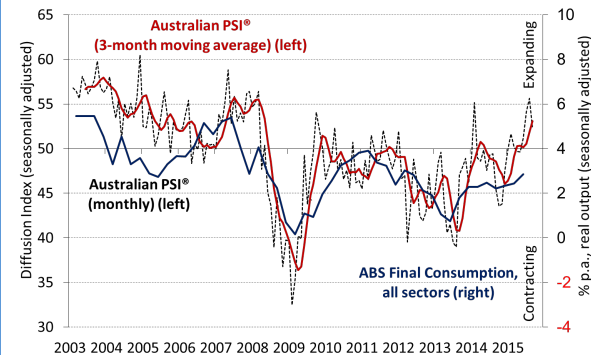


LONGEST SERVICES SECTOR EXPANSION SINCE GFC

Australian PSI® Sep 2015: 52.3 ↓	USA Flash PSI Sep 2015: 55.6 ↓	Eurozone Flash PSI Sep 2015: 54.0 ↓	UK Markit PSI Aug 2015: 55.6 ↓	Japan Markit PSI Aug 2015: 53.7 ↑	China PSI Aug 2015: 51.5 ↓
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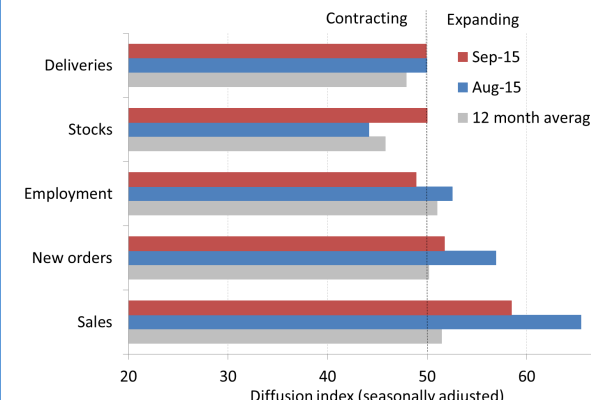
KEY FINDINGS

- The services sector expanded for a fourth consecutive month in September 2015, albeit at a slightly slower pace than in August. The seasonally-adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell 3.4 points to 52.3 points this month (readings above 50 points indicate expansion, with the distance from 50 points indicating the strength of expansion).
- Conditions across the services sector have been mostly positive in 2015, with the **Australian PSI®** expanding (readings above 50 points) in six of the nine months of 2015 to date. The current four-month run of expansion in the **Australian PSI®** is the longest such period of continuous expansion since March 2008.
- Three of the five activity sub-indexes in the **Australian PSI®** expanded (i.e. above 50 points) in September, the same as in August. Employment slipped in September after rising in the previous two months, while stock levels expanded to stable, after reducing in August.
- Six of the nine services sub-sectors in the **Australian PSI®** grew in September, up from five in August. This suggests that positive trading conditions are becoming more broad-based. Most notably, the transport and storage sub-sector's index improved to a stable, with its first month out of contraction and its strongest result since July 2012.
- Respondents to the **Australian PSI®** suggested better housing market activity continues to benefit a range of household services in NSW and to a lesser extent elsewhere. A handful of respondents pointed to a better political environment also supporting consumer confidence and sales. Local tourism, retail and other consumer services are noticing the benefits of the lower dollar, but are also noticing higher imported input prices for the goods that they need to buy.
- For the more business-to-business oriented sub-sectors, respondents in Queensland noted that local drought conditions are detracting from demand, while Victorian respondents said the current lack of major infrastructure projects is dampening demand for local business services.



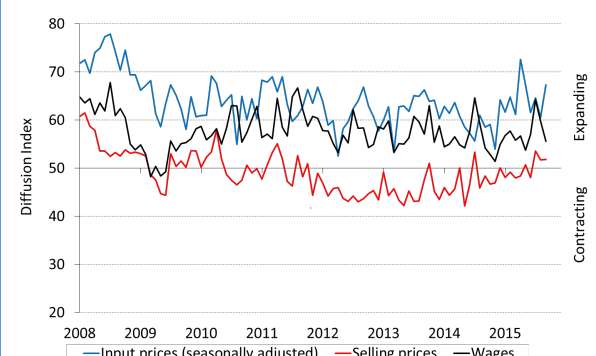
ACTIVITY SUB-INDEXES

- Sales and new orders expanded for a fourth consecutive month in September. The sales sub-index in the **Australian PSI®** fell to 58.5 points, while the new orders sub-index fell to 51.8 points, signalling a slower pace of growth for both of these key sub-indexes than in August.
- Supplier deliveries were stable again in September, at 49.9 points (and 50.0 points in August), as were stocks (inventories), at 50.0 points, after declining in August (44.1 points).
- The **Australian PSI®** employment sub-index fell below 50 points again in September, to 48.9 points, signalling a mild contraction in employment. This pause came after expansion in the previous two months and expansion in seven of the nine months of 2015 so far. The latest ABS labour force data confirm that in the year to August 2015, most of the employment growth (250,000 additional jobs or 2.2% p.a. growth across the economy) came from the services sector, with the strongest jobs growth occurring in healthcare (+90,000 jobs), hospitality (+40,000) and professional services (+30,000) over the year to August.
- Capacity utilisation across the services sector improved to 76.6 percent of all capacity being utilised in September, its highest level since January 2015 and above the 12-month average.



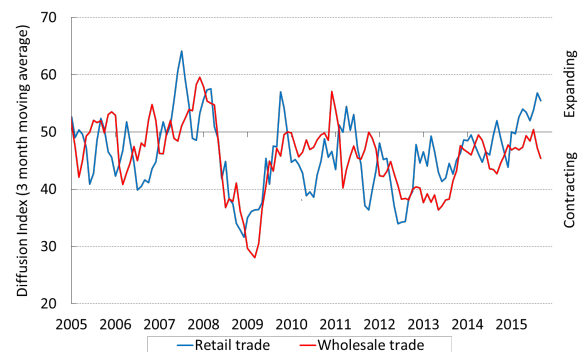
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** spiked up to 67.3 points in September, its highest reading since May, and well above the 12-month average of 63.2 points. Stronger input price increases in 2015 are likely reflecting higher prices for imports due to the lower dollar.
- The average wages sub-index in the **Australian PSI®** decreased by a further 4.2 points to 55.6 points in September, following the usual seasonal spike in July. Annual wage growth in the services sectors has been moderate so far this year. ABS wage price data show that private sector wages increased by only 2.2% p.a. in Q2 2015 (index), which was the slowest annual rate on record. This reflects a national unemployment rate stuck above 6% since mid-2014 (6.2% in August), as well as weak consumer inflation, with CPI up just 1.5% p.a. in Q2 2015.
- Services selling prices expanded for a third month in September, at about the same pace as in August. This recent expansion in prices reflects the need to cover higher costs for imported inputs due to the lower Australian dollar. Services businesses continue to face intense pressure to keep prices low and margins tight, due to strong local and global competition.



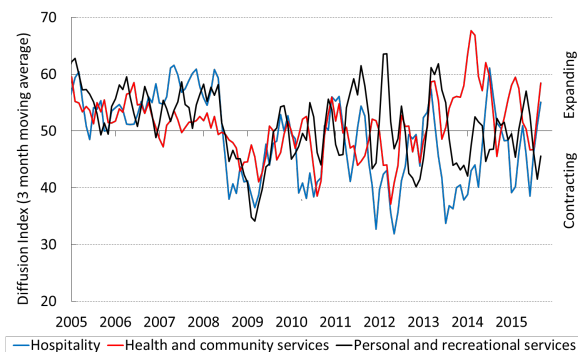
RETAIL STRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector expanded for a seventh consecutive month in September, albeit at a slower pace than in August (August being the highest reading since 2009). The sub-sector's index decreased by 1.3 points to 55.5 points this month (three-month moving average).
- Rising dwelling prices, low interest rates and a lower Australian dollar are supporting local retail sales in some locations. Some respondents also attributed their recent improvement in sales to better confidence, following the change of national political leadership in early September.
- The **wholesale trade** sub-sector contracted for a second month after a brief expansion in July. The sub-sector's index decreased by 1.8 points to 45.4 points (three-month moving average). Reports from this sub-sector suggest wholesalers are being squeezed by rising import prices and by competition from web-based global suppliers selling directly to retailers and consumers.



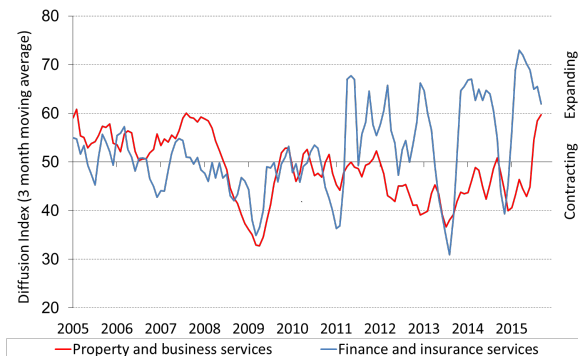
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector recorded a second month of expansion in September, after three months of contraction. The sub-sector's index increased by a further 4.1 points to 55.1 points this month (three-month moving average). This category of discretionary spending is benefitting from better consumer confidence, plus stronger inbound tourism numbers and more Australians holidaying locally as the dollar falls.
- The **personal and recreational services** sub-sector contracted for a third consecutive month in September, after four months of expansion between March and June 2015. This sub-sector's index improved by 4.1 points to 45.6 points (three-month moving average), indicating a milder pace of contraction. Weak nominal income growth and constrained public funding for some personal services appear to be weighing down this category of discretionary spending.
- The single largest services sub-sector, **health and community services**, expanded again in September. This sub-sector's index improved by 5.5 points to 58.4 points this month (three-month moving average). It has expanded in seven of the nine months of 2015 so far. This sub-sector includes health, education and community services. It is the single largest sector of employment nationally (and in all states of Australia) and is steadily growing its workforce.



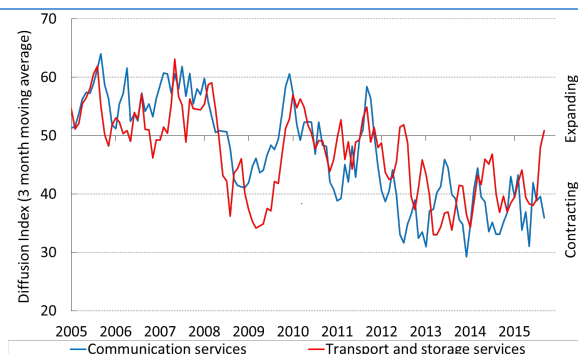
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index improved by 1.2 points to 59.7 points in September (three-month moving average). This was a third consecutive month of expansion after a relatively flat period and the fastest month of growth since August 2007.
- Respondents in the property and business services sub-sector in the **Australian PSI®** (including professional services, real estate services and administrative services) pointed to improved business conditions due to the stronger housing market. A few also attributed better confidence to the change of national political leadership in early September.
- The very large **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) expanded for a ninth consecutive month in September. The sub-sector's index dropped 3.6 points to 61.9 points this month (three-month moving average). This sub-sector has performed strongly in recent years, with an average index reading of 61 points over the past 12 months – the highest of any services sub-sector.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector continued to contract this month, and at a worsening pace. It has been in negative territory since December 2011. This sub-sector's index decreased by 3.7 points to 35.9 points in September (three-month moving average). Weak investment by public and private customers is weighing on demand for IT, communications and related services.
- The **transport and storage services** sub-sector's index stabilised at 50.9 points in September, following 37th consecutive months of contraction (it last expanded in July 2012). This sub-sector may be finally starting to see the benefits of improved residential construction activity and local retail trade. These hot spots are countering reduced demand elsewhere, due to declines in mining and engineering construction and in local automotive manufacturing.



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®	52.3	-3.3	49.9	Supplier Deliveries	49.9	-0.1	47.9
Sales	58.5	-6.9	51.5	Input Prices	67.3	6.8	63.2
New Orders	51.8	-5.1	50.2	Selling Prices **	51.8	0.1	49.4
Employment	48.9	-3.6	51.0	Average Wages **	55.6	-4.2	56.4
Stocks	50.0	5.9	45.8	Capacity utilisation **	76.6%	3.9	75.2%

* 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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