

Services stable in October

Australian PSI®
 Oct 2016: 50.5↑

USA Flash PSI
 Oct 2016: 54.8↑

Eurozone Flash PSI
 Oct 2016: 53.5↑

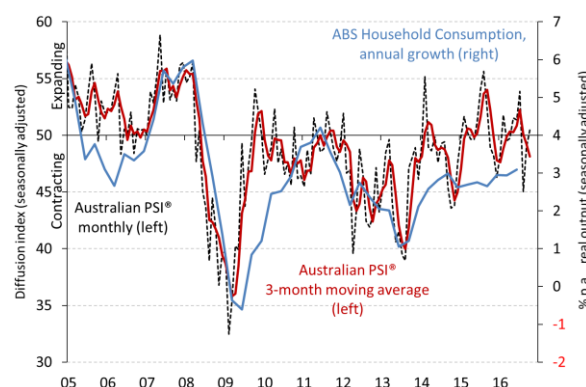
UK Markit PSI
 Sept 2016: 52.6↓

Japan Nikkei PSI
 Sept 2016: 48.2↓

China Caixin PSI
 Sept 2016: 52.0↓

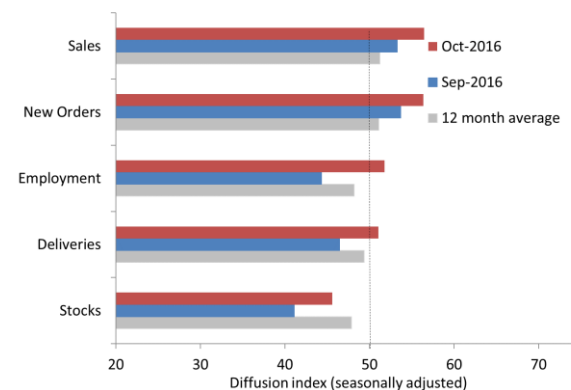
KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) lifted by 1.6 points to 50.5 points in October. This marked a return to stable conditions after two months of contraction in August and September (results above 50 points indicate expansion, with higher numbers indicating a stronger rate of expansion).
- Three of the five activity sub-indexes in the **Australian PSI®** were above 50 points and indicating expansion in October. Employment lifted into positive territory, rising 8.6 points to 52.9; new orders fell 1.4 points to 52.3 points and sales dropped by 2.2 points to 51.1 points.
- Stocks (up 0.6 points to 41.7 points) and supplier deliveries (up 1.7 points to 48.2 points) continued to decline, but at a slower pace in October.
- Four of the nine services sub-sectors in the **Australian PSI®** expanded or were stable in October (three month moving averages). Health and community services (down by 2.3 points to 53.6), personal and recreation services (down by 3.8 points to 53.3) and wholesale trade (down by 0.4 points to 52.1) all expanded in October but at a slower rate. Finance and insurance improved by 2.2 points to be broadly stable over the month, at 50.3 points. Communication services (49.7 points) and property and business services (49.9 points) were also broadly stable in October. Retail trade (46.2 points), accommodation, cafes and restaurants (39.3 points) and transport and storage (37.9) continued to contract.
- Respondents to the **Australian PSI®** noted that general business confidence improved and that some promotional campaigns had helped to increase new orders. Negative factors over the past few months such as the Federal election and poor weather seem to have passed.



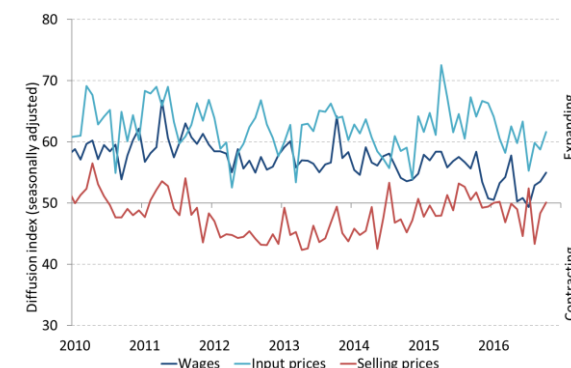
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** moderated by 2.2 points to 51.1 in October. Except for the month of August, sales have been expanding in every month (with index readings above 50 points) since January 2016.
- The new orders sub-index dropped by 1.4 points to 52.3, remaining in expansion in October. New orders expanded in eight of the past nine months and have been positive, on average, over the past 12 months. This suggests better activity and sales in the coming months.
- The employment sub-index lifted by 8.6 points to 52.3 points in October. This marks a return to growth for this sub-index after two months of relatively low results that indicated contraction and coincided with weakening jobs growth nationally (ABS labour market estimates indicate national employment numbers fell in both August and September, seasonally adjusted).
- The supplier deliveries sub-index rose to 48.2 points in October, signaling a slower pace of contraction in deliveries. The stocks (inventories) sub-index remained largely unchanged from September, lifting by 0.6 points to 41.7 points in October. This was a third month of declining stocks and among the lowest results in two years. It suggests services businesses are winding down stocks as part of their response to filling new orders and sales.
- Capacity utilisation* across the services sector improved slightly (up 0.9 percentage points) to 76.3 per cent of available capacity in October.



PRICES SUB-INDEXES

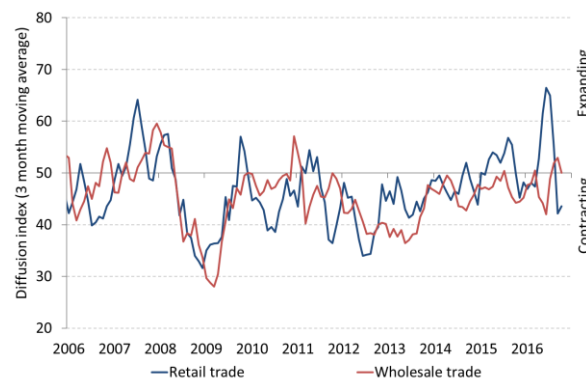
- Input prices continued to rise in October and at a faster pace than in September, with this sub-index rising by 2.9 points to 61.7 points. Growth in input costs and changing competition continue to intensify margin pressures for businesses facing structural and technological changes within their industries.
- The wages sub-index* indicated an increase in wages for a third month in October, with the average wages sub-index rising 1.5 points to 55.0 points in October. This continues the trend towards moderate wages growth seen earlier in the year, and reflects the pickup in employment in the services sector in October, after two months of weaker demand.
- The selling prices sub-index* lifted by 1.8 points to 50.1 points in October, indicating that selling prices were stable over the month.



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

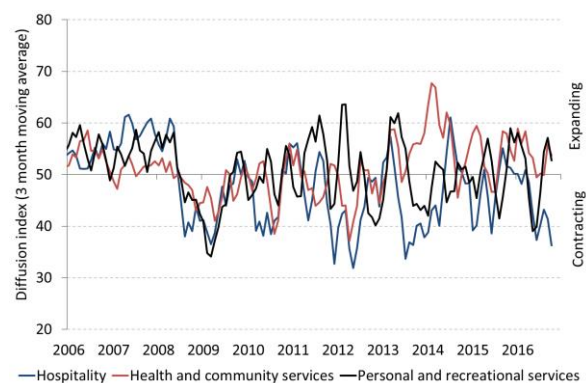
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector's index recovered by 4.1 points to 46.2 points in October, but remained in contraction. This follows a substantial contraction in September. Respondents to the **Australian PSI**[®] from the retail trade sub-sector noted that consumers remain cautious in their spending, while also noting that industry technology changes and fierce pricing competition were continuing to constrain margins.
- The **wholesale trade** sub-sector's index dropped by 0.4 points to 52.1 points in October, indicating a third month of expansion, albeit a slightly slower rate. This follows an extended period of continuous flat or contractionary results since January 2011. This seems to suggest that wholesale trade may be picking up and responding to the changes in the traditional wholesale model, which is blurring the lines between wholesale and retail selling.



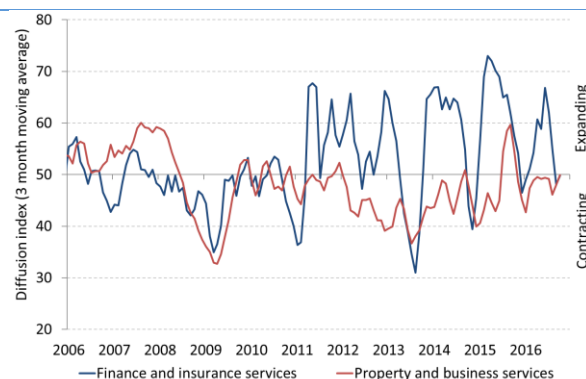
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector continued to shrink in October, with its index falling 2.1 points to 39.3 points. This marked the eleventh month that the sector was either flat or in contraction. Respondents to the **Australian PSI**[®] in the hospitality industry noted that consumers continue to be wary about discretionary spending, but they also noted weaker corporate spending within their sub-sector.
- The **personal and recreational services** sub-sector's index continued to grow but at a weaker pace than in September, dropping 3.8 points to 53.3 points in October. This sub-sector has grown in seven of the past twelve months. This sub-sector continues to grow as other consumer-oriented sub-sectors such as retail and hospitality languish, suggesting that consumers are directing their discretionary spending to this sector, rather than its competitors.
- The very large **health and community services** sub-sector's index maintained its growth but at a slower pace than in the previous month, falling by 2.3 points to 53.6 in October. This large sub-sector includes health, welfare, community and education services. Its growth has been consistently strong over the past few years. With just a few months excepted, it has been expanding or stable in the **Australian PSI**[®] since the beginning of 2013.



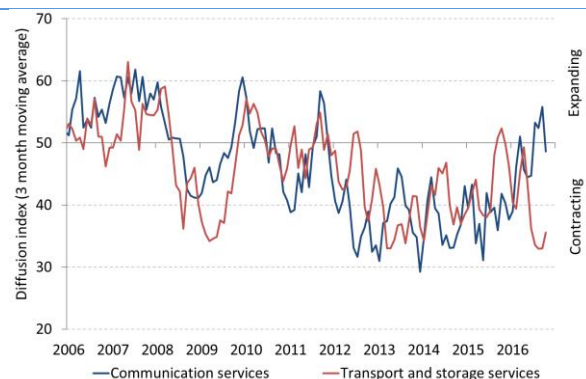
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index rose by 1.9 points to 49.9 points, indicating broadly stable conditions in the month of October. This marked twelve months of stable or contractionary results in this sub-sector. Conditions in this sub-sector have been relatively weak over the past year, reflecting a reduction in activity in the comparatively large professional services segment, that has outweighed growth in the smaller real estate services segment.
- The large **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) lifted out of a rare month of contraction to be stable in October, gaining 2.2 points to 50.3 points. Demand for credit and credit-related services may be slowing, as the housing cycle passes its peak and as lending conditions (that is, credit availability) tightens for some classes of borrowers.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications services** sub-sector's index fell 6.1 points to 49.7 points in October following three months of growth. This took this sub-sector back to the flat or contractionary conditions experienced earlier in 2016 and for much of the previous five years.
- The index for the **transport and storage services** sub-sector continued to indicate a worrying rate of contraction, despite improving by 4.9 points to 37.9 in October. This sub-sector seems to be affected by the flow-on effects of weak demand in retail trade and possibly by slower conditions in parts of the construction 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 [®]	50.5	1.6	49.6	Supplier Deliveries	48.2	1.7	49.1
Sales	51.1	-2.2	50.8	Input Prices	61.7	2.9	61.4
New Orders	52.3	-1.4	50.8	Selling Prices	50.1	1.8	48.6
Employment	52.9	8.6	48.3	Average Wages	55.0	1.5	52.7
Stocks	41.7	0.6	47.5	Capacity utilisation	76.3	0.9	76.4

* 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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