

## SERVICES SECTOR EXPANSION STRENGTHENS IN JULY

**Australian PSI®**  
 Jul 2016: 53.9 ↑

**USA Flash PSI**  
 Jul 2016: 50.9 ↓

**Eurozone Flash PSI**  
 Jul 2016: 52.7 ↓

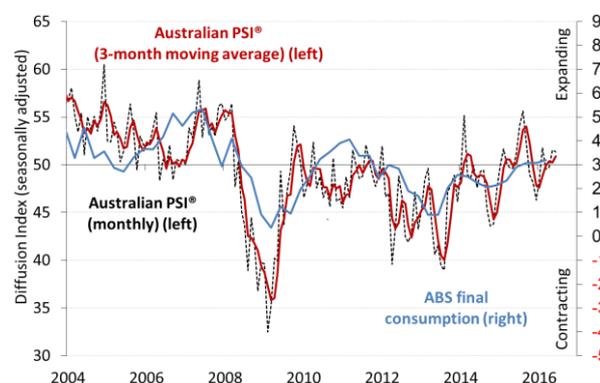
**UK Flash PSI**  
 Jul 2016: 47.4 ↓

**Japan Nikkei PSI**  
 Jun 2016: 49.4 ↓

**China Caixin PSI**  
 Jun 2016: 52.7 ↑

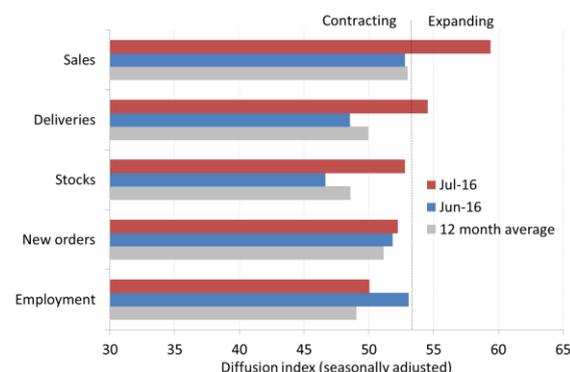
### KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) lifted by 2.6 points to 53.9 points in July. This was the third consecutive month of expansion and indicated a stronger rate expansion in activity across the services sector (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®**, sales (59.4 points) lifted by 6.6 points in July, the strongest reading since August 2015. Deliveries (54.5 points) rose by 6.0 points and stocks (52.8 points) gained 6.2 points. **New orders** (52.2 points) were steady (up 0.4 points from June), while **Employment** (50.0 points) dropped by 3.1 points, indicating stable employment in July.
- Three of the nine services sub-sectors** in the Australian PSI® expanded in July (in three month moving averages) and two were stable. Retail trade (65.0 points); finance and insurance (62.0 points) and communication services (53.2 points) expanded in July. The very large health & community services (50.2 points) and property & business services (49.1 points) sub-sectors were stable in July. Wholesale trade (48.9 points), personal & recreational services (46.7 points), hospitality (40.3 points) and transport & storage (33.6 points) all contracted, with transport services recording its weakest conditions since 2013.
- The input costs (55.3 points) sub-index of the **Australian PSI®** fell by 8.0 points in July, suggesting prices continued to increase but at a slower pace than in June (possibly due to Australian dollar fluctuations). Selling prices (52.4 points) went up in July, for the first time since October 2015, while wages (49.4 points) were roughly stable in July.
- Respondents noted that the uncertain period leading up to the Federal election on 2 July may have had a lingering dampening effect on business activity in July. For retailers, an unusually cold and wet winter is a proving to be a positive influence on winter sales.



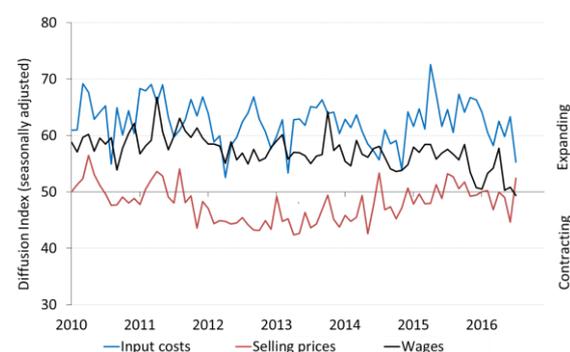
### ACTIVITY SUB-INDEXES

- The **sales** sub-index (59.4 points) in the **Australian PSI®** moved up by 6.6 points in July, indicating a strong month for sales after a lacklustre first half of the year.
- The **new orders** sub-index (52.2 points) grew slightly by 0.4 points in July, remaining in mild expansion. It has been showing expansion in each month since February 2016, suggesting reasonably steady growth in new orders and positive conditions ahead.
- The **employment** sub-index fell by 3.1 points to 50.0 points in July, suggesting stable employment conditions across the services sector. This brought this sub-index back to neutral territory, after being slightly negative for most of the past year.
- Stock levels** (inventories) expanded in July, with this sub-index lifting by 6.2 points to 52.8 points in July. This sub-index has been volatile over the past year but had, on average, been contracting. After an extended period of pricing weakness, participants in the **Australian PSI®** say they now expect price increases ahead. This has led to a rebuilding of inventories as businesses stock up, in order to beat the expected future price rises.
- The supplier **deliveries** sub-index also rose in July increasing by 6.0 points to 54.5 points in July. This was the highest level for this sub-index since February 2014.
- Capacity utilisation\*** across the services sector improved by 4.0 percentage points to 77.3 per cent of available capacity in July marking a return to higher output and capacity levels.



### PRICES SUB-INDEXES

- Input prices grew at a slower pace, with this sub-index falling by 8 points to 55.3 points in July. This was the lowest reading for this sub-index since November 2014. This weakening in input prices is in line with weaker inflation more generally, with the Consumer Price Index (CPI) rising by just 1.0% p.a. in the year to June 2016 (its slowest pace since 1999).
- The wages sub-index\* remained broadly stable for a third consecutive month at 49.4 points in July, confirming the flattening of wages in 2016 that has been apparent in other data.
- The selling prices sub-index\* recovered somewhat, rising by 7.8 points to 52.4 points in July. This was the first increase in prices across the services sector since October 2015. It follows a fall in selling prices in June and a relatively stable period over the previous nine months. This latest price rise suggests that after a year of very low inflation across the economy, some services businesses are starting to feel more comfortable about raising the prices they charge to their customers.

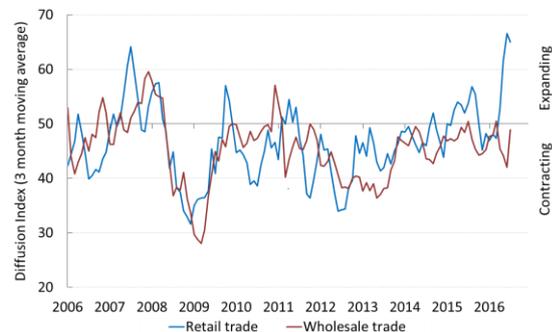


\* From March 2016, the **Australian PSI®** sub-indexes for capacity utilisation, wages and selling prices are reported on a seasonally adjusted basis (previously unadjusted).

## RETAIL TRADE; WHOLESALE TRADE \*

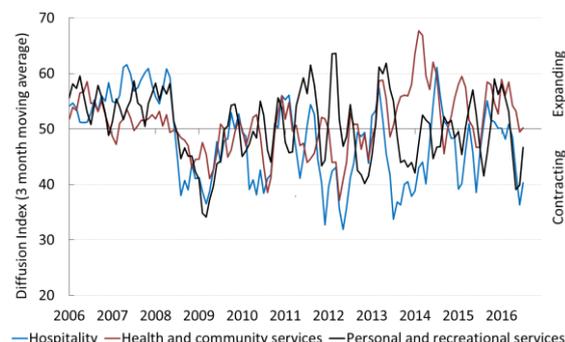
The **retail trade** sub-sector expanded for a fourth consecutive month in July and at marginally slower pace, with the sector's sub-index falling by 1.5 points to 65.0 points. This continues the recovery in retail conditions seen in the **Australian PSI**<sup>®</sup> since April, following an extended period of weak conditions earlier in 2015-16. Conditions continued to recover for retailers as the cold and wet weather endured and the relatively low Australian dollar encouraged consumers to spend domestically. The strength in new orders, increased stock levels and higher capacity usage point to better potential for further growth later this year.

- The **wholesale trade** sub-sector continued to contract in July but at a slower pace, with the sector's sub-index climbing 6.9 points to 48.9 points. Wholesaling respondents to the **Australian PSI**<sup>®</sup> reported further margin pressures with sluggish sales and new orders combined with slowing employment growth, while also experiencing higher input costs.



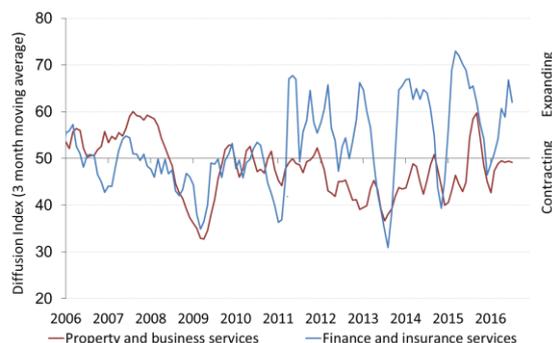
## HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES \*

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector continued its spell in contraction in July rising 3.0 points to 40.3 points. This marks the fourth month in decline following a year of mostly stable conditions. This continued shrinking possibly reflects hesitation around spending following an uncertain outcome to the Federal election.
- The **personal and recreational services** sub-sector experienced a fourth month of contraction in July (49.1 points), but the rate of contraction has eased from the previous month. Respondents to the **Australian PSI**<sup>®</sup> reported weakness in employment and inventories, but not new orders over the past three months, so the current downturn may not continue.
- The very large **health and community services** sub-sector was approximately stable in July (rising by 0.8 points to 50.2 points), the second month of flat growth after 10 months of continuous expansion. Although the sales and new orders sub-indices remain weak for this sector, employment and inventories have stabilised and input costs have eased compared to responses from the past month.



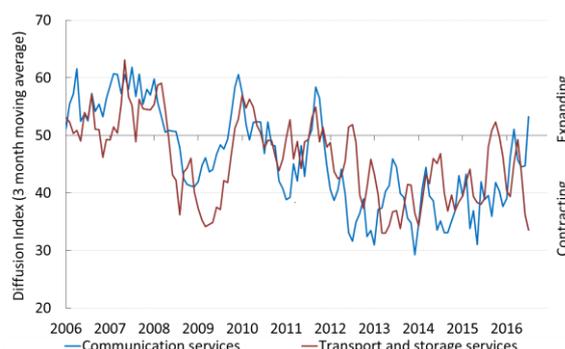
## PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES \*

- The **property and business services** sub-sector's index continued to indicate stable or slightly contractionary conditions in July, sinking a small 0.3 points to 49.1 points. Although relatively stable over the past few months, some of the adverse conditions are beginning to ease.
- 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 falling by 4.8 points to 62.0 points. This was the sixth month of solid expansion for this sub-sector. Respondents to the **Australian PSI**<sup>®</sup> noted strong sales, new orders and deliveries in July, which suggests continued strength in this sector in the coming months.



## COMMUNICATION SERVICES; TRANSPORT SERVICES \*

- **Communications** services picked up the pace to grow in July, with its sub-index climbing 8.5 points to 53.2 points. This was a return to growth after three months of contraction. Growth in new orders in May and June has translated into stronger activity for the sector in July. However, with a weakness in sales and new orders this return to growth may not last.
- **Transport and storage** services fell into further contraction with the sector's sub-index declining by another 2.6 points to 33.6 points in July. This is the lowest reading for the sub-index since April 2013. Respondents to the **Australian PSI**<sup>®</sup> reported strengthening conditions for inventories and deliveries, while other indicators remain weak, as they have for the past four months. This suggests that the low reading for conditions in this sector may not persist.



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
<b>Australian PSI</b> <sup>®</sup>	<b>53.9</b>	<b>+2.6</b>	<b>50.6</b>	Supplier Deliveries	54.5	+6.0	49.9
Sales	59.4	+6.6	53.0	Input Prices	55.3	-8.0	62.4
New Orders	52.2	+0.4	51.1	Selling Prices	52.4	+7.8	49.7
Employment	50.0	-3.1	49.0	Average Wages	49.4	-1.4	53.4
Stocks	52.8	+6.2	48.5	Capacity utilisation	77.3	+4.0	75.8

\* All sub-sector indexes in the **Australian PSI**<sup>®</sup> 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<sup>®</sup>) 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<sup>®</sup> 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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