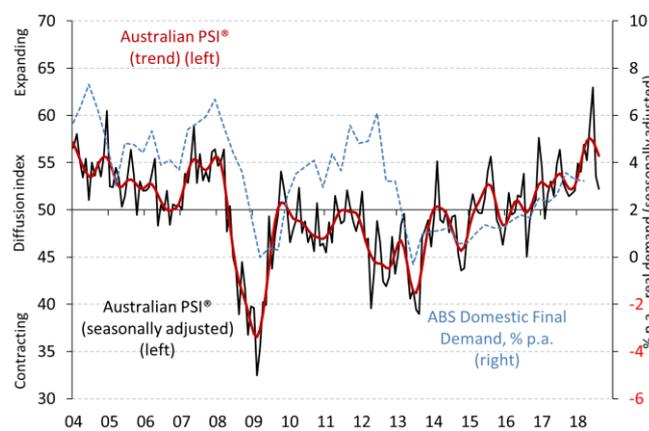


SLOWER GROWTH FOR SERVICES IN AUGUST

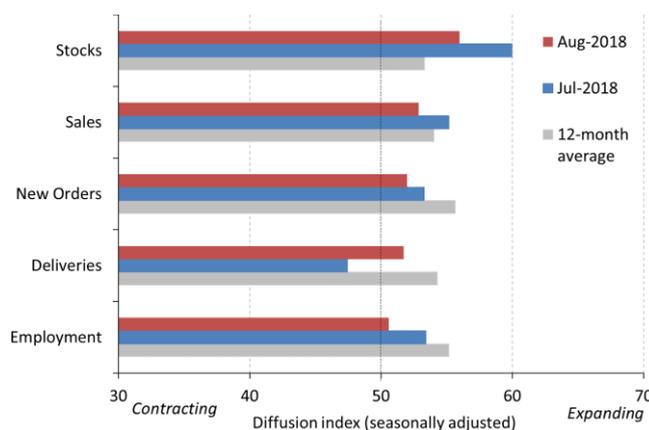
Australian PSI® Aug 2018: 52.2 ↓	USA Flash PSI Aug 2018: 55.2 ↓	Eurozone Flash PSI Aug 2018: 54.4 ↑	UK Market PSI July 2018: 53.5 ↓	Japan Nikkei PSI July 2018: 51.3 ↓	China Caixin PSI July 2018: 52.8 ↓
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell 1.4 points to 52.2 points (seasonally adjusted), indicating slowing growth in August 2018 compared to July. Results above 50 points indicate expansion, with higher numbers indicating stronger growth rates.
- The **Australian PSI®** has indicated positive conditions (results above 50 points) for eighteen months. It has been broadly stable or expanding for twenty-three months.
- Four of the five activity sub-indexes in the **Australian PSI®** were positive (results over 50 points) and one was stable in August 2018.
- Inventories accelerated in August, while sales moderated but continued to expand. New orders continued to grow but at a slower pace. Supplier deliveries grew in August in the **Australian PSI®**, reversing the contraction seen in July. Employment was stable over the month following fourteen months of continuous expansion.
- Capacity utilisation in the **Australian PSI®** fell 1.7 percentage points to 78.5% of available capacity in August. It remains above its long-run average of 75.8%.
- The **Australian PSI®** indicated expansion in five of the nine sub-sectors in August (trend) however results were mixed. Some business-oriented sub-sectors such as property & finance reported steady demand from customers servicing mining and infrastructure projects, however transport & storage businesses noted a slowing in business activity. Health, retail trade and wholesale trade also reported positive results, while other consumer-oriented sub-sectors had deflated results. Personal & recreational services was broadly stable over the month while hospitality contracted (trend).



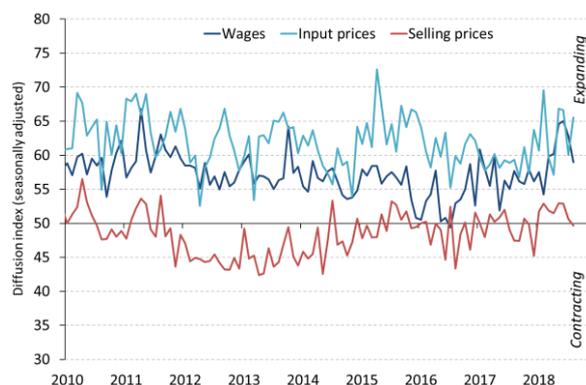
ACTIVITY SUB-INDEXES

- The sales sub-index grew in August but moderated by 2.3 points to 52.9 points, this indicator has expanded across every month of 2018.
- Employment was stable in the **Australian PSI®**, with this sub-index falling by 2.8 points to 50.6 points. Employment grew strongly in the first half of 2018 peaking at a series high in June but the moderation in July and August has reversed the gains and it has virtually returned to the long-term mean for this indicator.
- The new orders sub-index dropped to 52.0 points in August. This marked eighteen months of continuous growth for this leading indicator, the longest period of continuous growth since September 2005 (32 months of continuous growth).
- The supplier deliveries sub-index indicated expansion in August, rising 4.2 points to 51.7 points following a contraction in July, this sub-index has been growing for ten of the past twelve months.
- The stocks (inventories) sub-index continued to indicate expanding stocks but at a decelerating rate in August, dropping 4.0 points to 56.0 points. This sub-index has been stable or expanding for eleven of the past twelve months.
- Capacity utilisation across the services sector reduced by 1.7 percentage points to 78.5% of available capacity in August. Capacity usage has fallen for the past four months from the recent series peak of 82.4% in April 2018.



PRICES SUB-INDEXES

- The input prices sub-index increased by 5.6 points to 65.6 points in August, just above the long-term average of 64.0 points. Respondents to the **Australian PSI®** reported that increasing input costs are continuing to put pressure on margins because many businesses are unable to increase their selling prices, despite the rising price of their inputs.
- The average wages sub-index eased by 3.8 points to 59.0 points in August but remained above the medium-term average for this sub-index (57.0 points since August 2009). The national minimum wage increased by 3.5% on 1 July 2018. This may have contributed to rising wages in some businesses in July and August.
- The sub-index for selling prices indicated stable prices in August (49.6 points) following six months of mild rises in 2018. Selling prices have been stable on average (50.6 points) over the past year in the **Australian PSI®**, indicating that most businesses have been unable to implement price rises in order to cover their increasing input costs.



RETAIL TRADE*

- The retail trade sub-sector's index increased by 3.0 points to 57.0 points in August (trend), the highest result for this sub-sector since June 2016. Some retailers in the **Australian PSI®** noted that construction and related activity had a positive effect on their sales in the month, however other retailers noted a continuing lack of customer demand and/or more subdued spending in drought affected areas.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index indicated a moderation in growth in August, shifting down slightly to 53.5 points in August (trend). August marked 23 months of expansion for wholesalers, although results were mixed. Those who supply retailers reported lower demand, while more aggressive direct and online marketing has had positive results for others. Several wholesale businesses noted that changing business conditions within China are influencing their trading activity and/or profitability, as the outcomes from shifting global trade conditions start to bite.



HOSPITALITY*

- The hospitality (accommodation, cafes and restaurants) sub-sector contracted again in August but at a slower pace than in the previous month, with its index rising by 0.4 points to 46.9 points (trend). This marked a sixteenth month of contraction. Stable conditions were last reported in this sub-sector in April 2017.

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The very large health, education and community services sub-sector's index rose by 0.3 points to 63.0 points in August (trend). This was the seventh month of accelerating expansion after weaker conditions through 2017. It was the highest result for this sub-sector since February 2014. Businesses in this sub-sector (including private-sector health, welfare, community and education services) are experiencing substantial growth but also rising input costs and falling levels of capacity utilisation, which suggests further investment and employment is needed.

PERSONAL, RECREATIONAL AND OTHER SERVICES*

- The personal, recreational and other services sub-sector's index fell by 3.0 points to 49.4 points in August (trend), indicating broadly stable conditions over the month. This is the first drop below 50 points for this sub-sector in the **Australian PSI®**, after expanding for the past 15 months.

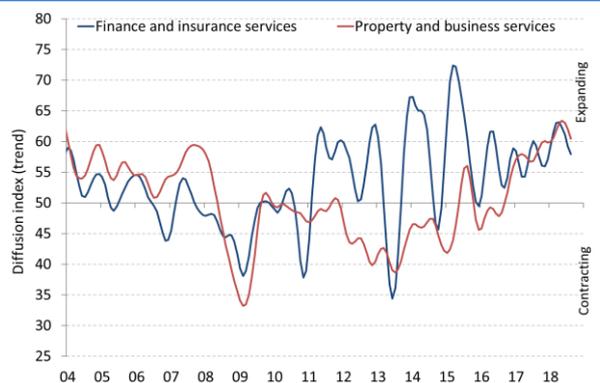


PROPERTY AND BUSINESS SERVICES*

- Property and business services (60.4 points) continued to expand in August (trend), marking 23 months of continuous expansion for this sub-sector which includes legal, accounting, consulting, engineering, administrative and office services, as well as real estate and property management. These businesses continue to report steady growth in 2018 as they benefit from thriving infrastructure investment, new technologies and continued high demand from business customers.

FINANCE AND INSURANCE SERVICES*

- The large finance and insurance sub-sector continued to expand in August but at a slightly slower rate, with its index moderating by 1.3 points to 57.9 points (trend). Sales, new orders and employment were robust in August, while capacity utilisation remained at an elevated level. This sub-sector includes banking, insurance, superannuation and financial services for businesses and consumers.

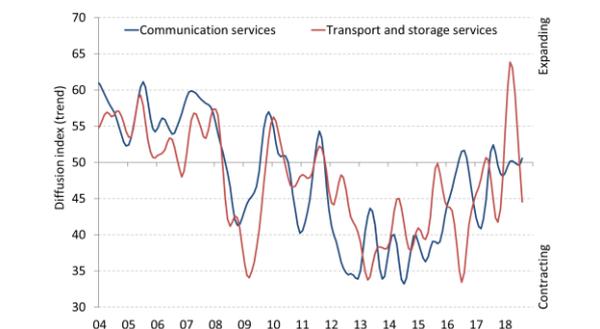


COMMUNICATION SERVICES*

- The communications services sub-sector's index rose by 1.0 point to 50.6 points in August (trend), indicating balanced conditions for the month. This sub-sector has been broadly stable for much of 2018, with fairly constant levels of activity.

TRANSPORT AND STORAGE SERVICES*

- The transport & storage services sub-sector's index dropped into contraction in August, falling by 5.2 points to 44.6 points (trend). This marks a return to contraction following seven months of recovery and expansion across this sub-sector (and reaching a series high in March 2018). Businesses in this sub-sector reported slower demand from business customers and assertive discounting from their competitors for the remaining work.



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®	52.2	-1.4	54.7	Supplier Deliveries	51.7	4.2	54.3
Sales	52.9	-2.3	54.0	Input Prices	65.6	5.6	62.1
New Orders	52.0	-1.3	55.7	Selling Prices	49.6	-1.0	50.6
Employment	50.6	-2.8	55.2	Average Wages	59.0	-3.8	59.1
Stocks	56.0	-4.0	53.3	Capacity utilisation	78.5	-1.7	79.6

* 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 is available at www.aigroup.com.au/policy-and-research/economics/economicindicators/.

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