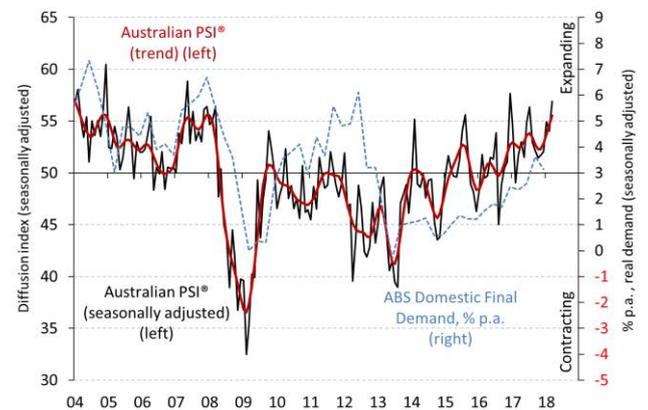


SERVICES SECTOR ACCELERATES IN MARCH

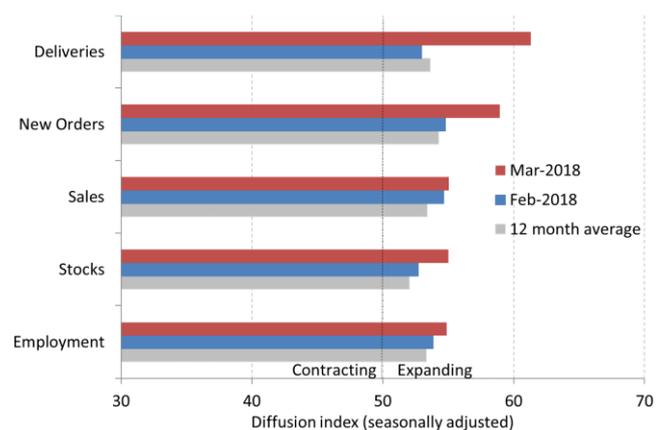
Australian PSI[®] Mar 2018: 56.9 ↑	USA Flash PSI Mar 2018: 54.1 ↓	Eurozone Flash PSI Mar 2018: 55.0 ↓	UK Markit PSI Feb 2018: 54.5 ↑	Japan Nikkei PSI Feb 2018: 51.7 ↓	China Caixin PSI Feb 2018: 54.2 ↓
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI[®]**) rose by 2.9 points to 56.9 points in March 2018 (seasonally adjusted), signifying an acceleration of growth. **Australian PSI[®]** results above 50 points indicate expansion, with higher numbers indicating stronger rates of growth.
- March 2018 was the highest monthly result in the **Australian PSI[®]** since December 2016 and marks thirteen months of positive results (seasonally adjusted).
- All five of the activity sub-indexes in the **Australian PSI[®]** expanded (results over 50 points) in March 2018. Deliveries were robust over the month rising to 61.3 points, as were new orders (59.0). Stocks (55.0) lifted over the month while Sales (55.0) also edged higher. Employment continued to grow rising one point to 54.9 in March, marking ten months of growing employment in the **Australian PSI[®]**.
- Capacity utilisation lifted to 78.9% in March, up from 78.0% in February and well above its long-term average of 75.6%. It hit a record high of 81.4% in August 2017.
- The **Australian PSI[®]** was positive and indicating expansion across seven of the nine sub-sectors in March (trend), including wholesale; transport & storage; finance; property & business; communication; health; and personal & recreational services. The more business-oriented sub-sectors reported that stronger demand from their customers in construction and manufacturing is benefiting their business activity.
- The two largest consumer-oriented sub-sectors remained slow in March. Hospitality was relatively stable while retail trade contracted again in March (trend). Services businesses in these sub-sectors continue to report restrained discretionary spending among households due to slow nominal income growth and pressure on household budgets from housing, energy and other essential costs.



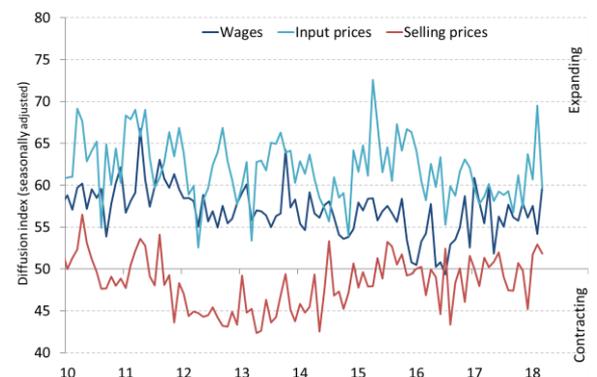
ACTIVITY SUB-INDEXES

- The sales sub-index rose by 0.3 points to 55.0 points in March. This marked three consecutive months of growth following weaker results at the end of 2017.
- Employment growth accelerated in March, with this sub-index up 1.0 point to 54.9 points. Employment demand remains mixed across the services sectors, with stronger demand from business-oriented industries (with generally higher level skills), but weaker demand across retail, wholesale and hospitality.
- The new orders sub-index increased by 4.2 points to 59.0 points in March. This was a third month of improving results. It suggests further growth ahead in 2018.
- The stocks (inventories) sub-index lifted by 2.3 points to 55.0 points in March. This was the highest level since February 2008. It might indicate that businesses are stockpiling in order to meet future orders.
- The supplier deliveries sub-index gained 8.3 points to reach an historical high of 61.3 points in March. As with stocks, this suggests preparation for forward orders.
- Capacity utilisation across the services sector rose by 0.9 percentage points to 78.9% of available capacity in March. Capacity utilisation in the **Australian PSI[®]** has been well above the long-term average of 75.6% for some months. This indicates that expanded investment and/or employment may be needed in some sub-sectors in order to meet new orders and future growth in demand for services.



PRICES SUB-INDEXES

- The input prices sub-index fell by 9.9 points to 59.6 points after spiking higher in February. Respondents to the **Australian PSI[®]** continue to note that high input costs - and especially higher energy charges - are maintaining pressure on their margins.
- The average wages sub-index expanded by 5.7 points to 59.9 points in March, which is above the long-run average for this sub-index (56.7 points on average since May 2009). Wage pressures appear to be building up in higher-skill occupations and in the business-oriented sub-sectors.
- The sub-index for selling prices fell by 1.0 point to 51.9 points in March, indicating slower price increases for customers across the services sector. This was the third consecutive month that some businesses reported increasing their selling prices in the **Australian PSI[®]**. It indicates that more services businesses are needing to lift their prices in response to increasing prices for energy and other key inputs.



RETAIL TRADE*

- The retail trade sub-sector's index fell 0.9 points to 38.2 points in March (trend). This marks one year of contraction for the embattled segment and at a worsening pace. Retailers in the **Australian PSI**[®] report ongoing weakness in local discretionary spending among households due to household budget pressures (especially from housing and energy costs) and slow income growth. Unlike other services sub-sectors, many retailers feel unable to increase their prices and in some cases face price deflation. Strong competition from online providers and large international new entrants is a further source of pressure in some parts of this large sub-sector.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index was largely unchanged in March, up just 0.1 point to 53.9 points (trend). March marked 19 months of expansion, mainly due to increased business-to-business trading (e.g. for agricultural produce and construction materials) and an increase in direct online sales to consumers.



HOSPITALITY*

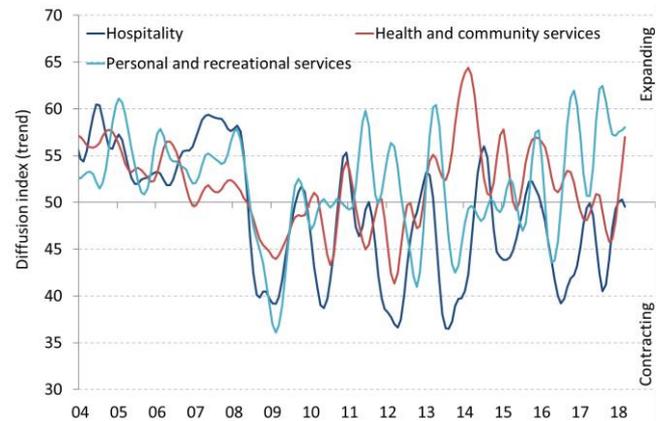
- The hospitality (accommodation, cafes and restaurants) sub-sector experienced broadly stable conditions in March, with its index falling by 0.8 points to 49.5 points (trend). This marks a fourth month of stability after almost two years of contraction. Price remains a key swing factor for individual customers. Some hospitality respondents to the **Australian PSI**[®] noted improving activity from corporate clients.

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The large health, education and community services sub-sector's index rose 3.1 points to 57.0 points in March (trend). This marked a return to growth after fourteen months of flat or negative conditions. Businesses in this sub-sector (which includes private-sector health, welfare, community and education services) are operating at close to full capacity, with over 90% of available capacity reportedly being used.

PERSONAL AND RECREATIONAL SERVICES*

- The personal and recreational services sub-sector's index lifted by 0.4 points to 58.1 points in March (trend). Sales and employment expanded as consumers continue to choose to allocate more of their non-essential spending towards experiential and personal services rather than towards discretionary retail goods.

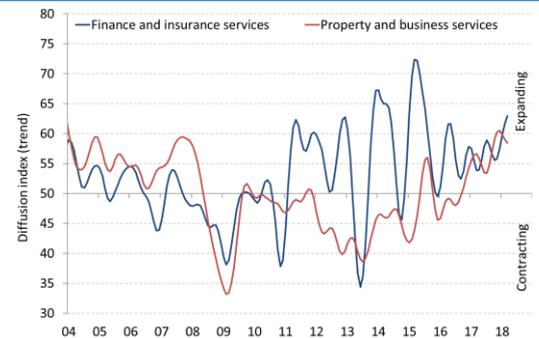


PROPERTY AND BUSINESS SERVICES*

- The large property and business services sub-sector's index moderated by 0.5 points to 58.5 points in March. This sub-sector includes legal, accounting, consulting, engineering, administrative and office services, plus real estate and property management. It has experienced an accelerating growth trend over the past 18 months as business-to-business transactions grow and the booming construction industry generates greater demand for property-related services.

FINANCE AND INSURANCE SERVICES*

- The very large finance and insurance sub-sector accelerated in March, with its index rising by 1.2 point to 62.9 points (trend). This was the highest result since July 2015. This sub-sector includes banking, insurance, superannuation and financial services.

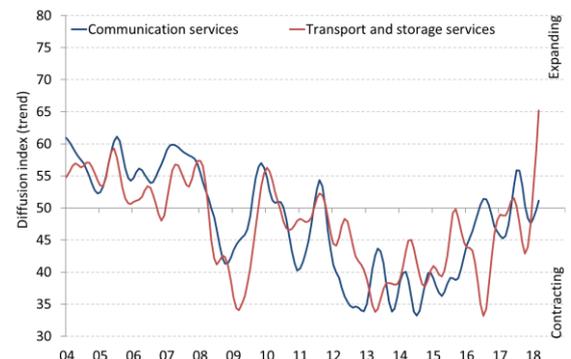


COMMUNICATION SERVICES*

- The communications services sub-sector's index rose 1.4 points to 51.1 points in March (trend), indicating broadly stable condition. This comes after five months of stability or contraction. Sales contracted in March but forward orders and deliveries improved, signaling a brighter outlook for this sub-sector later in 2018.

TRANSPORT AND STORAGE SERVICES*

- The transport and storage services sub-sector increased by 6.5 points to 65.2 points in March. This was a new record high for this sub-sector in the **Australian PSI**[®]. This sub-sector reported strong results across sales, new orders, employment, stocks and deliveries, due to strong demand from business customers in the agricultural, manufacturing and construction sectors.



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 [®]	56.9	2.9	53.5	Supplier Deliveries	61.3	8.3	53.6
Sales	55.0	0.3	53.4	Input Prices	59.6	-9.9	60.4
New Orders	59.0	4.2	54.3	Selling Prices	51.9	-1.0	49.9
Employment	54.9	1.0	53.3	Average Wages	59.9	5.7	56.5
Stocks	55.0	2.3	52.0	Capacity utilisation	78.9	0.9	78.3

* 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.