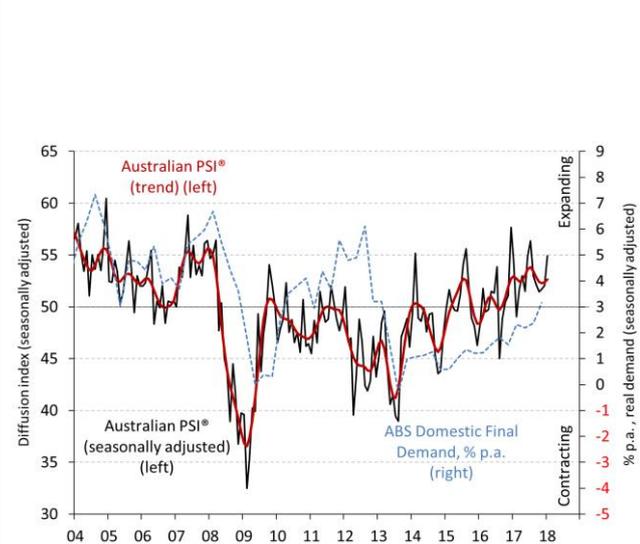


SERVICES SECTOR SHOWS SOLID START TO 2018

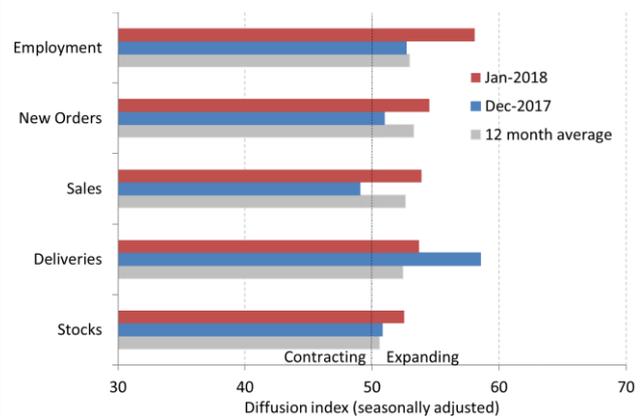
Australian PSI® Jan 2018: 54.9 ↑	USA Flash PSI Jan 2018: 53.3 ↑	Eurozone Flash PSI Jan 2018: 57.6 ↑	UK Markit PSI Dec 2017: 54.2 ↑	Japan Nikkei PSI Dec 2017: 51.1 ↓	China Caixin PSI Dec 2017: 53.9 ↑
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) increased by 2.9 points to 54.9 points in January 2018 (seasonally adjusted), indicating a faster rate of expansion from late 2017. **Australian PSI®** results above 50 points indicate expansion, with higher numbers indicating stronger rates of growth.
- January 2018 marked eleven consecutive months of positive results in 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 January 2018. The employment sub-index was especially strong in January. It lifted by 5.4 points to 58.1 points, its highest monthly result since December 2004. Employment was stronger across all services sub-sectors except wholesale trade in the **Australian PSI®** in January. Capacity utilisation is also relatively elevated at 81.1% of available capacity in January, just shy of its peak of 81.4% in August 2017.
- The **Australian PSI®** continues to show considerable variation in activity across sub-sectors in January, as it did through 2017. Conditions are generally looking better in the business-oriented sub-sectors than in consumer-oriented sub-sectors. Three of the nine sub-sectors expanded in January (transport, finance, property & business), two were approximately stable (hospitality and personal services) and four contracted (wholesale, retail, communications and health, education & community services).
- Respondents to the **Australian PSI®** noted improved business confidence and orders from business customers in January, boosted by a rebound in real estate transactions in some locations. Excessive heat was a plus for some businesses, as more customers sought out air-conditioned shops, restaurants and recreation services. Stronger labour demand is evident in the increase in reports of skill shortages in specialized fields.
- Businesses across all sub-sectors continue to report problems absorbing higher input costs including higher energy costs and annual increases in regulatory costs. These cost rises are eating into margins and increasing pressure to raise selling prices.



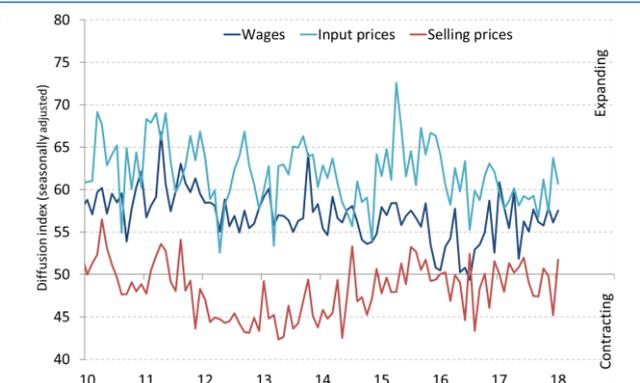
ACTIVITY SUB-INDEXES

- The sales sub-index recovered from a mild contraction in December. It rose by 4.8 points to 53.9 points in January (seasonally adjusted).
- The employment sub-index accelerated to 58.1 points in January, its highest monthly result since December 2004. All sub-sectors except wholesale trade indicated stronger demand for labour in January, with some more specialised segments reporting skill shortages. Employment in the **Australian PSI®** expanded or remained stable through 2017, reflecting stronger growth in jobs and vacancies (ABS and other data).
- The new orders sub-index jumped 3.5 points to 54.5 points in January. This was the 17th month of positive results and augurs well for further growth in 2018.
- Stocks (inventories) were rebuilt again in January after holding stable in December and contracting in November, with this sub-index rising by 1.7 points to 52.5 points.
- Supplier deliveries decelerated in January however, with this sub-index falling 4.8 points to 53.7 points, indicating a slower pace of (seasonally adjusted) growth.
- Capacity utilisation across the services sector grew by a further 1.8 percentage points to 81.1% of available capacity in January. This is the highest capacity utilisation rate recorded in the **Australian PSI®** since the record peak of 81.4% in August 2017.



PRICES SUB-INDEXES

- The input prices sub-index moderated by 3.0 points to 60.7 points in January but remained relatively elevated. Participants continue to report problems absorbing higher energy costs in January. Some also reported new-year increases in regulatory fees and charges (some of which are automatically indexed or pegged to inflation).
- The average wages sub-index accelerated by 1.4 points to 57.5 points in January, which is above the long-run average for this sub-index (56.7 points on average since May 2009) after moderating in the second half of 2017. This rise might be symptomatic of rising demand for labour across most (but not all) services sub-sectors.
- The sub-index for selling prices jumped 6.6 points higher to 51.8 points and indicating mild price increases on average across the services sector. This was the first indication of solid increases in selling prices in the **Australian PSI®** since June 2017. It suggests recent input cost increases are now being passed on (at least in part) to customers.



RETAIL TRADE*

- The retail trade sub-sector's index improved modestly to 45.9 points in January (trend), indicating a moderation in generally negative conditions. This marked an eleventh month of flat or contracting activity, after better conditions in early 2017. Retail businesses in the **Australian PSI**[®] said that extreme heat and the Australian Open tennis tournament provided a boost to sales in Melbourne, but aggressive offshore and online retail sales competition was cited as a serious ongoing headwind elsewhere.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index deteriorated to 46.9 points in January (trend), dropping into contraction after a relatively good year in 2017. 2017's recovery reflected 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. Wholesale trade was the only sub-sector in the **Australian PSI**[®] that did not report a stronger employment sub-index (above 50 points) in January.

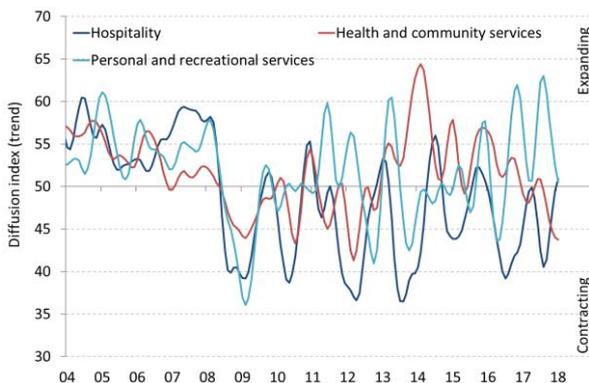


HOSPITALITY*

- The hospitality (accommodation, cafes and restaurants) sub-sector's index was broadly stable in January, at 50.9 points (trend). This sub-sector has shown mild improvement since late 2017. Respondents in several locations said excessive summer heat in January encouraged more demand for (air conditioned) restaurant and hotel services.

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The health, education and community services sub-sector's index dropped to 43.7 points in January (trend). This marked fourteen months of flat or negative 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. This deterioration appears to relate to sales and new orders (e.g. for education and community services) rather than employment and supplier deliveries, with the latter expanding in January.

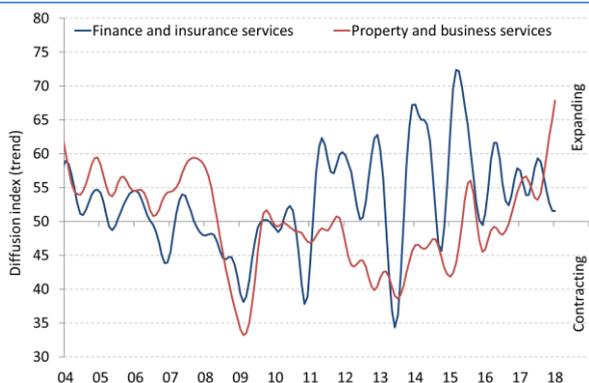


PERSONAL AND RECREATIONAL SERVICES*

- The personal and recreational services sub-sector's index was broadly stable at 50.5 points in January (trend). This sub-sector has expanded or been stable since July 2016. Sales were slower in January but employment expanded (above 50 points).

PROPERTY AND BUSINESS SERVICES*

- The large property and business services sub-sector began 2018 strongly, with its index rising to 67.8 points in January (trend). This was the highest monthly result for this sub-sector since the **Australian PSI**[®] commenced in 2003. This sub-sector includes legal, accounting, consulting, engineering, administrative and office services, plus real estate and property management. Respondents reported rising demand from business customers and a renewed surge in real estate transactions in January.

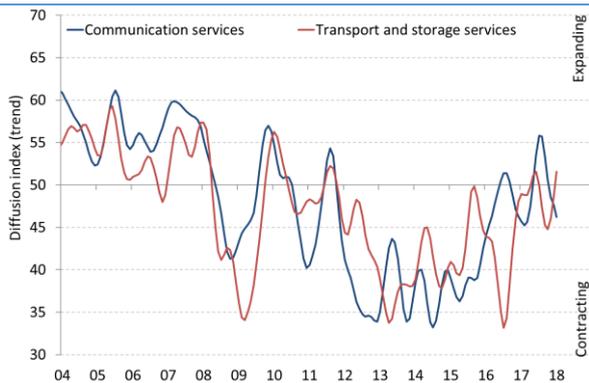


FINANCE AND INSURANCE SERVICES*

- The very large finance and insurance sub-sector expanded mildly in January, with its index falling by 0.1 point to 51.5 points in January (trend). Conditions in this sub-sector remain positive but appear to be slowing (including in sales and employment). This sub-sector includes banking, insurance, superannuation and financial services.

COMMUNICATION SERVICES*

- The communications services sub-sector's index fell to 46.2 points in January, indicating a contraction in activity (trend). This sub-sector slumped towards the end of 2017 after a better period through the middle of the year. Current sales remained negative in January (below 50 points), but forward orders, employment and supplier deliveries all improved. This augurs well for a recovery in this sub-sector later in 2018.



TRANSPORT AND STORAGE SERVICES*

- The transport and storage services sub-sector's index improved to 51.5 points in January (trend), indicating the first period of mild recovery since June 2017. This sub-sector reported stable current sales in December and January but a lift in forward orders. Employment appears to have lifted as well, probably in response to rising forward orders. This sub-sector continues to report strong increases in input costs.

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 [®]	54.9	2.9	52.6	Supplier Deliveries	53.7	-4.8	52.4
Sales	53.9	4.8	52.6	Input Prices	60.7	-3.0	59.3
New Orders	54.5	3.5	53.3	Selling Prices	51.8	6.6	49.5
Employment	58.1	5.4	53.0	Average Wages	57.5	1.4	56.5
Stocks	52.5	1.7	50.6	Capacity utilisation	81.1	1.8	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.