psi AUSTRALIAN

PERFORMANCE OF SERVICES INDEX®

Ai GROUP

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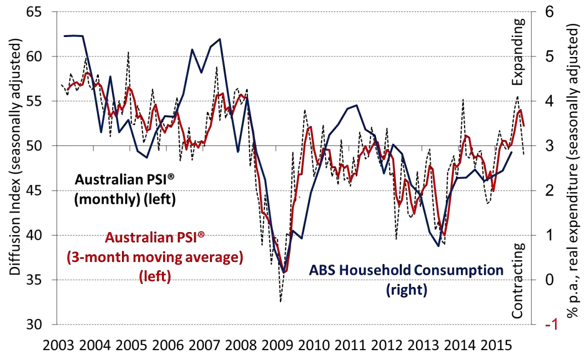
SERVICES SECTOR STALLS IN NOVEMBER

Australian PSI®	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Nikkei PSI	China Caixin PSI
Nov 2015: 48.2 ↓	Nov 2015: **56.5** ↑	Nov 2015: **54.6** ↑	Sep 2015: **54.9** ↑	Oct 2015: **52.2** ↑	Oct 2015: **52.0** ↑

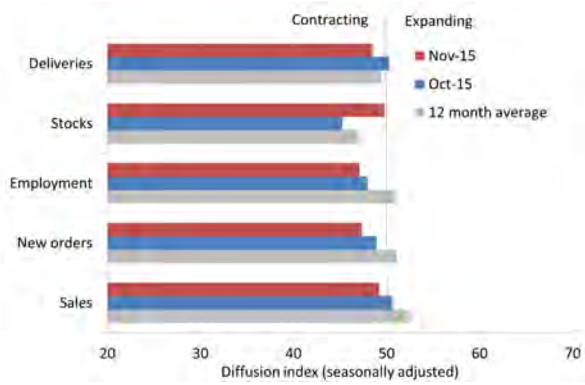
KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index **(Australian PSI®)** stalled for a second consecutive month in November, falling 0.7 points to 48.2 points this month (readings above 50 points indicate expansion, with the distance from 50 points indicating the strength of expansion).
- This mild contraction interrupts a mostly positive performance through 2015, with the **Australian PSI®** indicating expansion in six of the eleven months so far this year.
- All five of activity sub-indexes in the **Australian PSI®** were below 50 points in November.
- Four of the nine services sub-sectors in the **Australian PSI®** grew in November. This suggesting growth remains patchy and fragile. Conditions still vary significantly across sub-sectors, with ongoing weakness in communications and wholesale trade.
- Respondents to the **Australian PSI®** suggested that consumer spending remains cautious and fragile, with some respondents indicating that recent rises in mortgage interest rates by the major banks are already detracting from local household spending. Weaker activity in the retail and hospitality sub-sectors in the **Australian PSI®** in recent months may be reflecting this influence, with many respondents describing trading conditions as 'flat' or 'steady'.
- Other respondents indicated that the strength of housing market activity is boosting demand for a range of housing-related services to consumers in NSW (e.g. property, professional and financial services), but the influence of this trend appears to be muted elsewhere.
- In the business-to-business services sectors, activity is patchy outside the housing market, with fewer large commercial or engineering projects in the pipeline to support sales. Corporate travel and hospitality spending are also said to be down, for this time of year.



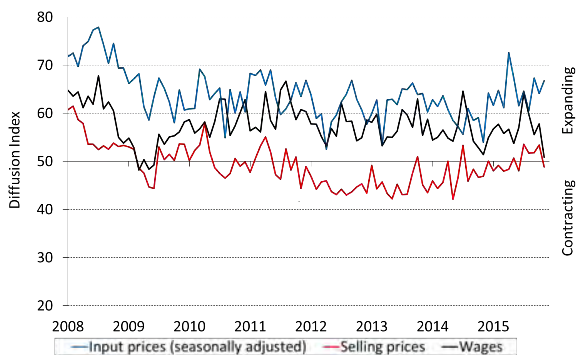
ACTIVITY SUB-INDEXES

- Sales in the services sectors were approximately stable again in November, falling 1.4 points to 49.2 points in November, from 50.6 points in October.
- Of more concern, new orders contracted at a faster pace in November, with this sub-index falling 1.6 points to 47.3 points. New orders have now contracted for two consecutive months, after four months of expansion (and expanding, on average, for 12 months).
- Supplier deliveries shrank in November after three months of stability. This sub-index fell 1.8 points to 48.5 points in November, after six months of slight increases or stable levels (around 50 points). Stock levels were close to stable (49.8 points) after falling in October.
- The **Australian PSI®** employment sub-index remained below 50 points and indicating mild contraction for a third month November, at 47.1 points. This recent contraction follows expansion in seven of the first eight months in 2015. It suggests the recent jobs recovery across the labour-intensive services sectors remains fragile.
- Capacity utilisation across the services sector increased to 76 per cent of all capacity being utilised in November, and below the 12-month average of 75 per cent.



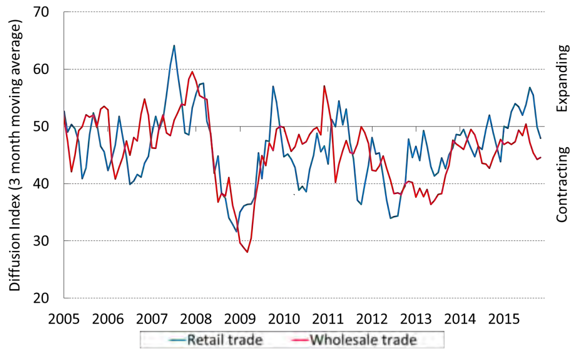
PRICES SUB-INDEXES

- The input prices sub-index in the **Australian PSI®** increased by 2.6 points to 66.7 points in November. It remains above the 12-month average of 64.7 points, as prices for imports continue to rise due to the lower Australian dollar.
- The average wages sub-index in the **Australian PSI®** fell sharply by 6.9 points to 50.9 points in November, indicating nominal wages were stable. This was the lowest level for this sub-index since June 2009. The latest ABS wage price index (WPI) data show that private sector wages increased by only 2.1% p.a. in Q3 2015 (index), which was the slowest annual rate of increase for the WPI since the data series commenced in 1998
- The services selling prices sub-index fell below 50 points to 48.8 points in November, indicating a small reduction in nominal prices, after fourth months of increases. This recent run of rises reflected the need to pass on higher costs for imported inputs due to the lower Australian dollar. The slight price fall in November suggests intense price competition in many sectors and a levelling out in trading conditions.



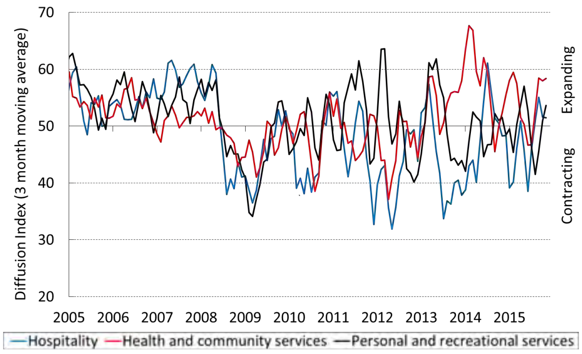
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector contracted (a decline to 45.2 points) in November, after a stable month in October (49.9 points) and seven months of expansion earlier in the year. Retailing respondents indicated that the lower Australian dollar is continuing to encourage more consumers to shop locally, but that retail sales seem to be flattening out (relatively speaking, for this time of year) due to subdued income growth and the recent mortgage interest rate rises by some of Australia's major banks.
- The **wholesale trade** sub-sector contracted for a fourth month after stabilising in July. The sub-sector's index was roughly unchanged at 44.5 points (0.3 points change from October). 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.



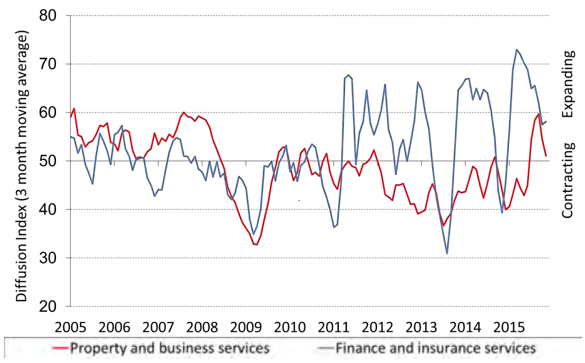
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector continued to expand for a fourth month in November, but at a slowing pace. The sub-sector's index decreased by 0.3 points to 51.3 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 strongly in November, up 8.1 points to 59.0 points. This improvement came after a stable month in October and a weak Q3, with contractions (results under 50 points) in each of July to September.
- The giant **health and community services** sub-sector expanded for a fourth month in November, albeit at a slower pace. This sub-sector's index fell 3.3 points to 54.7 points (three-month moving average). It has expanded in nine of the eleven months of 2015 so far. This sub-sector includes health, education, welfare and community services. It is the single largest sector of employment nationally and in each state of Australia, with 12.4% of Australia's total workforce employed in health and community services and another 8% employed in education services, as of August 2015 (ABS labour force data).



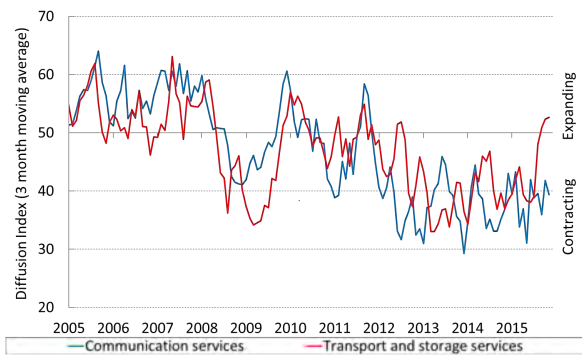
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index dropped by 6.0 points to 48.6 points in November, ending four consecutive months of expansion. Respondents in this large sub-sector indicated that services related to the housing market are still in demand (and especially in NSW) but that conditions are relatively flat elsewhere. This sub-sector employs around 10% of Australia's total workforce (ABS labour force data, August 2015).
- The **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) expanded for an eleventh consecutive month in November, albeit at a slower pace. The sub-sector's index declined by 3.3 points to 54.2 points this month (three-month moving average). This sub-sector has performed strongly this year. It has remained in expansion (index results above 50 points) in most months since mid-2011.



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 fell 1.6 points to 40.3 points in November (three-month moving average). Weak investment by the public sector and private businesses means lower spending on IT, communications and related services.
- The **transport and storage services** sub-sector was stable in November (49.8 points) following two months of expansion. This recent improvement ended three years of continuous contraction. 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®	**48.2**	**-0.8**	**50.7**	**Supplier Deliveries**	48.5	-1.8	49.3
Sales	49.2	-1.4	52.6	**Input Prices**	66.7	2.6	64.7
New Orders	47.3	-1.6	51.0	**Selling Prices** **	48.8	-4.6	50.1
Employment	47.1	-0.9	50.9	**Average Wages** **	50.9	-6.9	56.8
Stocks	49.8	4.5	47.0	**Capacity utilisation** **	76.0	2.2	75.0

* 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.