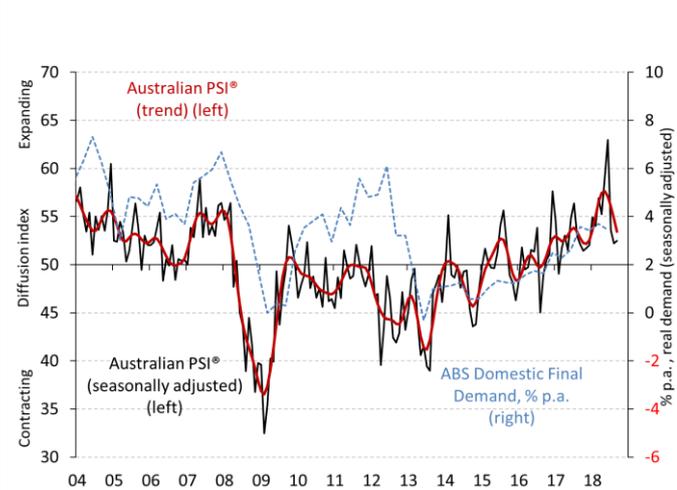


INFRASTRUCTURE ACTIVITY LIFTS SERVICES IN SEPTEMBER

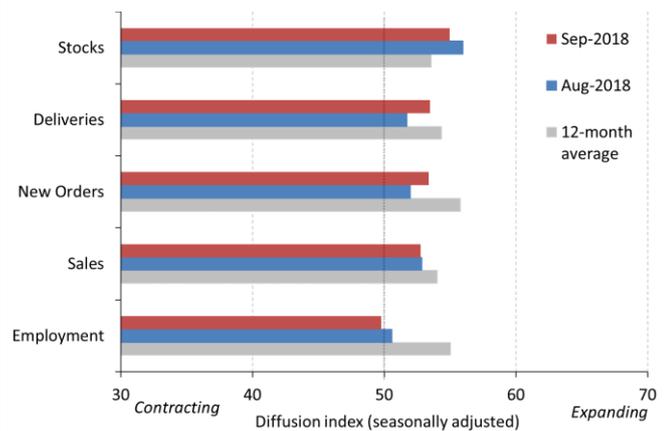
Australian PSI [®]	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Nikkei PSI	China Caixin PSI
Sep 2018: 52.5 ↑	Sep 2018: 52.9 ↓	Sep 2018: 54.7 ↑	Aug 2018: 54.3 ↑	Aug 2018: 51.5 ↑	Aug 2018: 52.0 ↓

- The Australian Industry Group Australian Performance of Services Index (**Australian PSI[®]**) rose 0.3 points to 52.5 points (seasonally adjusted), indicating mild growth in September 2018. Results above 50 points indicate expansion, with higher numbers indicating stronger growth rates.
- The **Australian PSI[®]** has been broadly stable or expanding for two years. It has indicated positive conditions (results above 50 points) for the past nineteen months.
- Four of the five activity sub-indexes in the **Australian PSI[®]** were positive (results over 50 points) and one was broadly stable in September 2018.
- Inventories eased in September, while deliveries accelerated. New orders continued to grow and at a slightly faster pace than August. Sales returned to almost the same modest growth result as the previous month while employment continued to be mostly stable across the services sector in September.
- Capacity utilisation in the **Australian PSI[®]** eased by 1.1 percentage points to 77.4% of available capacity in September. It remains slightly above its long-run average of 75.9% of total capacity across the services sector.
- The **Australian PSI[®]** indicated expansion in seven of the nine sub-sectors in September (trend). Business-oriented sub-sectors such as property & finance reported steady demand from construction projects, although transport & storage businesses noted a continued contraction in business activity. Health, retail trade, wholesale trade and hospitality also reported positive results in September.



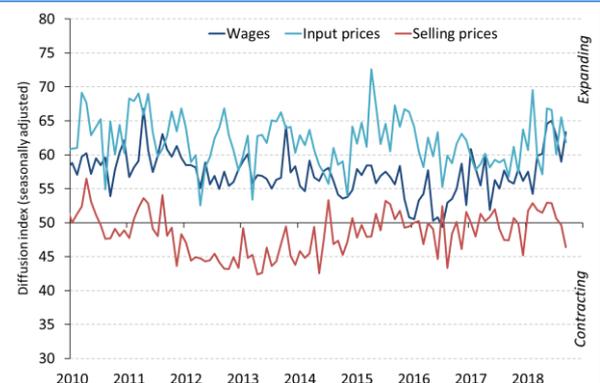
ACTIVITY SUB-INDEXES

- The sales sub-index grew in September, easing by just 0.1 points to 52.8 points. This indicator has expanded in every month of 2018 although the pace of growth has continued to moderate since the high experienced in May 2018.
- Employment was broadly stable in the **Australian PSI[®]** with this sub-index falling marginally by 0.8 points to register 49.8 points in September. While employment grew strongly in the first half of 2018 (peaking at a series high in June), it has moderated for the past three months and is now tracking close to the long-term average for this sub-index of 50.2 points.
- The new orders sub-index gained 1.4 points, registering 53.4 points in September. This marked nineteen months of continuous growth for this leading indicator, the longest period of uninterrupted growth since September 2005 (32 months of continuous growth in new orders).
- The supplier deliveries sub-index expanded in September, rising by 1.8 points to 53.5 points. This sub-index has expanded for eleven of the past thirteen months.
- Stocks (inventories) continued to indicate expansion but at a decelerating rate in September, dropping one point to 55.0 points. This is the strongest run of growth for this indicator in the history of the **Australian PSI[®]**.
- Capacity utilisation across the services sector declined by 1.1 percentage point to 77.4% of available capacity in September. Capacity usage has fallen for the past five months from the recent series peak of 82.4% in April 2018.



PRICES SUB-INDEXES

- The input prices sub-index eased by 3.7 points to 61.9 points in September to be slightly below the long-term average of 64.0 points. Respondents to the **Australian PSI[®]** reported that increasing input costs, particularly electricity and gas costs are exerting increased pressure on margins.
- The average wages sub-index rose by 4.3 points to 63.3 points in September, remaining above the medium-term average for this sub-index (57.0 points since August 2009). This recent elevation may reflect wage increases linked to this year's minimum wage increase of 3.5% (from 1 July 2018) making their way through businesses payroll systems.
- The sub-index for selling prices fell in September, dropping 3.2 points to 46.4 points and reversing the gains seen in the first six months of 2018. Selling prices have been stable on average (50.6 points) over the past year in the **Australian PSI[®]**, indicating ongoing difficulties for most businesses in implementing price rises.



RETAIL TRADE*

- The retail trade sub-sector's index increased by 2.0 points to 59.2 points in September (trend), the highest result for this sub-sector since June 2016. Some retailers in the **Australian PSI**[®] noted a lift in demand from construction and related activity while good weather in certain areas had a positive effect on sales in the month. All sub-indexes for retail were positive, but input costs were also elevated.

WHOLESALE TRADE*

- The wholesale trade sub-sector's index was virtually unchanged from the previous month, dropping just 0.1 point in September (trend). Wholesale trade has now been expanding for two years supported by the flow-on effects of infrastructure construction activity and in September 2018 particularly, an increase in orders from retail businesses.

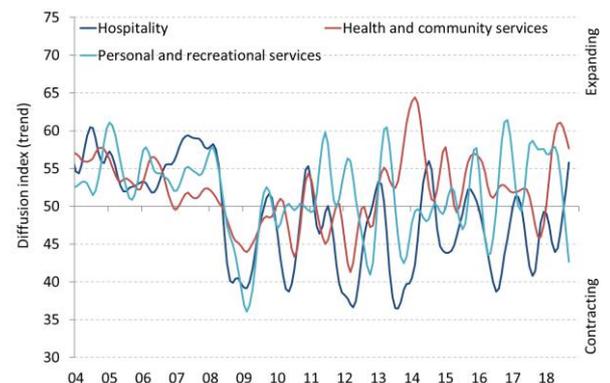


HOSPITALITY*

- The hospitality (accommodation, cafes and restaurants) sub-sector grew in September, with its index lifting 3.4 points to 55.8 points (trend). This marks a second month of solid growth and the first really bright period for the sub-sector since March 2017. While all activity sub-indexes for this sector were positive, wages growth was also higher and capacity utilisation was relatively low compared to other sub-sectors.

HEALTH, EDUCATION AND COMMUNITY SERVICES*

- The very large health, education and community services sub-sector's index eased by 1.4 points to 57.7 points in September (trend). This was the eighth month of expansion after weaker conditions through 2017. Businesses in this sub-sector (including private-sector health, welfare, community and education services) experienced substantial growth driven by new orders but also faced rising wages costs and relatively high levels of capacity utilisation. Some businesses noted that skills shortages are beginning to bite in the sub-sector.

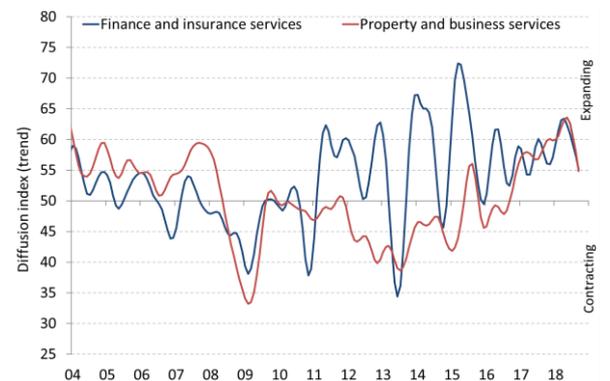


PERSONAL, RECREATIONAL AND OTHER SERVICES*

- The personal, recreational and other services sub-sector's index fell by 3.6 points to 42.7 points in September (trend), the lowest monthly result since October 2013 (trend). This sector has been rapidly trending down from the recent peak in the **Australian PSI**[®] in April 2018. High levels of competition and drought conditions faced by customers were cited as factors constraining sales in this month.

PROPERTY AND BUSINESS SERVICES*

- Property and business services eased by 3.1 points to 54.8 points in September (trend), marking two years of continuous expansion for this sub-sector. It 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 construction activity, new technologies and continuing strong demand from business customers.



FINANCE AND INSURANCE SERVICES*

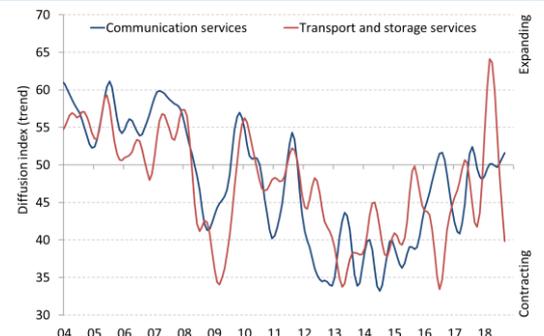
- The large finance and insurance sub-sector continued to expand in September but at a slightly slower rate, with its index moderating by 2.2 points to 55.1 points (trend). Sales were healthy in September while other indicators were stable. Capacity utilisation remained at elevated levels. Some respondents to the **Australian PSI**[®] noted higher levels of confidence from business customers in September.

COMMUNICATION SERVICES*

- The communications services sub-sector's index rose by 0.6 point to 51.6 points in September (trend), indicating somewhat expansionary conditions in the month. This sub-sector has been broadly stable for much of 2018 although some businesses said they increased their price discounting in order to maintain sales levels this month.

TRANSPORT AND STORAGE SERVICES*

- The transport & storage services sub-sector's index dropped further into contraction in September, falling by 3.9 points to 39.9 points (trend). This marks a second month of contraction following seven months of recovery and expansion across this sub-sector (after reaching a series high in March 2018). Businesses in this segment reported strong price competition, while activity across the sub-sector was patchy.



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 [®]	52.5	0.3	54.7	Supplier Deliveries	53.5	1.8	54.4
Sales	52.8	-0.1	54.0	Input Prices	61.9	-3.7	62.5
New Orders	53.4	1.4	55.8	Selling Prices	46.4	-3.2	50.5
Employment	49.8	-0.8	55.0	Average Wages	63.3	4.3	59.7
Stocks	55.0	-1.0	53.6	Capacity utilisation	77.4	-1.1	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/. © 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 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.