

Services sector enters 2017 on a high note

Australian PSI®
 Dec 2016: 57.7

USA Flash PSI
 Dec 2016: 53.4

Eurozone Flash PSI
 Dec 2016: 53.1

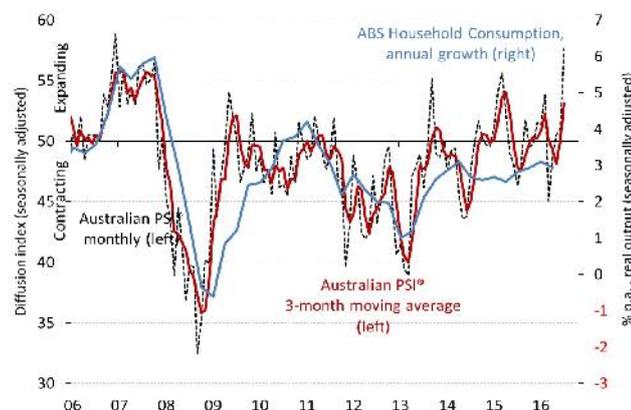
UK Markit PSI
 Nov 2016: 55.2

Japan Nikkei PSI
 Nov 2016: 51.8

China Caixin PSI
 Nov 2016: 53.1

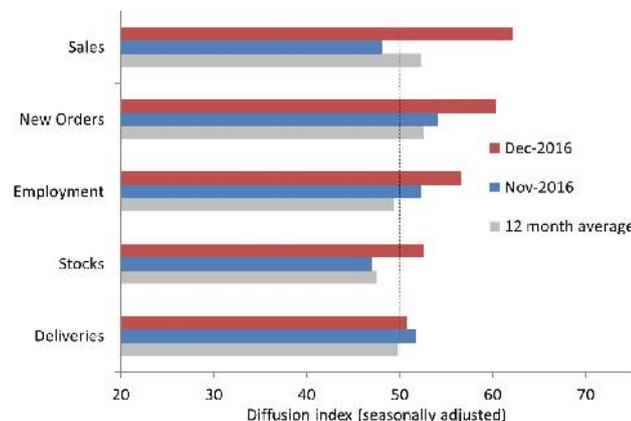
KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) lifted by 6.6 points to 57.7 points in December. This was the highest monthly result for the services sectors since May 2007. This sustained the lift into growth seen in November, following three months of stability or contraction. (results above 50 points indicate expansion, with higher numbers indicating a stronger rate of expansion).
- All five activity sub-indexes in the **Australian PSI®** were above 50 points and indicate expansion in December. Sales jumped 14 points in December, up to 62.1 points from 48.1 in November. New orders rose by 6.4 points to 60.4 points. Stocks lifted 5.7 points to 52.6 points, growing in ten out of the past eleven months. The employment sub-index picked up the pace, growing by 4.3 points to 56.6 points.
- Six of the nine services sub-sectors in the **Australian PSI®** expanded in December (three month moving averages). Personal & recreational services lifted by 5.2 points to 63.0 in December, its highest result since March 2012. Finance & insurance grew steadily, lifting 7.7 points over the month to 59.9 points. Property & business services rose by 2.8 points to 54.2 points. The very large health & community services sub-sector grew at a slightly slower pace, falling by 1.5 points to 51.7 points in December.
- A number of respondents to the **Australian PSI®** noted that conditions were more positive in December with: customer demand strengthening; increased orders from the mining sector; a lower value for the Australian dollar; interest rates remaining stable and (for regional services) good agricultural harvests. Overall, there was a sense of increased confidence from respondents across many services sub-sectors.



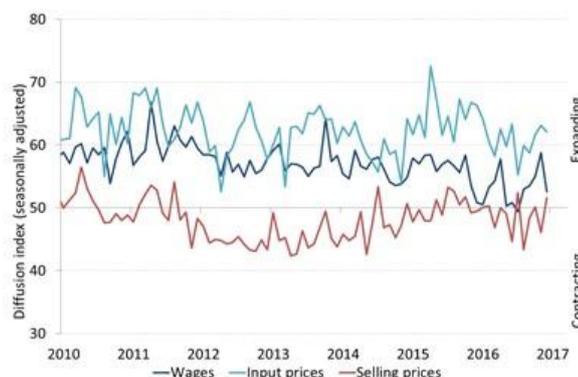
ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** rose strongly into positive territory in December, lifting 14.0 points to 62.1 points in December from 48.1 points in November.
- New orders likewise had substantial growth in December. The sub-index grew by 6.4 points to 60.4 points. It has grown in ten of the past twelve months and December indicated its fastest rate of growth since March 2008.
- The employment sub-index lifted by 4.3 points to 56.6 points in December. This was the third consecutive month of growth. Employment has been stable or growing in the **Australian PSI®** for six of the past eight months.
- The stocks (inventories) sub-index lifted 5.7 points into positive results (over 50 points) and expanded for the first time since July. Following months of declining stocks levels, businesses are again building their inventories in response to rising demand.
- The supplier deliveries sub-index fell 1.0 point to 50.8, to remain stable over the month.
- Capacity utilisation across the services sector continued to improve (up 0.9 percentage points, seasonally adjusted) to 78.4 per cent of available capacity in December.



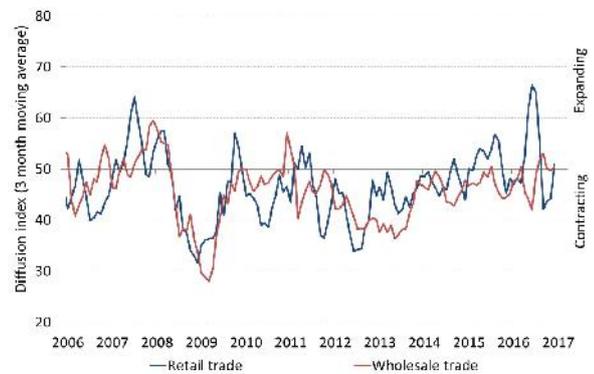
PRICES SUB-INDEXES

- Input prices continued to rise in December but at a slower pace than in November with this sub-index falling 1.0 point to 62.1 points.
- The wages sub-index indicated an expansion in wages for a fifth month, however the increase has moderated somewhat, with the sub-index falling 6.1 points to 52.6 in December. This was the fifth month of expansion for the sub-index (results over 50 points), which suggests businesses are beginning to lift wages after an extended period of very weak wages and prices growth in 2015-16.
- Selling prices lifted 5.5 points in December to 51.6 points, after a mainly flat or contractionary year for services sector pricing. An increase in selling prices will start to ease the margin pressure many services businesses have been facing. For some respondents to the **Australian PSI®** the lower Australian dollar, stable interest rates and increased customer demand have ushered in a mood of generally increased confidence across business to business enterprises. This lighter mood might enable easier price adjustments in 2017.



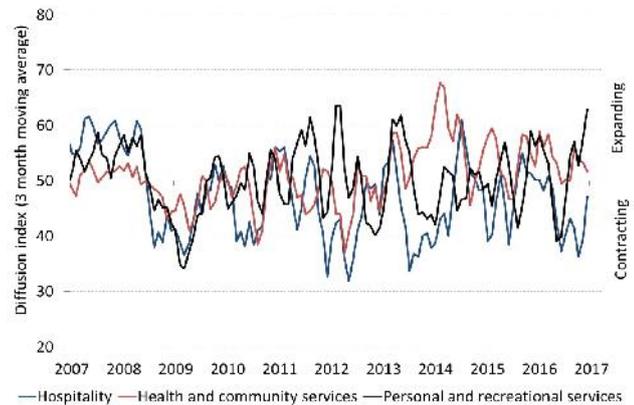
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector's index increased by 6.7 points to 50.9 points in December, marking a return to stability after three months of contraction. After a positive period in the middle of the year, retail numbers fell into the doldrums in Q3. Retail seems to have finally stabilised again in December, which is the busiest (and often the most profitable) month of the year for most retailers nationally.
- The **wholesale trade** sub-sector's index lifted by 0.7 points to 50.4 points to be broadly stable in December. This follows four months of mild expansion or stability. The mood of optimism that permeates other services sub-sectors is yet to be seen in the retail or wholesale sectors at this stage.



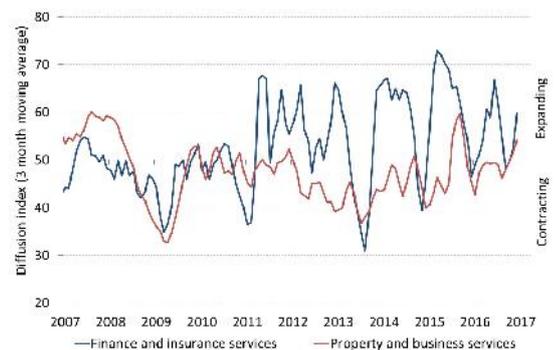
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector continued to shrink in December but at a slower pace than in recent months, with its index lifting 7.6 points to 47.1 points. This marked the thirteenth month that this sub-sector was either flat or in contraction, as discretionary spending by householders continues to be redirected into other areas such as personal and recreational services.
- The **personal and recreational services** sub-sector's index strengthened by 5.2 points in December to 63.0 points. This marks the fifth month of solid growth for this sub-sector, as other consumer-oriented sectors such as retail and hospitality continue to miss out. This suggests that consumers are directing their discretionary spending in a way that expands their use of personal and recreational services, at the expense of competitor sectors.
- The very large **health and community services** sub-sector continued to moderate its growth this month, falling 1.5 points to 51.7 points in December. This sub-sector includes health, welfare, community and education services. Its growth has remained fairly constant over the past few years: other than for just a few months it has been expanding or stable in the **Australian PSI**[®] since the beginning of 2013.



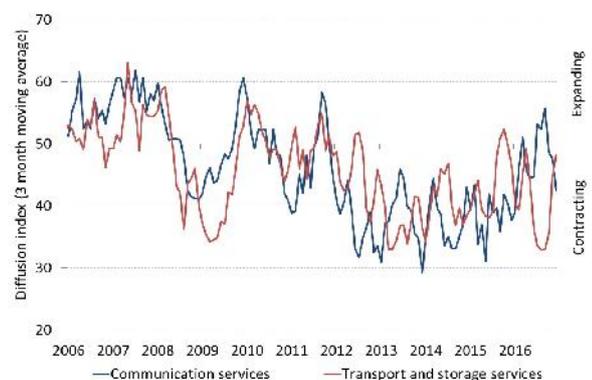
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index rose by 2.8 points to 54.2 points in December. This follows a return to growth in November after twelve months of stable or contractionary results in this sub-sector. Conditions in this sub-sector had been relatively weak in 2016, reflecting a reduction in activity in the comparatively large professional services segment. This outweighed growth in the smaller real estate services segment, which has benefited from strong housing turnover and prices.
- The large **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) surged 7.7 points higher in December to 59.9 points. With the exception of a few odd months of contraction, this sub-sector has been expanding since April 2011.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** services sub-sector's index fell by 5.1 points to 42.5 points in December. This has reversed the recovery seen in three months of growth in Q3 of 2016. 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 contract but at a slower pace, rising by 3.7 points to 48.2 points in December. This sub-sector continues to be affected by the flow-on effects of weak demand in the wholesale and retail trade sectors and possibly by slower circumstances in parts of the industrial and residential construction sectors.



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 [®]	57.7	+6.6	50.8	Supplier Deliveries	50.8	-1.0	49.8
Sales	62.1	+14.0	52.3	Input Prices	62.1	-1.0	60.8
New Orders	60.4	+6.4	52.6	Selling Prices	51.6	5.5	48.6
Employment	56.6	+4.3	49.4	Average Wages	52.6	-6.1	53.2
Stocks	52.6	+5.6	47.5	Capacity utilisation	78.3	0.9	76.7

* 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>. © The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. Disclaimer: The Australian Industry Group provides information services to its members and others, which include economic, and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.