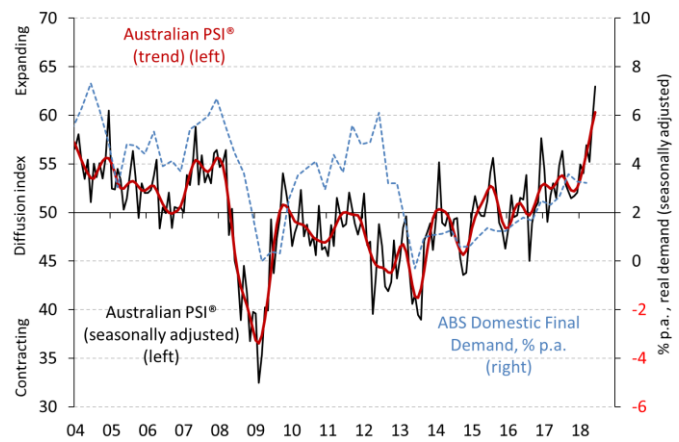


INFRASTRUCTURE INVESTMENT LIFTS SERVICES IN JUNE

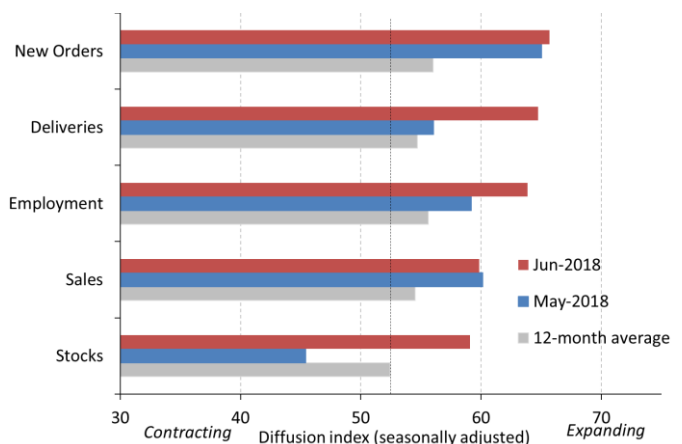
Australian PSI® Jun 2018: 63.0 ↑	USA Flash PSI Jun 2018: 56.5 ↑	Eurozone Flash PSI Jun 2018: 55.0 ↑	UK Markit PSI May 2018: 54.0 ↑	Japan Nikkei PSI May 2018: 51.0 ↓	China Caixin PSI May 2018: 52.3 -
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- The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose 4.0 points to a record high 63.0 points (seasonally adjusted), indicating a faster rate of expansion in June compared to May. 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 sixteen consecutive months, and stable or expansionary results for 21 months.
- All of the activity sub-indexes in the **Australian PSI®** were positive (results over 50 points) in June 2018. New orders returned similar results to May, while sales moderated slightly but remained elevated. Employment accelerated with this sub-index up in June and marking thirteen months of expanding employment in the **Australian PSI®**. Supplier deliveries were strong, while inventories rose into growth in June.
- Capacity utilisation across the **Australian PSI®** fell just over half a percentage point to 81.3% of available capacity in June but remained well above its long-run average.
- The **Australian PSI®** indicated expansion in six of nine sub-sectors in June (trend). The predominantly business-oriented sub-sectors such as property, finance and transport reported solid demand from customers in construction and manufacturing; while the health sector also reported positive results.
- The more discretionary, mainly consumer-oriented sub-sectors continued to remain relatively weak in June. Retail trade contracted again, while hospitality was stable (trend). Businesses in these sub-sectors continue to report cautious discretionary spending due to rising costs and tighter disposable incomes.



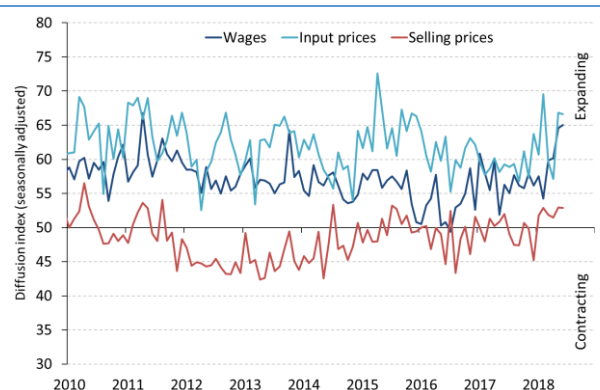
ACTIVITY SUB-INDEXES

- The new orders sub-index returned similar results to the previous month lifting 0.7 points to 65.7 points in June. This marked sixteen months of continuous growth for this leading indicator and at a slightly faster rate.
- The sales sub-index moderated by 0.2 points to 59.9 points in June. This marked six months of improving results for this sub-index, following mixed results in late 2017.
- Employment growth improved in June, with this sub-index rising by 4.7 points to 63.9 points. This sub-index has remained buoyant in 2018, averaging 58.1 points since the start of the year. Employment demand remains uneven across the services sectors, with business-oriented sub-sectors indicating stronger demand for labour than consumer-oriented businesses such as retail and hospitality.
- The supplier deliveries sub-index lifted by 8.8 points to a record 64.8 points in June. The contraction in April seems to be confined to that month as it looks like some deliveries were disrupted by Easter and school holidays.
- The stocks (inventories) sub-index recovered from the contraction seen in May to register 59.1 in June, this sub-index has been stable or growing for thirteen of the past fourteen months.
- Capacity utilisation across the services sector dropped by 0.6 percentage points to 81.3% of available capacity in June. Capacity utilisation in the **Australian PSI®** has been well above its long-term average of 75.8% in 2018, suggesting an increasing number of businesses have low spare capacity and will soon need investment to expand.



PRICES SUB-INDEXES

- The input prices sub-index eased by 0.2 points to 66.6 points in June. Respondents to the **Australian PSI®** continue to note that high input costs - and especially high energy prices - are limiting their ability to invest within their businesses and tightening profit margins for some sectors.
- The average wages sub-index lifted slightly by 0.4 points to 65.0 points in June, which is above the medium-term average for this sub-index (56.9 points since June 2009). Wage pressures appear to be increasing as skill shortages emerge in higher-skill occupations and in business-oriented sub-sectors.
- The sub-index for selling prices returned the same result as May to remain at 52.9 points in June. This was the sixth consecutive month that respondents reported an increase in their selling prices in the **Australian PSI®** following six months of stable or contracting prices.



RETAIL TRADE*

- The retail trade sub-sector's index lifted by 1.8 points to 48.4 points in June (trend). While this marks a year of contraction for the segment, the rate of contraction has slowed following a recent low in February. Some retailers in the **Australian PSI®** noted that end of financial year spending and cold weather in some states has had a positive outcome on sales, however, broadly low rates of consumer spending are still having a dampening effect.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index lifted by 1.5 points to 57.0 points in June (trend), indicating a faster rate of expansion. In contrast to the retail sub-sector, June marked 22 months of expansion for wholesalers, who are benefiting from increased business from the construction and manufacturing sectors.



HOSPITALITY*

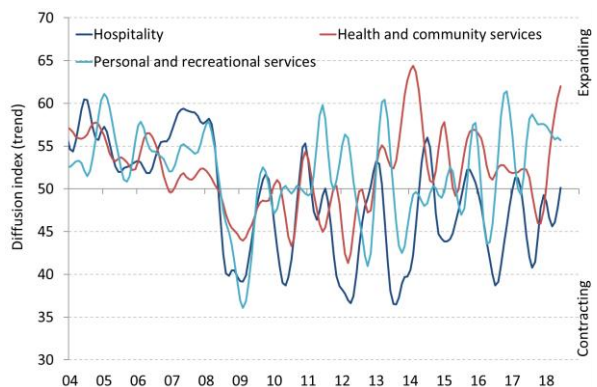
- The hospitality (accommodation, cafes and restaurants) sub-sector reported stable conditions in June, with its index rising by 2.5 points to 50.2 points (trend). This follows thirteen months of contraction after stable conditions were last seen in April 2017.

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The very large health, education and community services sub-sector's index rose by 1.4 points to 62.0 points in June (trend). This was the fifth month of growth after weaker conditions through 2017 and the highest result for this sector since March 2014. Businesses in this sub-sector (including private-sector health, welfare, community and education services) are reporting robust growth across sales and new orders and are currently operating at a high level of capacity.

PERSONAL, RECREATIONAL AND OTHER SERVICES*

- The personal, recreational and other services sub-sector's index fell by 0.3 points to 55.7 points in June (trend), indicating positive results slightly below the year average of 57.1. Sales, new orders and employment all rose across the sector but input costs remain high.

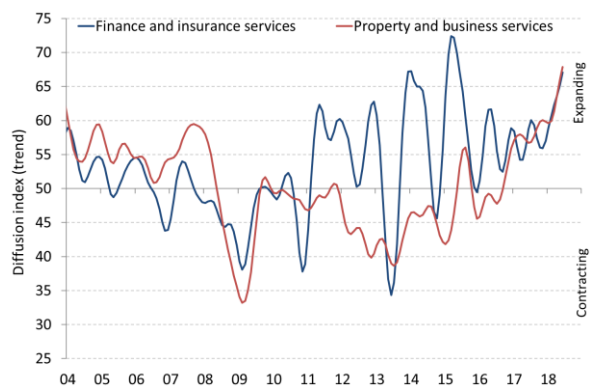


PROPERTY AND BUSINESS SERVICES*

- The property and business services sub-sector's index lifted by 1.9 points to a record high of 67.9 points in June (trend), marking 21 months of continuous expansion. This sub-sector includes legal, accounting, consulting, engineering, administrative and office services, as well as real estate and property management. This sub-sector continues to report steady growth in 2018 as it is directly benefiting from thriving infrastructure investment, increased maintenance levels and demand for business services. Businesses that service the mining industry are also reporting increased levels of activity.

FINANCE AND INSURANCE SERVICES*

- The large finance and insurance sub-sector accelerated in June, with its index rising by 1.9 points to 67.1 points (trend). Sales, new orders and employment grew strongly in June, while capacity utilisation remains at an elevated level. This sub-sector includes banking, insurance, superannuation and financial services.

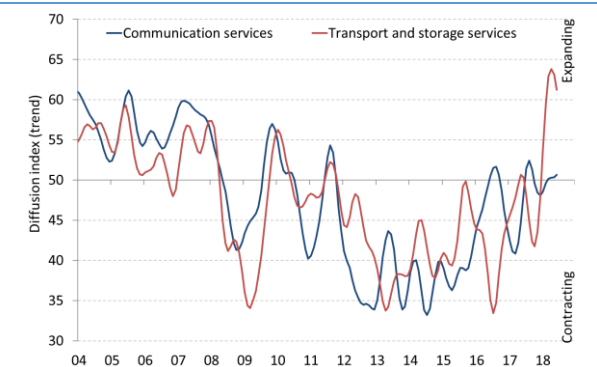


COMMUNICATION SERVICES*

- The communications services sub-sector's index rose by 0.3 points to 50.6 points in June (trend), indicating a ninth month of stable or mildly contractionary conditions. This sub-sector is at the forefront of new technology and innovation but faces strong competition and relatively tight margins.

TRANSPORT AND STORAGE SERVICES*

- The transport & storage services sub-sector's index fell by 1.9 points to 61.2 points in June (trend). The sector has been positive across the first half of the year averaging 60.7 since January 2018. Transport businesses in the **Australian PSI®** are still reporting robust demand from their business customers, particularly from those in construction, but note that margins in June have been tight.



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®	63.0	4.0	55.0	Supplier Deliveries	64.8	8.8	54.7
Sales	59.9	-0.2	54.5	Input Prices	66.6	-0.2	61.5
New Orders	65.7	0.7	56.0	Selling Prices	52.9	0.0	50.3
Employment	63.9	4.7	55.6	Average Wages	65.0	0.4	58.3
Stocks	59.1	13.7	52.4	Capacity utilisation	81.3	-0.6	79.7

* 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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