

## Services Edge Ahead in November

**Australian PSI®**  
 Nov 2016: 51.1 ↑

**USA Flash PSI**  
 Nov 2016: 54.7 ↓

**Eurozone Flash PSI**  
 Nov 2016: 54.1 ↑

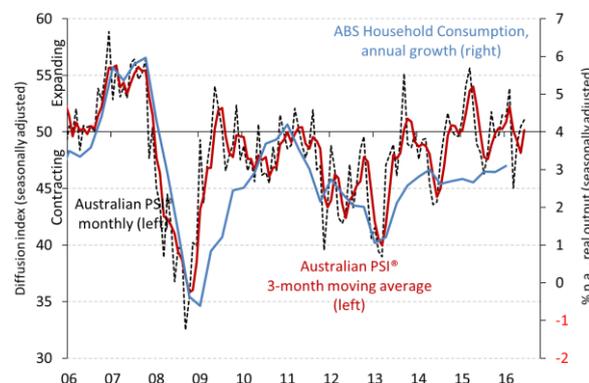
**UK Markit PSI**  
 Oct 2016: 54.5 ↑

**Japan Nikkei PSI**  
 Oct 2016: 50.5 ↑

**China Caixin PSI**  
 Oct 2016: 52.4 ↑

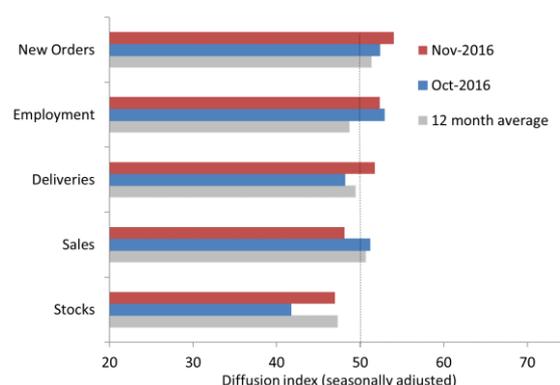
### KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) lifted by 0.6 points to 51.1 points in November. This continued a gradual lift into growth following a sluggish period for the sector (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 November. New orders lifted 1.7 points to 54.0 points, employment expanded at a slower pace (falling 0.6 points to 52.3 points), deliveries lifted into positive territory, rising 3.6 points to 51.8 points in November.
- Stocks contracted in November but at a slower pace than in October lifting 5.3 points to 47.0 points. Sales fell 3.0 points to 48.1 points and indicating contraction in November (down from 51.8 points in October).
- Four of the nine services sub-sectors in the Australian PSI® expanded in November (three month moving averages). Personal and recreational services (57.7) grew for a fourth month. The very large health & community services (53.3) grew at a slightly slower pace, falling by 0.4 points. Finance & insurance went from stable to growing, lifting 1.9 points to 52.2 points, as did property & business services, which rose 1.5 points from 49.9 to 51.4 in November.
- Some respondents to the **Australian PSI®** noted that the US Federal election was a dampening influence on Australian business confidence in November. For others, competition from imports continued to constrain business while the flow-through from conditions in agriculture is having mixed outcomes, with positive effects from the increased value of cattle and negative effects from depressed dairy prices. Extreme weather events might also have affected demand for some types of consumer-oriented services in November.



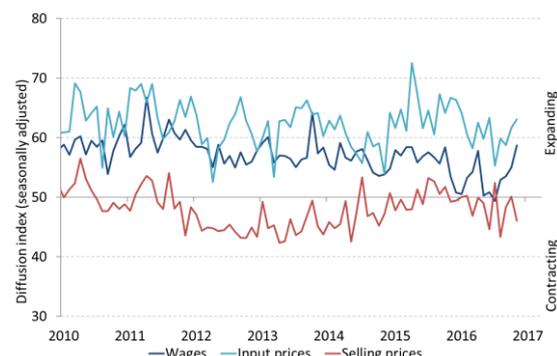
### ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** fell by 3.0 points to 48.1 points in November, the second month this year for this sub-index to contract (the other being in August).
- The new orders sub-index grew by 1.7 points to 54.0 points, marking its tenth month of expansion and at a faster rate than in October.
- The employment sub-index dropped by 0.6 points to 52.3 points. Employment has been stable or growing for five of the past seven months in the **Australian PSI®** and seems to have lifted out of the dip that it experienced in August and September.
- The supplier deliveries sub-index rose 3.6 points to 51.8 in November, signaling a return to growth in deliveries after three months of contraction.
- The stocks (inventories) sub-index lifted 5.3 points to 47.0 points signaling an easing of the pace of contraction of inventories. This was the fourth month of declining stocks but the pace of contraction has slowed after some of the lowest results in two years. It suggests that although services businesses continue to wind down stock levels, they are now doing so at a slower rate.
- Capacity utilisation\* across the services sector improved (up 1.1 percentage points) to 77.4 per cent of available capacity in November.



### PRICES SUB-INDEXES

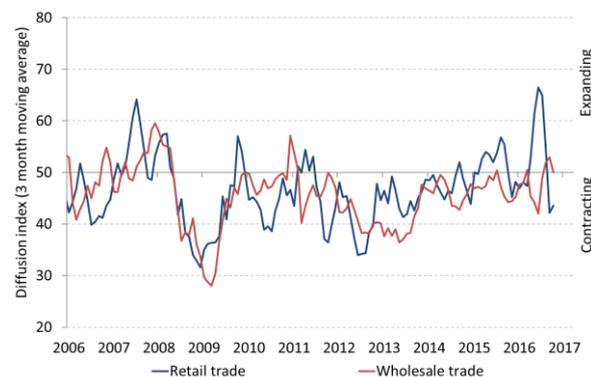
- Input prices continued to rise in November and at a faster pace than in October, with this sub-index rising by 1.4 points to 63.1 points.
- The wages sub-index\* indicated an increase in wages for a fourth month in November, with the average wages sub-index rising 3.7 points to 58.7 points. This was the highest reading for wages growth over the past year. It suggests mounting pressure to raise wages after a period of very weak wages and prices growth earlier in 2016 (with the ABS private sector wage price index rising just 1.9% p.a. in Q3 and the headline inflation index up just 1.3%).
- Selling prices fell back 4.0 points in November to 46.1 points, after being stable in October. They have been stable or contracting for fourteen of the past fifteen months. With selling prices growth lagging growth in input costs, margin pressures are intensifying. For some businesses, this is the result of structural and technological changes within their industries.



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

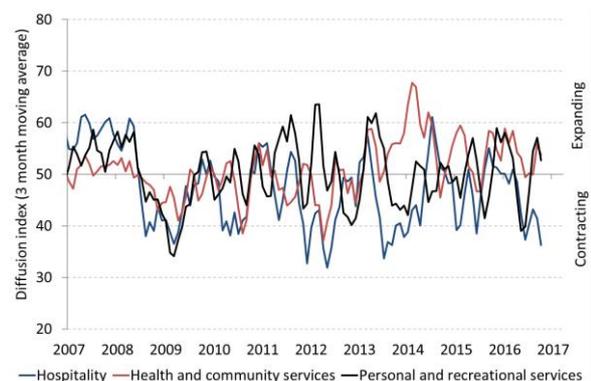
## RETAIL TRADE; WHOLESALE TRADE \*

- The **retail trade** sub-sector's index increased by 0.6 points to 44.2 points in November, the third month of contraction following five months of growth. Respondents to the **Australian PSI®** from the retail trade sub-sector noted that the US Federal elections (and presumably, the increase in uncertainty about the global economic outlook arising from this event) had been a factor in reduced Australian consumer confidence over the month.
- The **wholesale trade** sub-sector's index dropped by 0.3 points to 49.7 points to remain broadly stable in November, following three months of expansion. This marks a return to an extended period of continuous flat or contractionary results since January 2011.



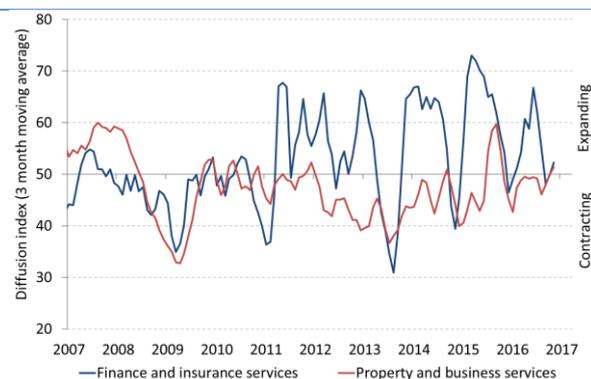
## HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES \*

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector continued to shrink in November but at a slower pace, with its index lifting 3.2 points to 39.5 points. This marked the twelfth month that the sector was either flat or in contraction. Respondents to the **Australian PSI®** in the hospitality industry noted that local economic conditions have a large impact on business demand, with different regions reporting very different experiences.
- The **personal and recreational services** sub-sector's index continued to grow at a stronger pace than in October, lifting 4.4 points to 57.7 points in November. This is the fourth month of solid growth for this sub-sector, even as other consumer-oriented sub-sectors such as retail and hospitality deteriorate. This suggests consumers are altering their discretionary spending habits and spending more their money in this sector, rather than its competitors.
- The very large **health and community services** sub-sector's index moderated its growth slightly this month, falling 0.4 points to 53.3 points in November. This sub-sector includes health, welfare, community and education services. Its growth has been 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.



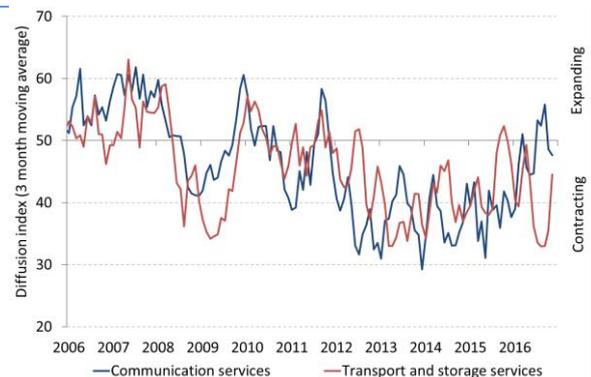
## PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES \*

- The **property and business services** sub-sector's index rose by 1.5 points to 51.4 points, indicating growth in November. This follows 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. This 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) returned to growth in November, gaining 2.4 points to 52.2 points. This marks a return to the growth seen for most of the first half of this year.



## COMMUNICATION SERVICES; TRANSPORT SERVICES \*

- The **communications** services sub-sector's index fell 1.0 point to 47.6 points in November, taking it further away from a promising 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, improving by 9.0 points to 44.5 points in November. 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 industrial and 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
<b>Australian PSI®</b>	<b>51.1</b>	<b>0.6</b>	<b>49.8</b>	Supplier Deliveries	51.8	3.6	49.4
Sales	48.1	-3.0	50.7	Input Prices	63.1	1.4	61.1
New Orders	54.0	1.7	51.3	Selling Prices	46.1	-4.0	48.4
Employment	52.3	-0.6	48.7	Average Wages	58.7	3.7	53.1
Stocks	47.0	5.3	47.3	Capacity utilisation	77.4	1.1	76.5

\* 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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