

MEDIA CONTACT

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Contraction in services activity eases in September

Australian PSI®
Sept 2016: 48.9↑

USA Flash PSI
Aug 2016: 51.9↑

Eurozone Flash PSI
Sept 2016: 52.1↓

UK Markit PSI
Aug 2016: 52.9↑

Japan Nikkei PSI
Aug 2016: 49.6↓

China Caixin PSI
Aug 2016: 52.1↑

KEY FINDINGS

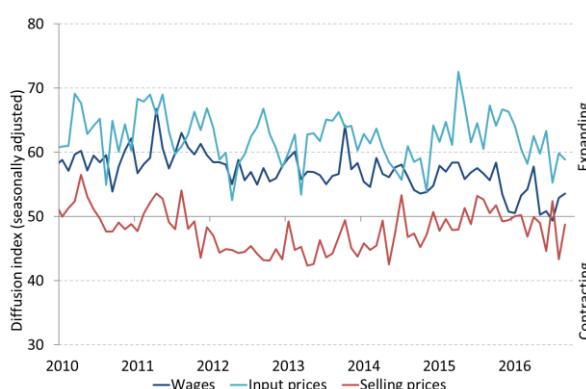
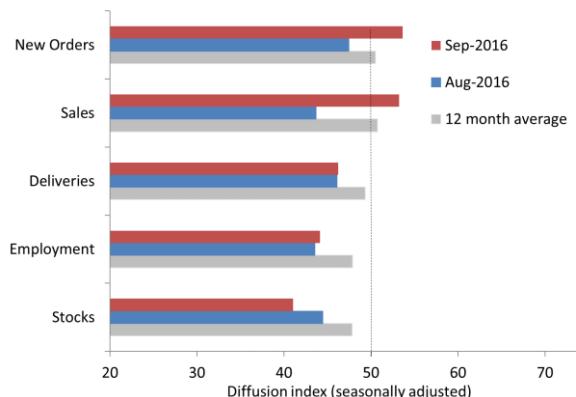
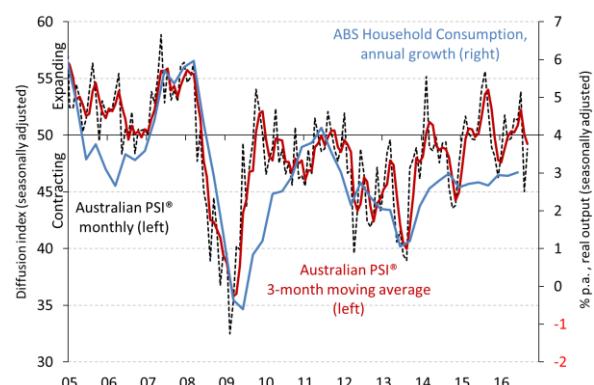
- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) lifted by 3.9 points to 48.9 points in September. This indicated a second consecutive month of contraction across the services sector in September, but at a slower rate (results above 50 points indicate expansion, with higher numbers indicating a stronger rate of expansion).
- Two of the five activity sub-indexes in the **Australian PSI®** were above 50 points and indicating expansion in September. Sales lifted almost 10 points to 53.3 and new orders increased by 6.2 points to 53.7, both recovering from their sharp drops in August.
- The other three sub-indexes were below 50 points in September. Employment (44.3) and deliveries (46.5) were almost unchanged from August. Stocks fell 3.3 points to 41.1 points, suggesting deeper stock reductions by services businesses in September.
- Four of the nine services sub-sectors in the **Australian PSI®** expanded in September (three month moving averages). These included personal and recreational services (57.1), health and community services (55.9), communication services (55.8) and wholesale trade (52.5). There was a mild contraction in finance and insurance (48.1) and property and business services (48.0). Retail trade dropped firmly into contraction (42.1) while accommodation, cafes and restaurants (41.4) continued a sixth month of decline. Transport and storage (33.0) was almost unchanged from August, when it reached a record low for this series.
- Respondents to the **Australian PSI®** said increased infrastructure investment was a positive factor for business-oriented services sub-sectors, as were record low interest rates. Consumer spending remains cautious however, so not all sub-sectors are flourishing.

ACTIVITY SUB-INDEXES

- The sales sub-index in the **Australian PSI®** jumped almost 10 points higher to 53.3 in September, marking a solid recovery from the contraction in sales in August. Sales have been expanding on average (with index readings above 50 points) over the past 12 months.
- The new orders sub-index lifted by 6.2 points to 53.7 points and returned to expansion in September. New orders have been expanding, on average, over the past 12 months. This suggests further increases in sales and activity are likely over coming months.
- The supplier deliveries sub-index rose slightly to 46.5 points in September, rising 0.4 points from August and signaling a further contraction in deliveries.
- The stocks (inventories) sub-index fell by 3.3 points to 41.1 points in September. This was the lowest level for this sub-index since October 2014. It indicated a second month of stock reductions across services businesses in September and at a faster rate than in August.
- The employment sub-index lifted by just 0.8 points to 44.3 points in September. Despite this slight improvement, it remains one of the lowest results for this sub-index in the past two years and indicates weak demand for labour among services businesses. Slower labour demand has also been evident in recent ABS labour force data. National employment growth slowed from 2.5% p.a. at the beginning of 2016 to 1.6% p.a. in August, while growth in total hours worked slowed from 2.2% p.a. in January to just 0.5% p.a. in August (ABS trend data).
- Capacity utilisation* across the services sector deteriorated (down 3.8 percentage points) to 75.4 per cent of available capacity in September compared to 79.2 per cent in August.

PRICES SUB-INDEXES

- Input prices continued to rise in September but at a slower pace than in August, with this sub-index falling by 1.1 point to 58.8 points. Some businesses said that recent input price increases are straining their margins to breaking point, because passing on these price rises to customers could make them uncompetitive or even put them out of business.
- Following a short period of stability, the wages sub-index* indicated an increase in wages for a second month in September, with the average wages sub-index lifting by 0.6 points to 53.5 points in September. This marked a return to the moderate wages growth trend seen earlier in the year, despite an apparent weakness in labour demand among services businesses.
- The selling prices sub-index* recovered by 5.5 points to 48.8 points in September, but it continues to indicate that selling prices are falling (mildly) rather than rising. This reflects low inflation plus a fiercely competitive trading environment at present, both of which make it difficult for services businesses to justify price rises 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's index slumped by 12.9 points to 42.1 points in September, taking the sub-sector firmly into contraction for the first time since March. This latest weak patch suggests that more weakness is likely in ABS retail sales measures after recent data pointed to weaker retail sales in June and zero growth in July, with declining sales for household goods retailers and department stores (latest ABS seasonally adjusted data). Respondents to the **Australian PSI®** from the retail trade sub-sector noted that consumers remain cautious and choosy in their spending, especially with regard to non-essential, more discretionary retail categories.

- The **wholesale trade** sub-sector's index lifted by 0.6 points to 52.5 points in September. This indicated a second month of expansion and was the strongest result for this sub-index since January 2011. This tentatively suggests wholesale trade may finally be moving beyond an extended period of flat or contracting activity and widespread restructuring in response to new technologies (e.g. in inventory and ordering) and changing supply lines in global trade.

HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

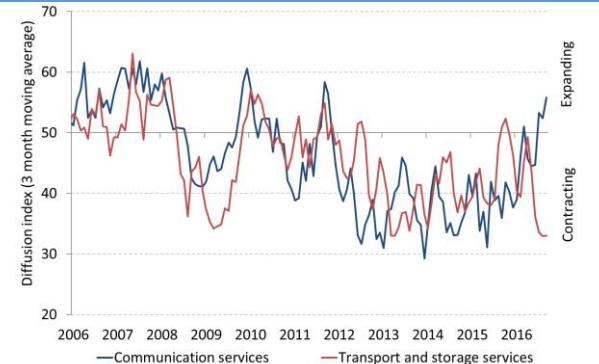
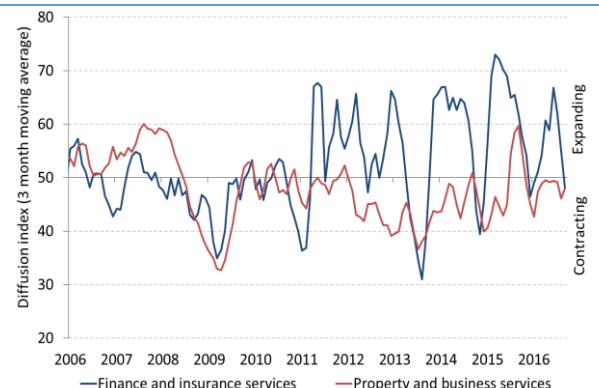
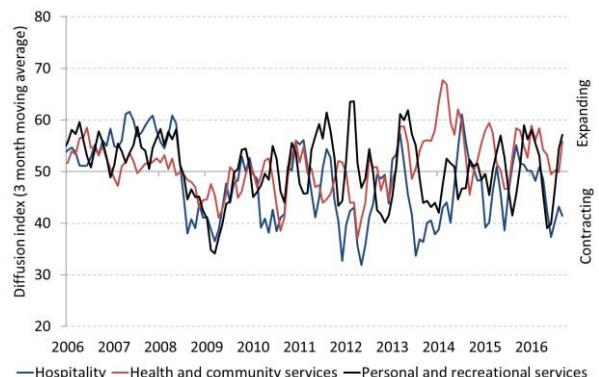
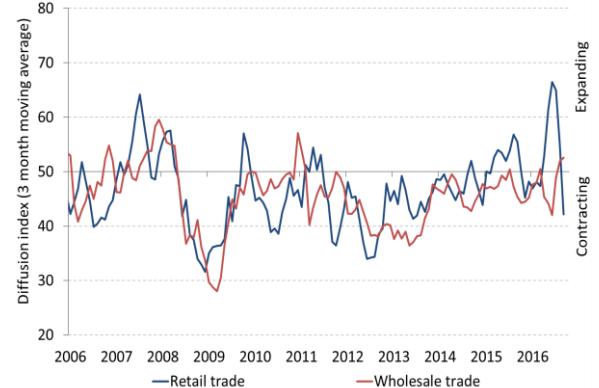
- The **accommodation, cafes and restaurants** ('hospitality') sub-sector continued to decline in September, with its index falling back to 41.4 points. This marked a sixth month in contraction. As for the retail trade sub-sector, respondents to the **Australian PSI®** noted that consumers seem to be wary about their discretionary spending. This is possibly in response to weaker employment and incomes growth and the lower wage inflation environment.
- The **personal and recreational services** sub-sector's index strengthened to 57.1 points in September. This was the strongest result for this sub-sector since January and marked a second month of expansion after a run of disappointing months in the middle of 2016. This lift is in contrast to the decline in other consumer-oriented sectors such as retail and hospitality (see above), so consumers might be choosing this sector over others for their local spending.
- The very large **health and community services** sub-sector's index jumped up to expansion at 55.9 points in September, after several months of stable activity. This large sub-sector includes health, welfare, community and education services. It has been expanding or stable in almost all months in the **Australian PSI®** since the beginning of 2013.

PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index strengthened to 48.0 points in September, indicating that this sub-sector remained in contraction, but at a slower rate. This marked a second month of contraction after four months of relatively stable conditions. Conditions in this sub-sector have been relatively weak in 2016, reflecting a reduction in activity in the relatively 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) moved into contraction in September, with an index of 48.1 points. This was the first negative result for this sub-sector since January. It suggests a pause in the growth of credit, insurance and financial services, despite record low interest rates since August.

COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications** services sub-sector's index strengthened to 55.8 points in September. This was its highest result since October 2011 and indicated a third consecutive month of recovery, after a very extended period of contraction or flat growth. Demand for communications services is growing, from a mix of consumer and business customers.
- The index for the **transport and storage** services sub-sector continued to languish at historically low levels in September, with an improvement of just 0.1 point to 33.0 points compared to August, which was the lowest reading for this sub-index in the history of the **Australian PSI®** series (dating back to 2003). Business-oriented local transport and storage services are seeing reduced demand for the movement of goods from both the retail trade and construction sectors at present. Lower forward orders suggest this dip may continue.



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®	48.9	3.9	49.4	Supplier Deliveries	46.5	0.4	49.3
Sales	53.3	9.6	50.7	Input Prices	58.8	-1.1	61.6
New Orders	53.7	6.2	50.5	Selling Prices	48.3	5.0	48.8
Employment	44.3	0.8	47.9	Average Wages	53.5	0.6	53.0
Stocks	41.1	-3.3	47.8	Capacity utilisation	75.4	-3.8	76.1

* 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.cipsma.com.au>.

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