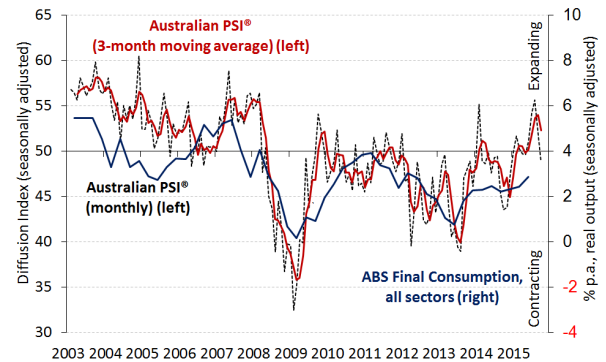


SERVICES SECTOR GROWTH INTERRUPTED IN OCTOBER

Australian PSI® Oct 2015: 48.9 ↓	USA Flash PSI Oct 2015: 54.4 ↓	Eurozone Flash PSI Oct 2015: 54.2 ↑	UK Markit PSI Sep 2015: 53.3 ↓	Japan Markit PSI Sep 2015: 51.4 ↓	China PSI Sep 2015: 50.5 ↓
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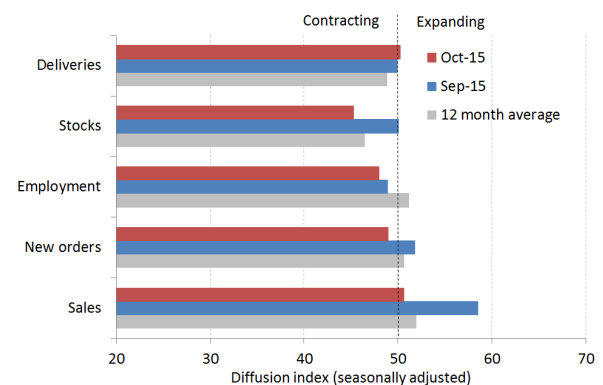
KEY FINDINGS

- Expansion in the services sector was interrupted in October 2015, after four months of expansion. The seasonally-adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) dropped by 3.3 points to 48.9 points this month, signalling a mild contraction (readings above 50 points indicate expansion, with the distance from 50 points indicating the strength of expansion).
- Other than this interruption, conditions across the services sectors have been mostly positive in 2015. The three-month average **Australian PSI®** still indicates expansion, at 52.3 points in October.
- Only two of the five activity sub-indexes in the **Australian PSI®** were above 50 points in October; sales and supplier deliveries. Services employment contracted for a second month, while both new orders and stock levels fell this month.
- Six of the nine services sub-sectors in the **Australian PSI®** grew in October. This suggests positive trading conditions are becoming more broad-based. Conditions still vary significantly across sub-sectors, with ongoing weakness in communications and wholesale trade.
- Respondents to the **Australian PSI®** indicated that a lower Australian dollar and low interest rates are benefitting local tourism, retail and other consumer services. Solid housing market activity continues to benefit a range of household services in NSW and to a lesser extent elsewhere. More business-to-business oriented sub-sectors are showing tentative signs of growth, although a lack of appetite for investment is dampening on demand for their services.
- The extra public holiday in Victoria for the first time in October this year, which was confirmed at short notice, disrupted activity across a range of consumer and business services nationally. The disruption was compounded due to the timing of this new holiday, just before public holidays in other states the following week.



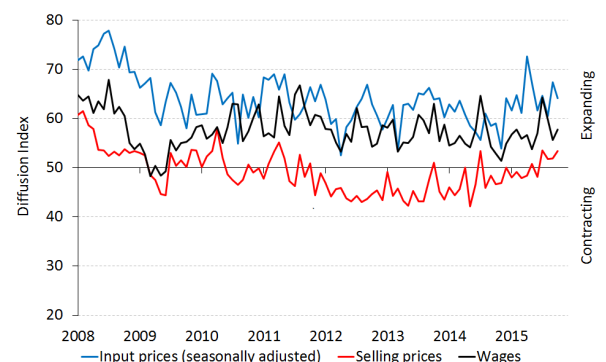
ACTIVITY SUB-INDEXES

- Sales in the services sectors expanded for a fifth month, albeit very mildly. The sales sub-index in the **Australian PSI®** fell to 50.6 points. Of more concern, growth in new orders paused this month after four months of expansion. The new orders sub-index declined by 2.8 points to 48.9 points, signalling a slight contraction from the previous month.
- Supplier deliveries were stable for a third straight month in October, at 50.3 points. However, stock levels (inventories) fell this month after a brief stabilisation in September, with the sub-index dropping by 4.8 points to 45.2 points.
- The **Australian PSI®** employment sub-index remained below 50 points for a second month October, at 48.0 points. This mild contraction in employment follows expansion in seven of the first eight months in 2015. It suggests job recovery across the labour-intensive services sectors remains very fragile.
- Capacity utilisation across the services sector declined to 73.8 per cent of all capacity being utilised in October, and below the 12-month average of 75.1 per cent.



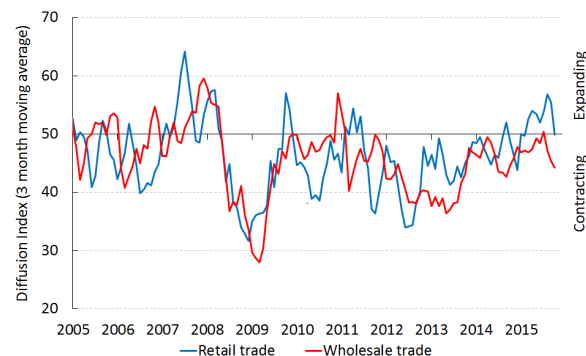
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** eased by 3.2 points to 64.1 points in October. However, it remained above the 12-month average of 63.6 points, as prices for imports continue to rise due to the lower Australian dollar.
- The average wages sub-index in the **Australian PSI®** increased by 2.2 points to 57.8 points in October. Annual wage growth in the services sectors has been moderate so far in 2015. 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 September), as well as weak consumer inflation, with headline inflation (the CPI) of just 1.5% p.a. in Q3 2015.
- Services selling prices expanded for a fourth month in October, and at a slightly faster pace than last month. This recent expansion in prices reflects the need to pass on higher costs for imported inputs due to the lower Australian dollar. Services businesses continue to face intense downward pricing pressure amid strong local and global competition.



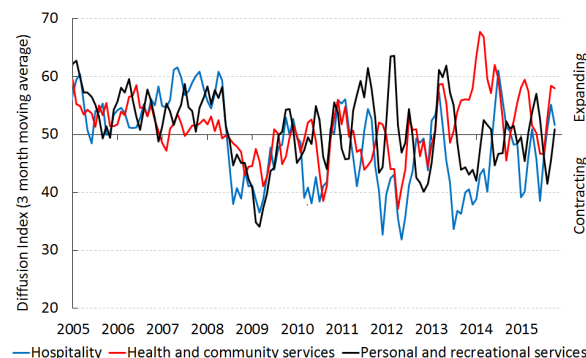
RETAIL STRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector was stable in October, following seven months of expansion. The sub-sector's index fell by 5.6 points to 49.9 points this month (three-month moving average). Despite the benefits from rising dwelling prices, low interest rates and a lower Australian dollar, local retail sales continued to be affected by subdued household income growth.
- The **wholesale trade** sub-sector remained in contraction for a third month after a brief expansion in July. The sub-sector's index decreased by another 1.1 points to 44.2 points in October (three-month moving average). Respondents from this sub-sector suggest wholesalers are facing rising import prices while competition from web-based global suppliers selling directly to retailers and consumers remains intense.



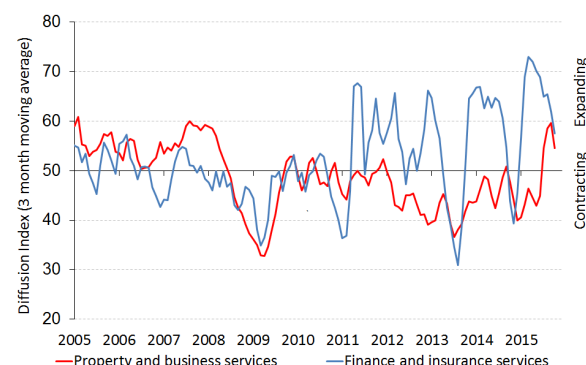
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector expanded for a third month in October, but at a slower pace. The sub-sector's index decreased by 3.5 points to 51.6 points this month (three-month moving average). A lower Australian dollar is encouraging stronger inbound tourism and more Australians to take their holidays locally, both of which are benefitting this category of discretionary spending.
- The **personal and recreational services** sub-sector expanded very mildly in October, after three months of contraction. This sub-sector's index increased by 5.4 points to 50.9 points this month (three-month moving average). However, weak nominal income growth and constrained public funding for some personal services continue to drag down demand and prices for this category of discretionary spending.
- The single largest services sub-sector, **health and community services**, expanded for a third month in October. This sub-sector's index was little changed, at 58.0 points this month (three-month moving average). It has expanded in eight of the ten 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 larger.



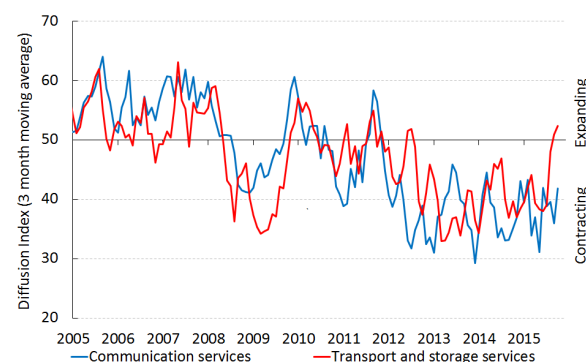
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index dropped by 5.1 points to 54.6 points in October (three-month moving average). This was the fourth consecutive month of expansion after a relatively flat period. It indicated a slower pace of growth this month. Respondents in the property and business services sub-sector in the **Australian PSI**[®] (including professional services, real estate services and administrative services) attributed the improvement in business conditions to the stronger housing market.
- The very large **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) expanded for a tenth consecutive month in October. The sub-sector's index declined by 4.4 points to 57.5 points this month (three-month moving average). This sub-sector has performed strongly this year, with an average index reading of 62.0 points over the past 12 months – the strongest of any services sub-sector.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** sub-sector contracted again this month. It has been in negative territory since December 2011. This sub-sector's index moved up by 5.9 points to 41.8 points in October, signalling a slower pace of decline (three-month moving average). Weak investment by public (government) and private customers continues to drag down demand for IT, communications and related services.
- The **transport and storage services** sub-sector expanded for a second month in October, following three years of continuous contraction. The sub-sector's index increased by 1.5 points, to 52.3 points this month. The benefits of improved residential construction activity and local retail trade may be finally flowing through to this sub-sector. However, reduced demand elsewhere, due to declines in mining and engineering construction and in local automotive manufacturing continue to weigh on freight transport activity and selling prices.



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 [®]	48.9	-3.3	50.4	Supplier Deliveries	50.3	0.3	48.8
Sales	50.6	-7.8	51.9	Input Prices	64.1	-3.2	63.6
New Orders	48.9	-2.8	50.6	Selling Prices **	53.4	1.5	50.0
Employment	48.0	-0.9	51.1	Average Wages **	57.8	2.2	56.8
Stocks	45.2	-4.8	46.4	Capacity utilisation **	73.8%	-2.8	75.1%

* 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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