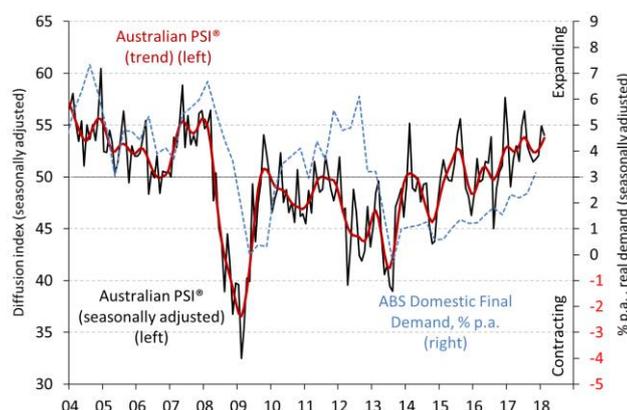


SERVICES GROWTH CONTINUES IN FEBRUARY

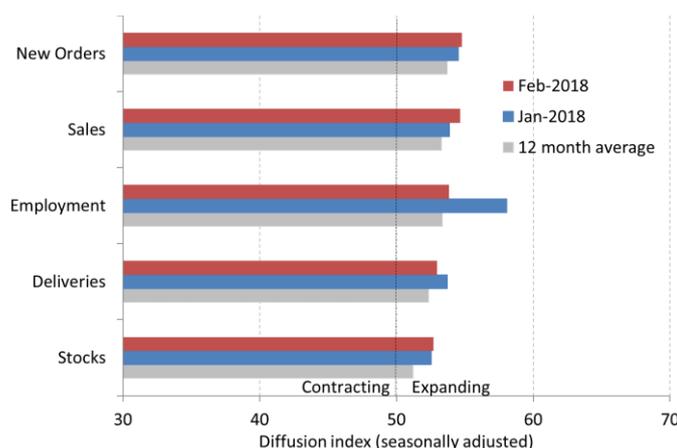
Australian PSI® Feb 2018: 54.0 ↓	USA Flash PSI Feb 2018: 55.9 ↑	Eurozone Flash PSI Feb 2018: 56.7 ↓	UK Markit PSI Jan 2018: 53.0 ↓	Japan Nikkei PSI Jan 2018: 51.9 ↑	China Caixin PSI Jan 2018: 54.7 ↑
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell by 0.9 points to 54.0 points in February 2018 (seasonally adjusted), indicating a softer rate of expansion compared to January 2018. **Australian PSI®** results above 50 points indicate expansion, with higher numbers indicating stronger rates of growth. February 2018 marked one year of positive results for the **Australian PSI®** (seasonally adjusted), the longest such run since March 2008 (18 months).
- All five of the activity sub-indexes in the **Australian PSI®** expanded (results over 50 points) in February 2018. New orders (54.8) and sales (54.7) lifted slightly over the month. Following a strong month in January employment fell back to 53.9 in February, similar to levels seen in the latter part of last year. Deliveries also expanded over the month but fell slightly from 53.7 to 53.0; while stocks (52.7) returned a similar result as January 2018.
- Capacity utilisation dropped back to 78.0%, down from 81.1% in January but remained above the long-term average of 75.6%.
- The **Australian PSI®** was positive across most sectors in February. Six of the nine sub-sectors expanded (wholesale, transport, finance, property & business, health, and personal and recreational services), two were approximately stable (hospitality and communication) and one contracted (retail).
- While there was generally a positive experience over the month, businesses continue to note that higher energy prices and increased costs of compliance lead to higher input costs, which continue to eat into margins and constrain profitability.



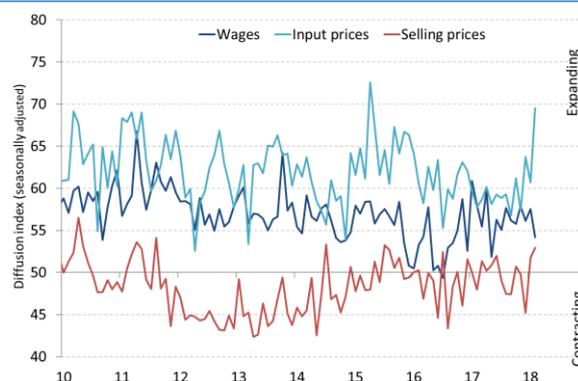
ACTIVITY SUB-INDEXES

- The sales sub-index grew in February rising by 0.8 points to 54.7 returning to levels seen in mid-2017 after several lacklustre months at the end of last year.
- While employment continued to grow in February, it fell back 4.2 points to 53.9 after very strong growth in January. Employment demand was mixed across the sector and expanded in industries with higher level skill needs, while employment need was weaker across retail, wholesale and hospitality.
- The new orders sub-index increased by 0.3 points to 54.8 points in February. This was the 18th month of positive or stable results and augurs well for further growth in 2018.
- Stocks (inventories) returned similar results in February as January with this sub-index rising by 0.2 points to 52.7 points.
- Supplier deliveries fell back a little in February with this sub-index falling 0.7 points to 53.0 points, indicating a slower pace of (seasonally adjusted) growth.
- Capacity utilisation across the services sector dropped by 3.1 percentage points to 78.0% of available capacity in February. This drop follows the highest capacity utilisation rate recorded in the **Australian PSI®** in January, but remains above the long-term average of 75.6%.



PRICES SUB-INDEXES

- The input prices sub-index jumped up by 8.8 points to 69.5, the highest level recorded since April 2015. Respondents to the Australian PSI continue to note that increasing costs to business including higher energy charges are putting increased pressure on margins.
- The average wages sub-index moderated by 3.3 points to 54.2 points in February, which is below the long-run average for this sub-index (56.7 points on average since May 2009) after increasing last month.
- The sub-index for selling prices rose 1.1 points higher to 52.9 points, indicating, on average, mild price increases across the services sector. This was the second month that businesses indicated they were increasing selling prices in the **Australian PSI®** since June 2017. It suggests businesses are no longer able to absorb input cost increases as they stated they were doing in the past and are now passing them on (at least in part) to customers.



RETAIL TRADE*

- The retail trade sub-sector's index deteriorated in February dropping 2.7 points to 35.8. This is the eleventh consecutive month it has contracted and the lowest the subsector has recorded since June 2012. Retail remains an anomaly in the improving economy; weak consumption growth from highly indebted households has meant that businesses are unable to increase prices, while intense competition, particularly from assertive market disruptors using online platforms, will continue to put pressure on the sector.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index improved to 54.3 points in February (trend), rising 0.8 points from the previous month. The subsector has marked 18 months of growth due to better business-to-business trading (e.g. for agricultural produce and construction materials) and an increase in direct local distribution activity generated by internet sales to consumers.



HOSPITALITY*

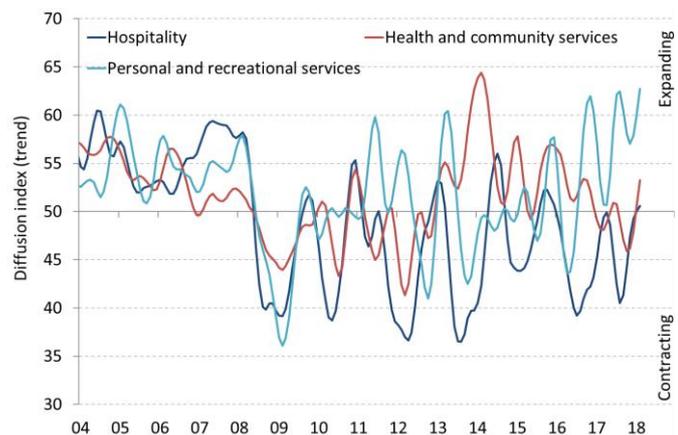
- The hospitality (accommodation, cafes and restaurants) sub-sector experienced stable conditions in February, lifting by 0.6 points to 50.6 points (trend). This marks the third month of stable conditions after almost two years (22 months) of contraction. Respondents noted price sensitivity from customers as the main influence on trade.

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The health, education and community services sub-sector's index rose 2.9 points to 53.3 points in February (trend). This marked the first return to growth for the sector after fourteen months of flat or negative conditions for this large sub-sector (that includes private-sector health, welfare, community and education services). This improvement appears to relate to sales and new orders (e.g. for education and community services) as well as employment, but has not enabled price rises in the sub-sector.

PERSONAL AND RECREATIONAL SERVICES*

- The personal and recreational services sub-sector's index grew strongly over the month lifting 2.8 points to 62.7 in February (trend). Growth was driven by sales and new orders as customers choose to direct their discretionary spending towards experiences rather than retail goods.

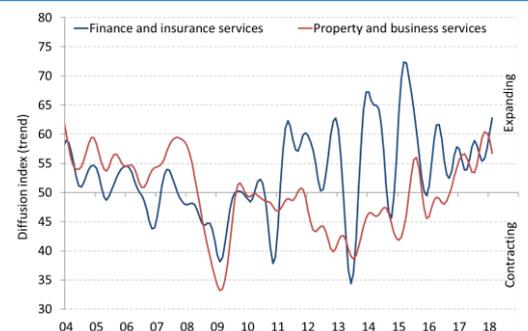


PROPERTY AND BUSINESS SERVICES*

- The large property and business services sub-sector moderated over the month, dropping 2.4 points to 56.7 points. This sub-sector includes legal, accounting, consulting, engineering, administrative and office services, plus real estate and property management.

FINANCE AND INSURANCE SERVICES*

- The very large finance and insurance sub-sector continued to grow in February, with its index rising by 2.6 point to 62.8 points in February (trend), the highest reading since August 2015. This sub-sector includes banking, insurance, superannuation and financial services.

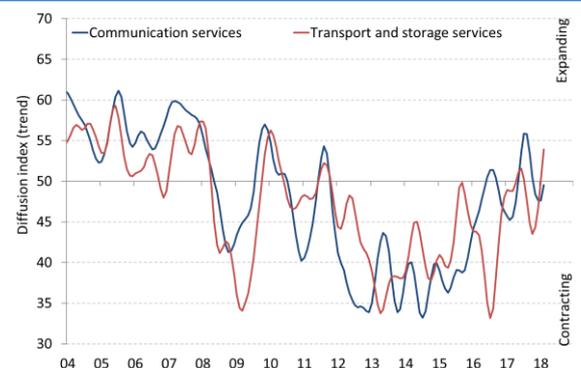


COMMUNICATION SERVICES*

- The communications services sub-sector's index experienced stable conditions over February rising 1.9 points over the month to 49.5 (trend). This sub-sector has been stable or contracting for the past five months. Sales were stable in February but forward orders, employment and stocks all improved; signaling a brighter outlook for this sub-sector later in 2018.

TRANSPORT AND STORAGE SERVICES*

- The transport and storage services sub-sector's index improved in February lifting 3.8 points to 53.9 points (trend), marking a return to growth following seven months of flat or contractionary conditions. This sub-sector reported strong sales and new orders over the month and benefited from business to business trade. Employment appears to have stabilised, as this subsector operates at almost 80% of available capacity.



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®	54.0	-0.9	53.1	Supplier Deliveries	53.0	-0.7	52.4
Sales	54.7	0.8	53.3	Input Prices	69.5	8.8	60.3
New Orders	54.8	0.3	53.7	Selling Prices	52.9	1.1	49.9
Employment	53.9	-4.2	53.3	Average Wages	54.2	-3.3	56.2
Stocks	52.7	0.2	51.2	Capacity utilisation	78.0	-3.1	77.8

* 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 national composite index calculated from a weighted mix of the diffusion indexes for sales, orders/new business, deliveries, inventories and employment. An Australian PSI® reading above 50 points indicates services activity is expanding; below 50, that it is declining. The distance from 50 points indicates the strength of expansion or decline. The Australian PSI® uses ANZSIC industry classifications and weights derived from ABS industry output data. Seasonally adjusted and trend data are calculated according to ABS methodology. The Australian PSI® commenced in 2003. More information about the Australian PSI® is available at www.aigroup.com.au/policy-and-research/economics/economicindicators/. © The Australian Industry Group, 2018. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part of this publication may be reproduced by any process or means without the prior written permission of The Australian Industry Group. **Disclaimer:** The Australian Industry Group provides information services to its members and others, which include economic, and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by a person relying in whole or in part upon the contents of this publication.