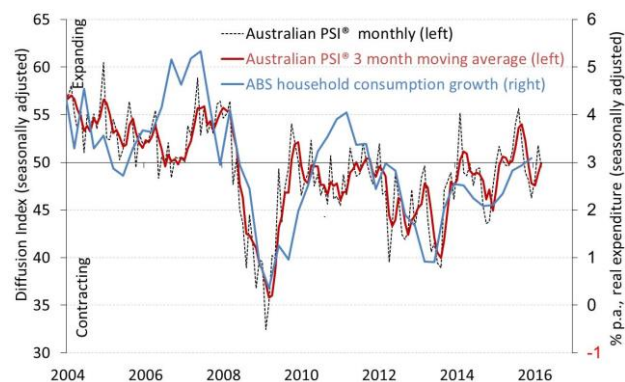


SERVICES SECTOR TRENDS WATER IN MARCH

Australian PSI® Mar 2016: 49.5 ↓	USA Flash PSI Mar 2016: 51.0 ↑	Eurozone Flash PSI Mar 2016: 54.0 ↑	UK Markit PSI Feb 2016: 52.7 ↓	Japan Nikkei PSI Feb 2016: 51.2 ↓	China Caixin PSI Feb 2016: 51.2 ↓
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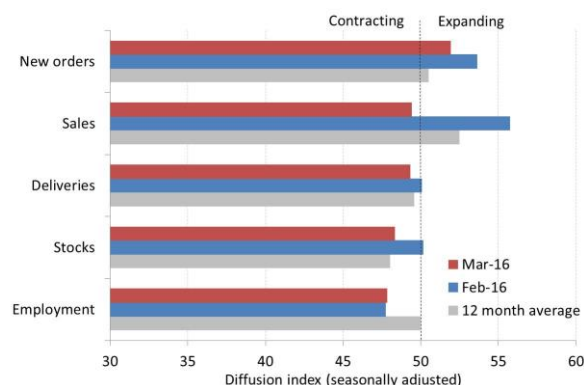
KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) dropped by 2.3 points to 49.5 points in March indicating a broadly stable month for the services sector after expanding in February (results above 50 points indicate expansion with higher numbers indicating a stronger rate of expansion).
- Of the five of activity sub-indexes in the **Australian PSI®** new orders expanded in March (51.9 points) but the other four indicators were below 50 points and indicating stable conditions or net contraction. Sales went from a strong result (55.7 points) in February to stable (49.4 points) in March, deliveries softened but remained broadly stable (49.3 points), while stocks (48.3 points) and employment contracted (47.8 points).
- Six of the nine services sub-sectors in the **Australian PSI®** were stable or expanded in March (three month moving averages) improving from three sub-sectors in February. Finance & insurance (54.2 points), health & community services (58.4 points) and personal & recreation services (53.1 points) all continued their positive run. Wholesale trade (50.5), hospitality (50.9 points) and communications services (51.0 points) all went from contractionary conditions to stable. Retail trade (47.3 points), transport & storage (45.2 points) and property and business services (48.8 points) all remained in contraction in March.
- The **Australian PSI®** results for March suggest continued strength in households services but weaker conditions in goods distribution sectors (retail, wholesale and transport services) and in business services.
- The input costs (58.2 points) and wages (54.2 points) sub-indexes of the **Australian PSI®** remained in expansion in March but selling prices contracted (46.9 points) in March after a stable month in February. This indicates that services businesses are facing margin pressures. Respondents observe increasing competition in the services sector with businesses reluctant to pass on increased input costs (such as those being caused by a lower Australian dollar).



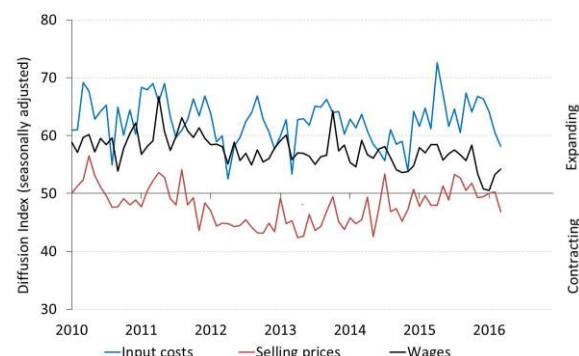
ACTIVITY SUB-INDEXES

- The new orders sub-index was the only activity sub-index in the **Australian PSI®** to indicate expansion in March, at 51.9 points albeit at a weaker rate than February.
- The sales sub-index slipped to broadly stable conditions in March (49.4 points) after expanding in February indicating a softer month of sales growth.
- The supplier deliveries sub-index fell modestly by 0.8 points in March but remains broadly stable at 49.6 points. This sub-index has been stable over the past year.
- Stock levels (inventories) fell by 1.8 points to 48.3 points in March moving into contraction. This sub-index has been volatile over the past twelve months suggesting services businesses are adjusting their inventory levels in response to short-term changes in demand.
- The employment sub-index was largely unchanged remaining in contraction at 47.8 points in March. This marks the seventh consecutive month of contraction for services employment signalling weaker demand for labour in the services sectors after a relatively stronger period in mid-2015.
- Capacity utilisation (now seasonally adjusted*) across the services sector expanded to 77.9 per cent of available capacity in March, which is a relatively strong result.



PRICES SUB-INDEXES

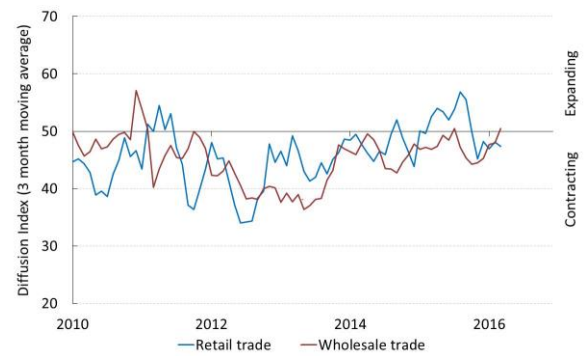
- Input price rises remained relatively strong at 58.2 points in March. This upward pricing pressure for inputs largely reflects the continuing impact of the low Australian dollar through 2015 on imported input prices for retailers, wholesalers and others.
- The wages sub-index (now seasonally adjusted*) increased to 54.2 points in March suggesting a stronger month of wage increases following a weaker period for wage inflation in late 2015.
- The selling prices sub-index (now seasonally adjusted*) moved 3.4 points lower in March to swing to contraction (46.9 points) after stabilising in early 2016 falling in November and December. This indicates falling prices and reflects the current low inflation environment and a reflection of more intense competition.



* From March 2016, the **Australian PSI®** sub-indexes for capacity utilisation, wages and selling prices are reported on a seasonally adjusted basis (previously unadjusted).

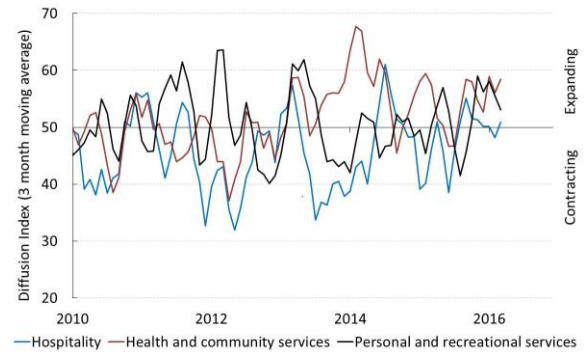
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector remained in contraction (47.3 points) for a sixth consecutive month in March after a run of positive months in mid-2015. Retailers continue to face tough conditions. The lower Australian dollar is pushing up prices for imported products and raising costs for import-dependent retailers but heavy competition is restricting their ability to pass on these higher prices and compressing their margins.
- The **wholesale trade** sub-sector was stable in March with its sub-index moving up to 50.5 points. This was the highest reading for this sub-sector's index since January 2011. Survey respondents to the **Australian PSI**[®] indicate that activity is increasing in some markets but slow demand and increasing competition are adversely affecting other sectors.



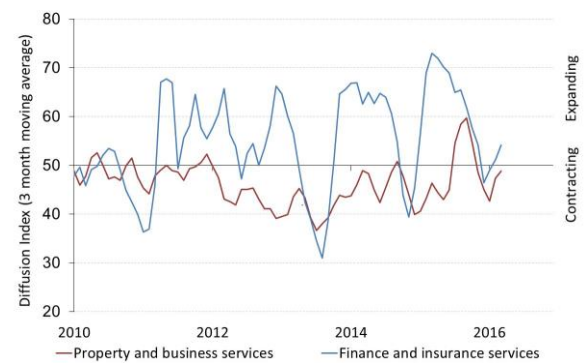
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector stabilised in March, at 50.9 points, after contracting in February. Survey respondents to the **Australian PSI**[®] reported higher demand for hospitality services in the month possibly reflecting the earlier timing of the Easter holidays this year.
- The **personal and recreational services** sub-sector continued expanding, at 53.1 points in March, the sixth consecutive month of expansion. This sub-sector is benefiting from a lower Australian dollar with consumers preferring to spend on local services instead of goods (e.g. from retailers) or on offshore holidays and recreation. Like hospitality, this sub-sector may have benefited in March from the earlier timing of the Easter holidays this year.
- The giant **health and community services** sub-sector expanded for an eight month in March and at a faster rate with its sub-index increasing by 2.3 points to 58.4 points. This sub-sector includes health, education, welfare and community services. Around 13% of Australian workers are employed in health and community services and another 8% are in education. Health services alone accounted for 30% of all new jobs (83,000 in trend terms) added to the national economy in the year to February 2016 (ABS, February 2016).



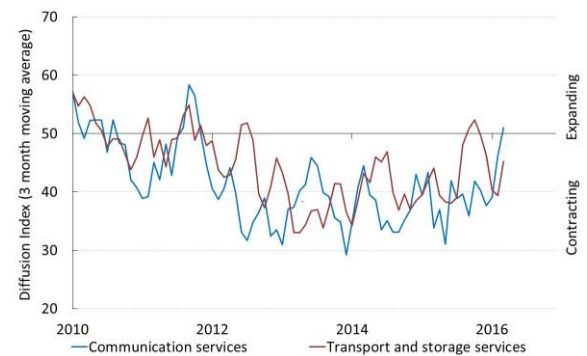
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index remained in contraction for a fifth month in March, at 48.8 points, albeit at a milder rate than in the previous two months. This sub-sector includes professional, administrative, rental and real estate services and employs around 14% of Australia's total workforce. Conditions in this sub-sector deteriorated in late 2015 reflecting a reduction in activity in the relatively large professional services segment even though the smaller real estate services segment is busy.
- The **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) improved in March increasing by 3.1 points to 54.2 points. This sub-sector performed strongly through 2015 with a brief contraction in December and now looks to be recovering.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- Communications** halted its long period of decline in March, with its index improving by 4.9 points to 51.0 points. This result was the strongest since October 2011 and suggests stable or mildly expanding conditions. This sub-sector looks to be recovering after several years in decline with respondents to the **Australian PSI**[®] noting a recent lift in sales and new orders.
- Transport and storage services** remained the weakest services sub-sector in March with its index at 45.2 points. This was an improvement on February's result of 39.4 points but this sub-sector still appears to be struggling. Looking ahead, respondents to the **Australian PSI**[®] from this sub-sector reported that lower fuel costs and new transport infrastructure could help to improve conditions in the sub-sector.



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 [®]	49.5	-2.3	50.5	Supplier Deliveries	49.3	-0.8	49.6
Sales	49.4	-6.3	52.5	Input Prices	58.2	-2.3	64.5
New Orders	51.9	-1.7	50.5	Selling Prices	46.9	-3.4	50.2
Employment	47.8	+0.1	50.0	Average Wages	54.2	+0.9	55.1
Stocks	48.3	-1.8	48.0	Capacity utilisation	77.9	+2.0	75.4

* 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.

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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