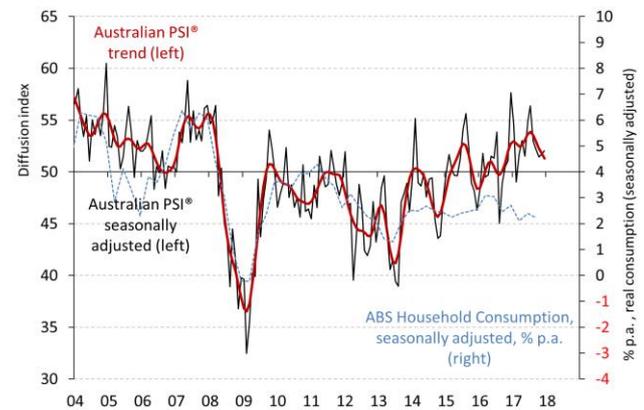


SERVICES SECTOR STEADY NOT STELLAR IN DECEMBER

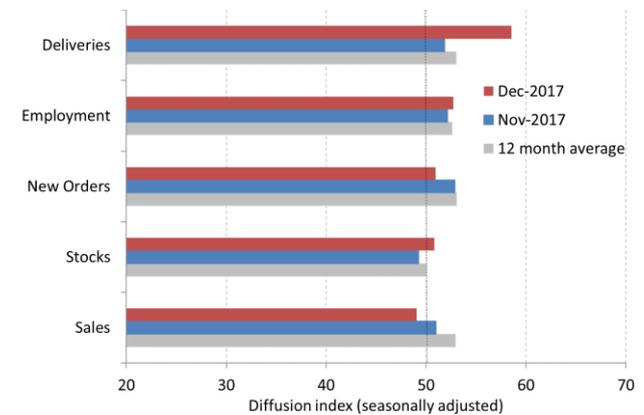
Australian PSI® Dec 2017: 52.0 ↑	USA Flash PSI Dec 2017: 52.4 ↓	Eurozone Flash PSI Dec 2017: 56.5 ↑	UK Markit PSI Nov 2017: 53.8 ↓	Japan Nikkei PSI Nov 2017: 51.2 ↓	China Caixin PSI Nov 2017: 51.9 ↑
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) lifted by 0.3 points to 52.0 in December (seasonally adjusted), indicating a marginal acceleration in growth from November. **Australian PSI®** results above 50 points indicate expansion, with higher numbers indicating stronger rates of growth.
- Of the five activity sub-indexes in the **Australian PSI®**, new orders, employment and supplier deliveries expanded (results over 50 points), stocks (inventories) were roughly stable and sales contracted.
- The **Australian PSI®** showed considerable variation in activity across the sub-sectors in December, as it has through 2017. Four of the nine sub-sectors expanded, one was stable and four contracted (trend). Conditions continue to look better in the business-oriented sub-sectors than in the consumer-oriented sub-sectors.
- Hospitality accelerated into expansion (up 4.8 points to 53.4 points) while property and business services expanded more rapidly (up 2.9 points to 65.5 points). Conditions stayed positive but slowed in wholesale trade (51.9) and personal and recreation services (51.8). Financial and insurance services slowed to a stable rate at 49.8 points. Contraction was evident in retail trade (44.5); health and community services (42.5); transport and storage (41.7) and communication services (41.1 points).
- Respondents to the **Australian PSI®** in the business-oriented sub-sectors noted continuing demand from their construction and mining customers, but limited pricing flexibility due to strong competition. Respondents in the retail and hospitality sub-sectors reported weak or hesitant customer spending due to cost of living pressures.



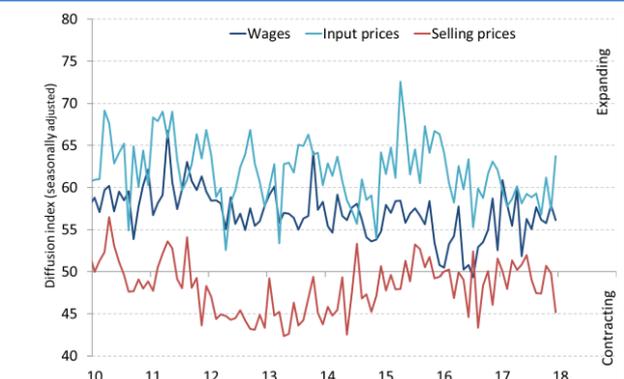
ACTIVITY SUB-INDEXES

- Sales fell into mild contraction again in December with this sub-index falling by 1.9 points to 49.1 points in December (seasonally adjusted).
- Employment growth accelerated slightly, with this sub-index up 0.6 points to 52.7 points in December. Employment in the **Australian PSI®** has expanded or remained stable in 2017, reflecting stronger monthly jobs growth in the ABS labour force data in 2017.
- New orders grew at a slightly slower pace than in November, with this sub-index dropping by 1.9 points to 51.0 points. This was the sixteenth month of growth or stability for this key sub-index, which augurs well for further growth going into 2018.
- Stocks (inventories) were steady in December after a mild contraction in November, with this sub-index rising by 1.5 points to 50.8 points.
- Supplier deliveries growth accelerated in December, rising by 6.7 points to 58.5 points. This is the highest monthly result for this sub-index since January 2017.
- Capacity utilisation across the services sector grew by 1.3 percentage points to 79.3% of available capacity in December. This is the third highest capacity utilisation rate on record. It suggests that new investment and/or expanded employment could soon be needed to meet any further growth in demand in 2018.



PRICES SUB-INDEXES

- The input prices sub-index accelerated by 6.3 points to 63.7 points in December. This was the highest result since July 2015. Rising energy costs have become a widespread cost pressure, with participants reporting that energy costs are eating into margins across almost all services sub-sectors in recent months.
- The average wages sub-index weakened slightly, falling by 1.6 points to 56.1 points in December. Wage pressures returned to around their long-run average in 2017 (56.7 points on average since May 2009) after spiking higher in the first half of 2017.
- The sub-index for selling prices dropped further in December, falling by 4.6 points to 45.2 points. This is the lowest result for this sub-index since August 2016. It probably reflects an extremely competitive retail market, relatively weak inflation and relatively weak consumer demand for discretionary goods and services.



RETAIL TRADE*

- The retail trade sub-sector's index moderated to 44.5 points in December, indicating a further deterioration in conditions (trend). This marked a tenth month of flat or contracting activity, after mildly better conditions in early 2017. The failure to improve in December reflects ongoing weakness in local consumer spending, even at this busiest (and most profitable) month of the year for local retailers. Retail businesses in the **Australian PSI**[®] said there is a lack of consumer confidence and a cautious attitude to discretionary spending due to cost of living pressures.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index dropped slightly to 51.9 points in December indicating a slower pace of growth. The past seventeen months have been positive for this segment. This year's recovery in wholesale trade activity reflects better business-to-business trading (e.g. for agricultural produce and construction materials) and an increase in local distribution activity generated by internet sales to consumers.

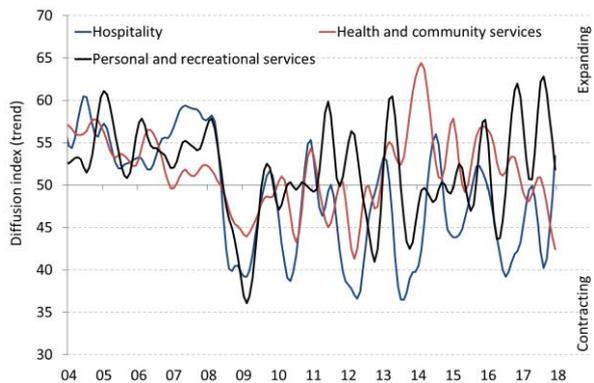


HOSPITALITY*

- The hospitality (accommodation, cafes and restaurants) sub-sector's index improved to 53.4 points in December (trend). This is the first month of expansion since 2015 and the strongest result since August 2014. Comments from respondents suggest consumers might be more willing to spend their discretionary summer budget on services and experiences (e.g. holidays and eating out) than on goods (e.g. toys and clothes).

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The health, education and community services sub-sector's index dropped to 42.5 points in December. This marked thirteen months of contractionary or flat conditions for this giant sub-sector (including private-sector health, welfare, community and education services), after a strong period of expansion from 2013 to 2016.



PERSONAL AND RECREATIONAL SERVICES*

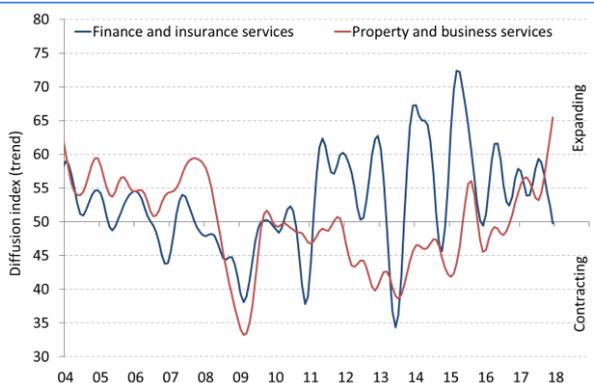
- The personal and recreational services sub-sector's index dropped 3.3 points to 51.8 points in December (trend), signaling a slower rate of growth. This sub-sector has expanded or been stable since July 2016.

PROPERTY AND BUSINESS SERVICES*

- The large property and business services sub-sector finished the year on a strong note, with its index rising by 2.9 points to 65.5 points in December. This was the highest monthly result for this sub-sector since at least February 2003. This sub-sector includes large professional and administrative services (e.g. legal, accounting, consulting, engineering and office services) plus real estate and property management. This latest growth spurt seems to be concentrated in professional rather than real estate services.

FINANCE AND INSURANCE SERVICES*

- The very large finance and insurance sub-sector was roughly stable in December, with its index falling by 2.5 points to 49.8 points in December (trend). This is this sub-sector's lowest monthly result since December 2015 (trend). This sub-sector includes banking, insurance, superannuation and financial advisory services.

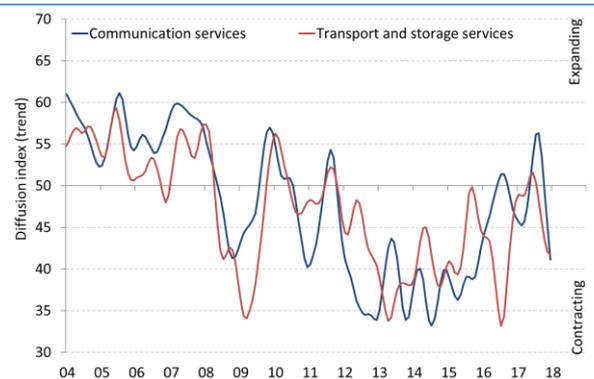


COMMUNICATION SERVICES*

- The communications services sub-sector's index fell by 4.3 points to 41.1 points in December, indicating a further reduction in activity (trend). This sub-sector has had a sluggish finish to the year after recording expansion through mid-2017. December 2017 marked this sub-sector's lowest monthly result since November 2015.

TRANSPORT AND STORAGE SERVICES*

- The transport and storage services sub-sector's index continued to fall in December, dropping by 0.4 points to 41.7 points (trend). In 2017 this sub-sector faced challenging headwinds arising from the lacklustre retail sector, sharp rises in energy costs, increasingly competitive local conditions, technology changes and pricing squeezes.



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 [®]	52.0	0.3	52.6	Supplier Deliveries	58.5	6.6	53.0
Sales	49.1	-1.9	52.9	Input Prices	63.7	6.3	59.2
New Orders	51.0	-1.9	53.1	Selling Prices	45.2	-4.6	49.3
Employment	52.7	0.6	52.6	Average Wages	56.1	-1.8	56.7
Stocks	50.8	1.5	50.0	Capacity utilisation	79.3	1.3	77.2

* 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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