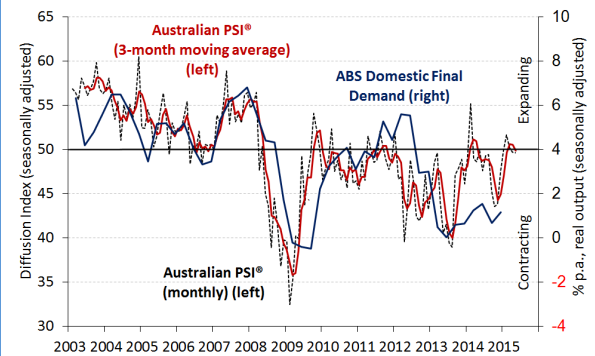


NO BUDGET BOUNCE YET FOR SERVICES

Australian PSI® May 2015: 49.6 ↓	USA Flash PSI May 2015: 56.4 ↓	Eurozone Flash PSI May 2015: 53.3 ↓	UK Markit PSI Apr 2015: 59.5 ↑	Japan Markit PSI Apr 2015: 51.3 ↑	China HSBC PSI Apr 2015: 51.3 ↓
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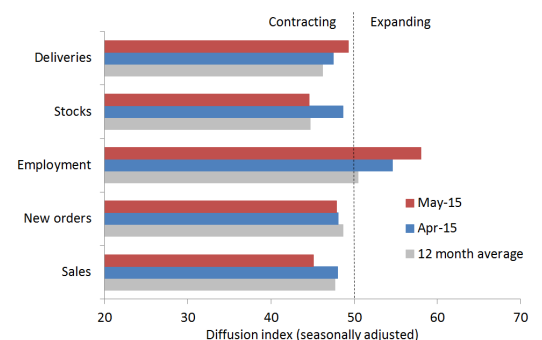
KEY FINDINGS

- Conditions in the services sector were broadly stable in May 2015. The seasonally-adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) was almost unchanged, at 49.6 points this month (down 0.1 points). The services sector last expanded (i.e. above 50.0 points) very mildly in February and March this year.
- The three-month moving average for the **Australian PSI®** eased by 0.7 points to 49.8 points in May, following two months 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 so far in Q2 2015.
- Only one of the five activity sub-indexes in the **Australian PSI®** expanded (i.e. above 50 points) in May. Both the sales and new orders sub-indexes contracted for a second month in May. Supplier deliveries contracted for a third month in May while services businesses reduced their stock levels for a 12th consecutive month. More positively, services employment expanded for a fifth consecutive month in May and at its fastest pace since December 2004.
- Four of the nine services sub-sectors showed expansion this month. The very large health and community services sub-sector (50.3 points, three-month moving averages) expanded for a seventh month in May and the finance and insurance services sub-sector expanded for a fifth month (70.2 points). Both retail trade (53.4 points) and personal and recreational services (57.0 points) expanded for a third month. All other services sub-sectors contracted in May.
- The Federal Budget and the cut to the cash rate by the RBA in early May appear to have little impact on the services sector thus far. A buoyant housing market, very low interest rates and a lower Australian dollar are supporting conditions, but respondents raised concerns about ongoing weakness in household income growth and spending. Subdued business confidence, a poor economic outlook, and a low appetite for spending and investment, continue to affect demand for a wide range of business services.



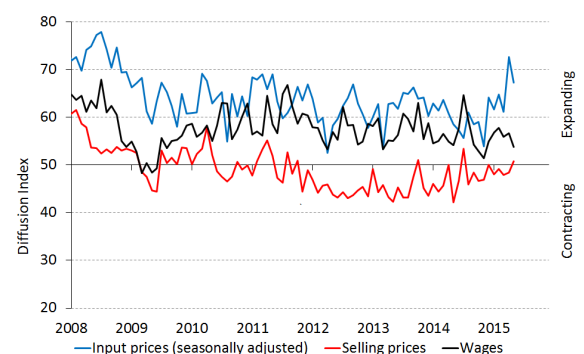
ACTIVITY SUB-INDEXES

- Services sales contracted for a second month in May. The sales sub-index in the **Australian PSI®** declined by 2.9 points to 45.1 points this month, indicating a faster pace of contraction. Services sales have been patchy so far in 2015, contracting in three out of past five months.
- The new orders sub-index contracted for a second month in May after expanding in the first three months of this year. The sub-index declined by 0.2 points to 47.9 points this month. If it continues, this contraction in new orders is likely to weigh on activity levels in the services sector over the coming months.
- Services businesses reduced their stock levels for a 12th month, and at a faster pace. The stocks sub-index declined by 4.1 points to 44.6 points in May. It last expanded in May 2014. The supplier deliveries sub-index contracted for a third month in May, albeit only mildly, with the sub-index increasing by 1.8 points to 49.3 points this month.
- More positively, services employment expanded for a fifth month. The employment sub-index increased by another 3.5 points to 58.0 points in May, signalling the fastest pace of expansion since December 2004.
- Capacity utilisation across the services sectors, decreased to 73.3% (down 1.4 percentage points) of capacity being utilised in May, below its average over the past 12 months.



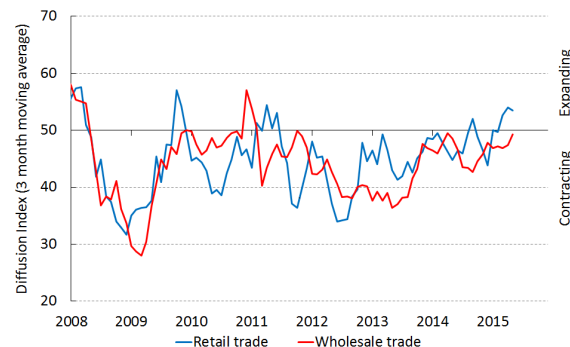
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** eased by 5.3 points to 67.3 points in May, reversing half of the unusual 11.4-point spike last month. It remains well above the 12-month average of 61.4 points and likely reflects higher prices for imports due to the recently lower dollar. Despite this recent acceleration, growth in overall input prices remains contained, owing to ongoing weak local demand and soft global and local inflation.
- The average wages sub-index in the **Australian PSI®** decreased by 2.9 points to 53.8 points in May. This suggests annual wage growth in the services industries is likely to have been moderate so far in Q2 2015. This followed a 2.2% p.a. increase in private sector wages in Q1 2015 (ABS wage price index), the slowest annual rates of wage growth on record. This reflects ongoing weakness in the national labour market, with an elevated unemployment rate of 6.2% in April 2015, as well as weak consumer inflation (1.3% p.a. in March 2015).
- Services sales prices stabilised in May after four months of contraction. The selling prices sub-index increased by 2.3 points to 50.7 points this month.



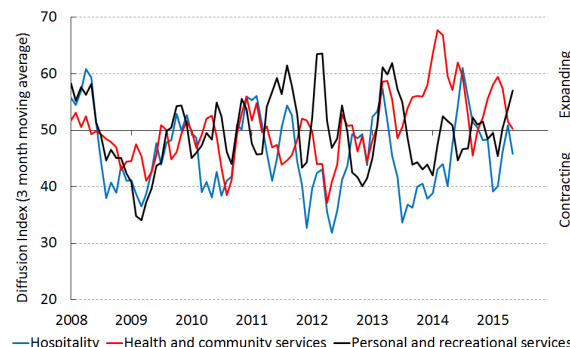
RETAIL STRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector expanded for a third month in May. The sub-sector's index declined marginally by 0.6 points to 53.4 points this month (three-month moving average).
- The **wholesale trade** sub-sector moved very close to stabilising in May. The sub-sector index increased by another 2.0 points to 49.3 points this month (three-month moving average). This sub-sector has been in contraction since November 2011.
- A buoyant housing market (in some but not all capital cities), a lower dollar, and very low interest rates seem to be boosting local retail consumption and tourism related activity, but household spending and investment are still on the cautious side, reflecting the poor economic outlook. Weak business sentiment and activity, particularly in mining and manufacturing, continue to affect demand for wholesale trade services.



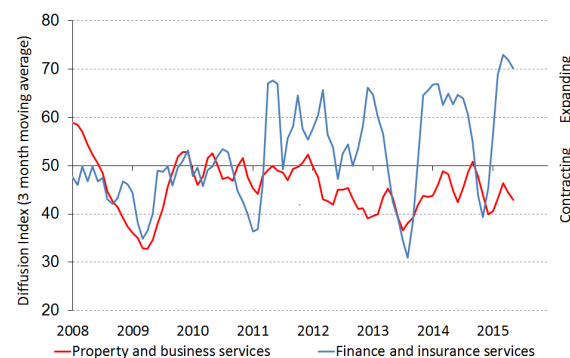
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector contracted again in May after a brief expansion in April. The sub-sector's index dropped by 5.2 points to 45.8 points (three-month moving average). Feedback suggests subdued household income and cautious business spending continue to weigh on this category of discretionary spending.
- The **personal and recreational services** sub-sector expanded for a third month in May. The sub-sector's index increased by 3.2 points to 57.0 points this month (three-month moving average). This category of discretionary spending appears to be improving, despite generally weak local economic conditions and cautious household spending.
- The huge **health and community services** sub-sector expanded for a seventh month in May, albeit very mildly. The sub-sector's index declined by another 1.2 points to 50.3 points this month (three-month moving average). Even so, the health and community sub-sector has recorded the strongest growth among all the **Australian PSI**[®] sub-sectors since early 2013.



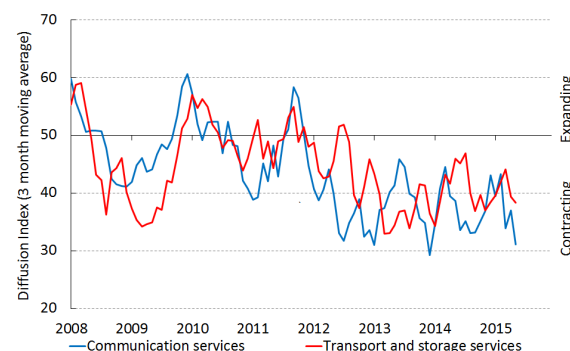
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index decreased by 1.6 points to 42.9 points in May (three-month moving average). This signalled the eighth month of contraction in this large business-oriented sub-sector, which last expanded in September 2014.
- Despite the benefits from a lower Australian dollar, higher residential building and transaction activity, respondents raised ongoing concerns about weak local economic conditions, business sentiment, and economic outlook. Continuing structural changes in the manufacturing industry, the rapid decline in mining investment, and ongoing weak appetite for investment by businesses and governments are still weighing heavily on 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 fifth month in May. The sub-sector's index eased by 1.8 points to 70.2 points this month (three-month moving average). This sub-sector includes the very large (and rapidly growing) \$1.8 trillion superannuation industry. It is directly affected by changes in interest rates, financial markets, investment trends (e.g. the popularity of real estate over other assets at present), and legislation that affects the financial services and superannuation industries.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector's index dropped by 5.9 points to 31.1 points in May (three-month moving average), signalling an alarming pace of contraction. This sub-sector has contracted since December 2011 (i.e. below 50 points). Demand for IT, communications and related services are still affected by weak local economic conditions, subdued public and private appetite for investment, and uncertain telecommunications investment in general.
- The **transport and storage services** sub-sector's index declined slightly by 1.0 point to 38.3 points in May (three-month moving average). This signalled the 34th consecutive month of contraction in this industry, which last expanded in July 2012. Weak consumer and business confidence, a sharp drop in mining construction, as well as the progressive closure of local automotive assembly, continue to weigh heavily on demand for local freight transport.



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 [®]	49.6	-0.1	48.1	Supplier Deliveries	49.3	1.8	46.2
Sales	45.1	-2.9	47.7	Input Prices	67.3	-5.3	61.4
New Orders	47.9	-0.2	48.7	Selling Prices **	50.7	2.3	48.5
Employment	58.0	3.5	50.5	Average Wages **	53.8	-2.9	56.3
Stocks	44.6	-4.1	44.7	Capacity utilisation **	73.3	-1.4	75.3

* 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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