence and ongoing economic and political uncertainties continue to dampen household spending and investment. Weak business sentiment and activity, especially in mining and manufacturing, are also weighing heavily on demand for wholesale trade services.



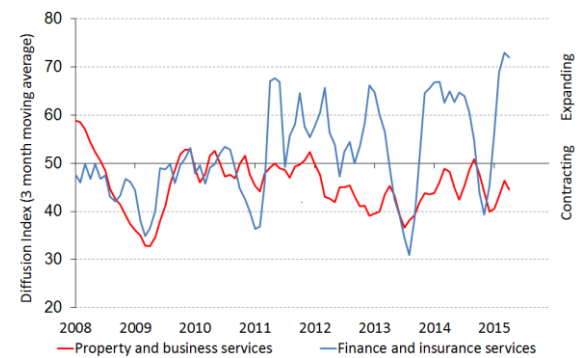
## HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES \*

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector expanded mildly in April after five months of contraction. The sub-sector's index rose for a third month, up by 4.8 points to 50.9 points (three-month moving average). Nonetheless, feedback suggests businesses and consumers remain cautious towards this group of discretionary spending.
- The **personal and recreational services** sub-sector expanded for a second month in April. The sub-sector index increased by 3.4 points to 53.8 points this month (three-month moving average). However, despite this improvement in business conditions, respondents continued to express concerns about the negative effects local economic conditions and policy uncertainties are having on household discretionary recreational services consumption.
- The huge **health and community services** sub-sector expanded for a sixth month in April, albeit at a slower pace. The sub-sector's index fell by 6.0 points to 51.5 points this month (three-month moving average). Still, the health and community sub-sector has recorded the strongest growth among all the **Australian PSI**<sup>®</sup> sub-sectors since early 2013.



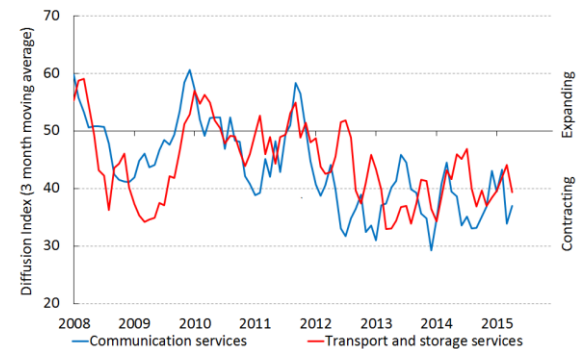
## PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES \*

- The **property and business services** sub-sector's index decreased by 1.9 points to 44.5 points in April (three-month moving average). This indicated the seventh month of contraction in this large business-oriented sub-sector, which previously expanded in September 2014.
- Despite a lower Australian dollar and increased residential construction and transaction activity over the past year, respondents remain very concerned about local economic conditions, very weak business sentiment, and political uncertainties. They also pointed towards the rapid decline in mining investment, ongoing structural change in the manufacturing industry, and very low appetite for investment by businesses and governments, which have heavily affected demand for business-to-business services such as accounting, legal, design, consulting, personnel and administrative services.
- The large **finance and insurance** sub-sector expanded for a fourth month in April. The sub-sector's index eased by 1.0 point to 72.0 points this month (three-month moving average). Conditions in this sub-sector are influenced 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. This sub-sector includes the very large, and still rapidly growing \$1.8 trillion superannuation industry.



## COMMUNICATION SERVICES; TRANSPORT SERVICES \*

- The **communications** sub-sector's index recovered by 3.1 points to 36.9 points in April (three-month moving average), although this still signalled a concerning pace of contraction. This sub-sector has been in contraction since December 2011 (i.e. below 50 points). Soft local economic conditions, subdued public and private appetite for investment by, as well as uncertain telecommunications investment in general are still affecting demand for IT, communications and related services.
- The **transport and storage services** sub-sector's index declined by 4.8 point to 39.4 points in April (three-month moving average). This indicated the 33<sup>rd</sup> consecutive month of contraction in this industry, which last expanded in July 2012. Despite the benefits from low oil prices and higher residential building activity, weak household and business sentiment, a sharp drop in mining construction and iron ore prices, as well as the progressive closure of local automotive assembly, are still affecting demand and prices for local freight transport and storage 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
<b>Australian PSI</b> <sup>®</sup>	49.7	-0.5	48.2	<b>Supplier Deliveries</b>	47.5	-1.9	46.3
<b>Sales</b>	48.0	-4.6	48.1	<b>Input Prices</b>	72.6	11.4	60.7
<b>New Orders</b>	48.1	-2.0	49.0	<b>Selling Prices</b> **	48.4	0.4	47.8
<b>Employment</b>	54.6	3.4	49.5	<b>Average Wages</b> **	56.7	0.8	56.4
<b>Stocks</b>	48.7	5.2	45.4	<b>Capacity utilisation</b> **	74.7	1.2	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>. © The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. Disclaimer: The Australian Industry Group provides information services to its members and others, which include economic, and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.