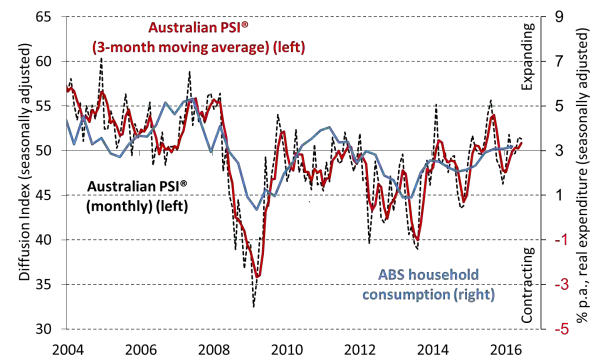


SERVICES SECTOR CONTINUED TO EXPAND IN JUNE

Australian PSI® Jun 2016: 51.3 ↓	USA Flash PSI May 2016: 51.3 ↑	Eurozone Flash PSI May 2016: 52.4 ↓	UK Markit PSI May 2016: 53.5 ↑	Japan Nikkei PSI May 2016: 50.4 ↑	China Caixin PSI May 2016: 51.2 ↓
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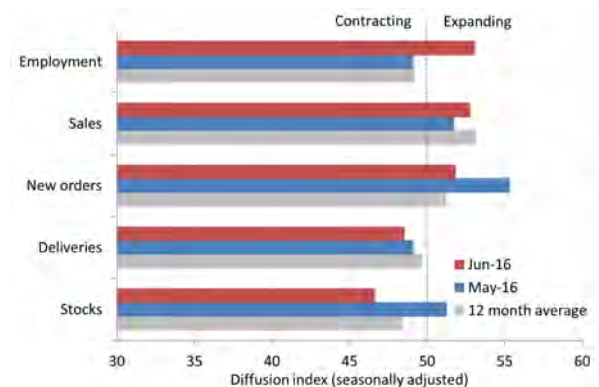
KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell by 0.2 points to 51.3 points in June, indicating a modest expansion in activity across the services sector for a second consecutive month (results above 50 points indicate expansion, with higher numbers indicating a stronger rate of expansion).
- Of the five activity sub-indexes in the **Australian PSI®**, employment (53.1 points) lifted 4 points into positive territory in June, its first positive reading since August 2015. Sales (52.8 points) picked up 1.1 points while new orders (51.8 points) lost 3.5 points, indicating a positive but slower pace of growth. Stocks (46.6 points) slipped into negative territory (down 4.6 points from May), while deliveries (48.5 points) remained negative, indicating a reduction in inventories and supplier deliveries for the end of the financial year in June.
- Two of the nine services sub-sectors** in the Australian PSI® expanded in June (in three month moving averages) and two were stable. Retail trade (66.5 points and a record high for this sub-sector) and finance & insurance (66.8 points) expanded in June. Health & community services (49.4 points) and property & business services (49.4 points) were stable in June. Communication services (44.7 points), wholesale trade (42.0 points), personal & recreational services (39.9 points), hospitality (37.3) and transport & storage (36.2) all contracted, with a relatively faster rate of contraction evident in hospitality and transport.
- The input costs (63.3 points) sub-index of the **Australian PSI®** expanded more strongly in June, possibly indicating further price rises for imported products due to Australian dollar fluctuations. Selling prices (44.6 points) fell in June and wages (50.8 points) were stable for a second month, reflecting the low-inflation environment for local prices and wages at present.
- Respondents noted that recent winter weather may have had a positive effect on retailers and some other services businesses this month. However, the election period leading up to 2 July may have held back spending and orders for business-oriented service sectors in June.



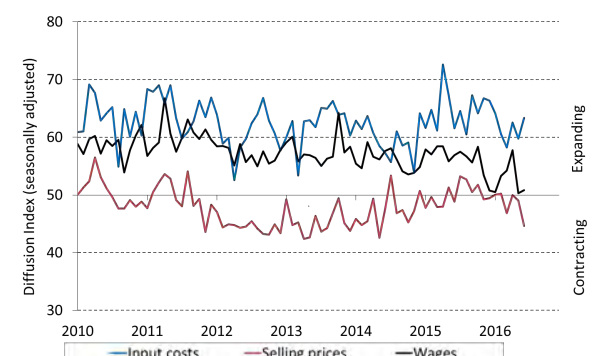
ACTIVITY SUB-INDEXES

- The new orders sub-index (51.8 points) in the **Australian PSI®** dropped by 3.5 points in June but remained in expansion. It has been indicating expansion in each month since February 2016, suggesting reasonably steady growth in new orders and positive conditions ahead.
- The sales sub-index (52.8 points) lifted 1.1 points in June, indicating a welcome second month of sales growth, after contracting mildly in both March and April.
- The employment sub-index rose by 4.0 points to 53.1 points in June, indicating the first expansion in employment across the services sectors since August 2015.
- Stock levels (inventories) contracted in June after a one-off increase in May, with this sub-index falling 4.6 points to 46.6 points in June. This sub-index has been volatile over the past year but has, on average, been contracting. Participants in the **Australian PSI®** say they have tried to run down inventories in response to weak demand and/or to reduce costs.
- The supplier deliveries sub-index fell 0.6 points to 48.5 points in June, indicating a second month of contraction after a relatively stable period for deliveries since January 2016.
- Capacity utilisation* across the services sector fell slightly (-0.5 percentage points) to 73.3 per cent of available capacity in June. This was its lowest reading since March 2015 and indicated a further easing from higher levels of capacity utilisation in early 2016.



PRICES SUB-INDEXES

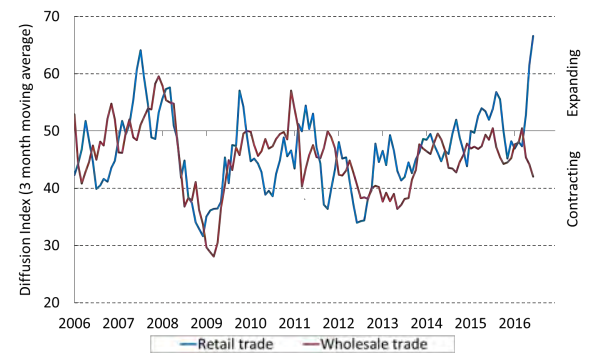
- Input prices continued to grow but at a faster pace, with the sub-index rising to 63.3 points in June. This was the highest reading for this sub-index since January and indicates ongoing margin pressures for services sector businesses. It largely reflects price rises for imported inputs (particularly in wholesale and retail trade) due to the lower but rather volatile dollar through 2016. Higher import prices tend to flow through with a time lag, following the dollar.
- The wages sub-index* remained stable for a second consecutive month at 50.8 points in June, confirming the flattening of wages growth in 2016 that has been apparent in other data.
- The selling prices sub-index* dropped a further 4.4 points to 44.6 points in June, signalling a further fall in prices after a relatively stable period earlier in 2016. This reflects the low-inflation environment prevailing across the economy at present, which makes it difficult for services businesses to raise the prices they charge to their customers.



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

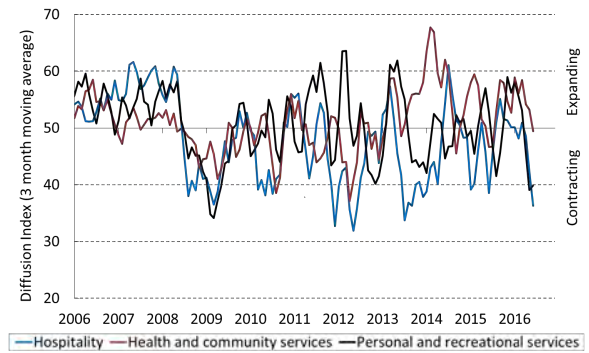
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector expanded for a third consecutive month in June and at a faster pace, with the sector's sub-index rising by 5.1 points to 66.5 points (a record high for this sub-sector). A recovery in retail conditions has been apparent in the **Australian PSI**[®] since April, after an extended period of weak conditions earlier in 2015-16. Conditions appear to be recovering for retailers as the lower Australian dollar encourages consumers to shop locally again and as the housing upswing translates into more spending on household goods and furnishings. The strength in sales and new orders point to good potential for further growth in the coming months, once the uncertainty of the recent Federal election settles down.
- The **wholesale trade** sub-sector continued to contract in June, with the sector's sub-index falling a further 2.2 points to 42.0 points. This was its lowest reading since September 2013. Wholesaling respondents to the **Australian PSI**[®] reported weak sales, new orders, contracting employment and very tight margins, despite the apparent lift in retail activity.



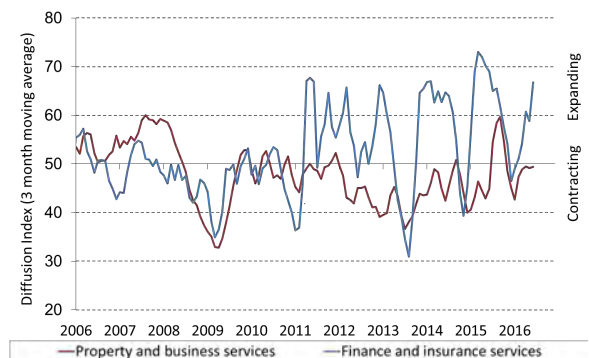
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector fell further into contraction in June, falling another 5.0 points to 37.3 points. Weaker conditions are evident and monthly volatility appears to be returning, after a relatively stable period in early 2016. This most recent downturn possibly reflects a more cautious mood leading up to the election.
- The **personal and recreational services** sub-sector experienced a third month of serious contraction in June (39.9 points). This suggests very cautious local spending behaviour in the lead-up to the election, in contrast to the solid period of growth from late 2015 to early 2016. Respondents to the **Australian PSI**[®] reported weakness in employment, inventories and deliveries but not new orders in May and June, so the current downturn might not persist.
- The very large **health and community services** sub-sector was approximately stable in June (down 3.8 points to 49.4 points), after 10 months of continuous expansion. This sub-sector includes health, education, welfare and community services. ABS labour force data show that 13% of Australia's 12 million workers are employed in health and community services with a further 8% in education. 71,600 health sector jobs were added to the national economy in the year to May 2016 (including 15,500 in the three months to May 2016, trend).



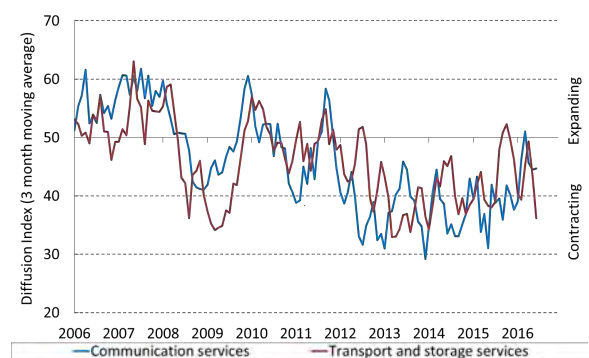
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index continued to indicate stable or slightly contractionary conditions in June, rising just 0.2 points to 49.4 points. 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 have been weak in 2016, reflecting a reduction in activity in the relatively large professional services segment even though the smaller real estate services segment is busy and expanding in some locations.
- The **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) had another strong month of expansion in June, with its sub-index rising by 8.0 points to 66.8 points. This was the fifth month of solid expansion for this sub-sector and the strongest monthly reading since June 2015. Respondents to the **Australian PSI**[®] noted strong sales and new orders in May and June (despite election-related consumer caution), which suggests further growth in the coming months.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- Communications** services continued to contract in June, with its sub-index rising just 0.2 points to 44.7 points. This was a third month of contraction, after a welcome but short period of recovery earlier in 2016. Respondents to the **Australian PSI**[®] noted falling employment and sales in their sub-sector in June. Better new orders in May and June are yet to translate into stronger activity.
- Transport and storage** services fell into further contraction after stabilising in April, with the sector's sub-index declining by another 7.5 points to 36.2 points in June. This sub-sector appears to be battling again, with June showing the lowest monthly reading for this sub-index since January 2014. Respondents to the **Australian PSI**[®] reported weak conditions in May and June across all activity sub-indexes in the lead-up to the Federal election, despite the apparent strengthening in local retail sales activity.



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 [®]	51.3	-0.2	50.6	Supplier Deliveries	48.5	-0.6	49.6
Sales	52.8	1.1	53.1	Input Prices	63.3	3.5	63.2
New Orders	51.8	-3.5	51.2	Selling Prices	44.6	-4.4	49.8
Employment	53.1	4.0	49.1	Average Wages	50.8	0.5	54.1
Stocks	46.6	-4.6	48.4	Capacity utilisation	73.3	-0.5	75.6

* 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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