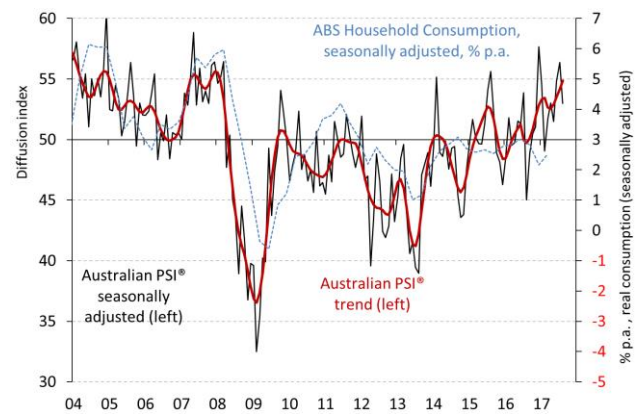


MIXED RESULTS FOR SERVICES SECTOR IN AUGUST

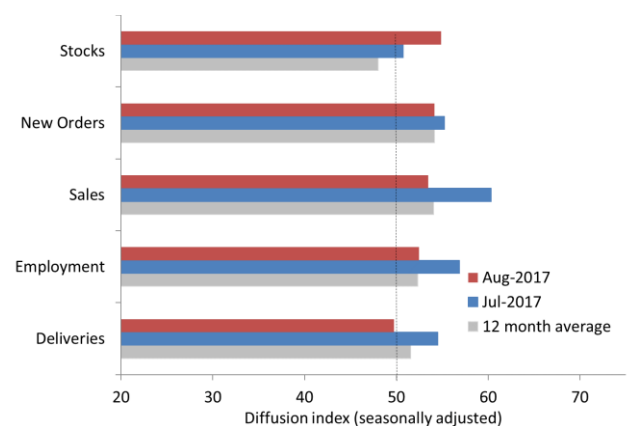
Australian PSI[®] Aug 2017: 53.0 ↓	USA Flash PSI Aug 2017: 56.9 ↑	Eurozone Flash PSI Aug 2017: 54.9 ↑	UK Markit PSI July 2017: 53.8 ↑	Japan Nikkei PSI July 2017: 52.0 ↓	China Caixin PSI July 2017: 51.5 ↓
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI[®]**) fell 3.4 points to 53.0 in August (seasonally adjusted). This signaled continuing growth, but at a more moderate pace than in July and with a greater variation in activity across the sub-sectors. **Australian PSI[®]** results above 50 points indicate expansion, with higher numbers indicating stronger rates of growth relative to the previous month.
- Four of the five activity sub-indices in the **Australian PSI[®]** were above 50 points and indicating growth in August (seasonally adjusted). Sales grew in August but at a slower rate than July (down 6.8 points to 53.5 points). New orders and employment also grew at a slower pace, falling to 54.2 points and 52.5 points respectively. Stocks (inventory) built up at a faster pace in August, with this sub-index rising to 54.9 points. Supplier deliveries were broadly stable in August (49.7 points) after growing in previous months. Capacity utilisation hit a record high in the **Australian PSI[®]** of 81.4% of available capacity being utilised across the services sector in August.
- Seven of the nine sub-sectors in the Australian PSI[®] expanded in August (trend) with results above 50 points. Two sub-sectors hit record highs (trend); the relatively small personal and recreational services sub-sector rose to 67.6 points and communications services rose to 61.4 points. Activity in finance and insurance (61.5 points) accelerated, as did wholesale trade (57.5 points), transport and storage (55.4 points) and health and community services (52.5 points). Property and business services decelerated to a more modest rate of expansion (51.2 points).
- At the other end of the performance range and indicating very reluctant discretionary spending by consumers, activity in retail trade shrank at a worse rate in August (down by 1.1 points to 42.1 points), as did activity in the hospitality sector (accommodation, cafes and restaurants, down by 4.5 points to 38.5 points).
- Respondents to the **Australian PSI[®]** in the business-to-business sub-sectors noted positive demand from the construction and mining sectors, particularly in the east coast states. Respondents in retail and hospitality are reporting reluctant spending due to flat income growth, adverse winter weather and relatively poor consumer confidence.



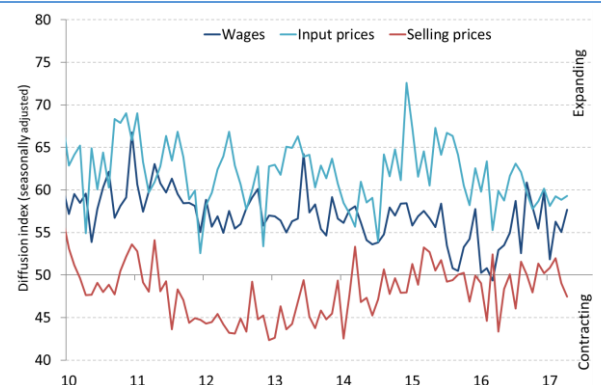
ACTIVITY SUB-INDEXES

- Sales grew at a slower pace in August, with this sub-index falling by 6.8 points to 53.5 points (seasonally adjusted). This was the sixth consecutive month of expansion.
- Employment also grew at a slower pace in August, with this sub-index falling by 4.4 points to 52.5 points. This was a third month of growth in the employment sub-index, with expanding or stable employment results in eleven of the past twelve months.
- New orders decelerated in August, with this sub-index falling by 1.0 point to 54.2 points. August marked one full year of growth or stability for this key sub-index.
- Stocks (inventories) in the **Australian PSI[®]** expanded in August at a faster pace than in July, with this sub-index lifting by 4.1 points to 54.9 points. This bigger build-up in stocks might be due to the slowing growth in sales and forward orders.
- Supplier deliveries were broadly stable in August, at 49.7 points, after growing in July. This pause is likely to be a deliberate response to slower growth in sales and orders.
- Capacity utilisation across the services sector increased by 3.2 percentage points to 81.4% of available capacity in August. This is a record high for this measure in the **Australian PSI[®]**. Capacity utilisation has averaged 76.7% over the past 12 months.



PRICES SUB-INDEXES

- Input prices accelerated slightly in August, with this sub-index rising by 0.4 points to 59.3 points. Respondents continue to single out high energy costs as a key source of problematic input cost pressures. This is evident across almost all services sub-sectors.
- The wages sub-index strengthened by 2.6 points to 57.7 points in August, indicating rising upward pressure on wages, relative to the past few months. This sub-index has indicated expansion (results over 50 points) over the past year, but at a slower average rate (56.0 points) than its long-run average (56.7 points on average since July 2009).
- The sub-index for selling prices indicated falling prices for a second consecutive month in August, dropping by 1.6 points to 47.5 points. This is the lowest result for this sub-index since August 2016. This drop in pricing reflects the price-dampening effects of the recently higher Australian dollar (which makes imported goods and services cheaper) coupled with an extremely competitive market and relatively weak background inflation.



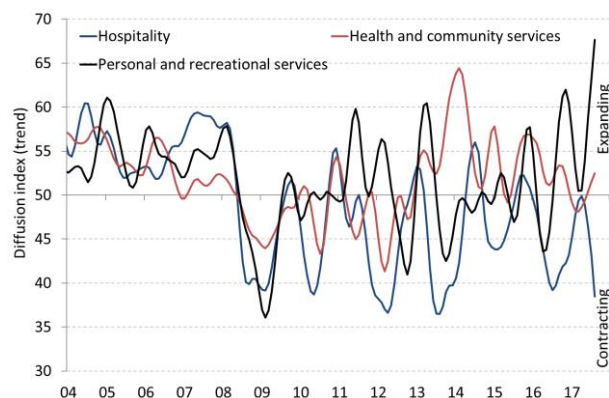
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector's index fell by 1.1 points to 42.1 points in August, indicating a worsening pace of contraction (trend). This marked a fifth consecutive month of contraction after three months of flat or mildly expansionary conditions in early 2017. Retail businesses in the **Australian PSI®** said they are seeing increasing price and product competition from online and offshore sellers, who are winning a growing share of the local market as a result.
- The **wholesale trade** sub-sector's index picked up by 0.4 points to 55.5 points in August, indicating a slightly faster pace of growth. Eleven of the past twelve months have been positive for this segment. This year's recovery in wholesale trade activity reflects better business-to-business trading activity and possibly an increase in distribution activity generated by local and offshore internet sales to consumers.



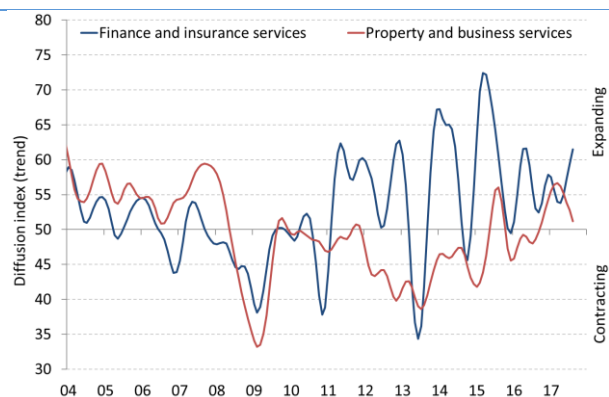
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector's index fell by 4.5 points to 38.5 points in August. This was the lowest monthly result for this sub-sector since June 2013. This marked the twentieth month of contractionary or flat conditions for this sub-sector, as consumers remain cautious with their discretionary spending and/or choose to spend it on other categories (e.g. healthcare or personal services) and/or in other locations (e.g. holidays overseas instead of within Australia).
- The small **personal and recreational services** sub-sector's index rose by 4.2 points to 67.6 points in August. This was a record high for this sub-index (commencing in 2003, trend) and a fourth month of accelerating growth. Consumers appear to be redirecting their discretionary spending to this sector's personal and home-based services, instead of retail goods and hospitality services (restaurants and local holiday accommodation).
- The **health and community services** sub-sector's index lifted by 0.9 points to 52.5 points in August. This marked a second month of expansion for this giant sub-sector (including private-sector health, welfare and education services), after a year of slower conditions in 2016-17.



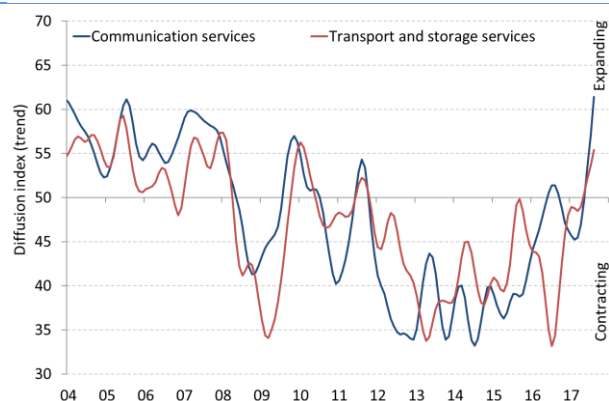
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The large **property and business services** sub-sector's index fell by 1.6 points in August to 51.2 points, indicating a more modest pace of growth. Eleven of the past twelve months have seen this sector expand (trend). This sub-sector includes large professional and administrative services segments (e.g. legal, accounting, consulting, engineering and office services) and a smaller real estate and property services segment (e.g. residential and commercial real estate services). This slower pace of growth seems to reflect slower real estate transactions and activity.
- The very large **finance and insurance** sub-sector's index rose by 2.1 points to 61.5 points in August. This was the highest monthly result since May 2016 (trend). This sub-sector has been growing or stable since November 2014. This sub-sector includes banking, insurance, superannuation and financial advisory services.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- The **communications services** sub-sector's index increased by 4.3 points to 61.4 points in August, indicating accelerating growth. This was a record high monthly result for this sub-index (commencing in 2003, trend) and marked a third month of recovery after weak conditions for the past few years. Despite this month's improvement in conditions (relative to the previous month), respondents to the **Australian PSI®** in this sub-sector continue to report mixed conditions resulting from ongoing technological and policy-related adjustments in the telecommunications, ICT and media segments.
- The **transport and storage services** sub-sector's index lifted by 1.8 point to 55.4 points in August, indicating the third month of growth for this sub-sector and its highest monthly result since Feb 2010 (trend). Conditions in this sub-sector are improving and transport and storage businesses in the **Australian PSI®** appear to be adjusting better to the challenges posed by technology, competition and input cost pressures. Recent sharp rises in energy costs are however, adding a new challenge for this sub-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®	53.0	-3.4	52.7	Supplier Deliveries	49.7	-4.8	51.6
Sales	53.5	-6.8	54.1	Input Prices	59.3	0.4	59.8
New orders	54.2	-1.0	54.2	Selling Prices **	47.5	-1.6	49.6
Employment	52.5	-4.4	52.3	Average Wages **	57.7	2.6	56.2
Stocks	54.9	4.1	48.0	Capacity utilisation **	81.4	3.2	76.7

** All sub-sector indexes in the **Australian PSI®** are reported in trend terms (Henderson 13-month filter) 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 indicates the strength of the expansion or decline.

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