

AUSTRALIAN Performance of Services Index

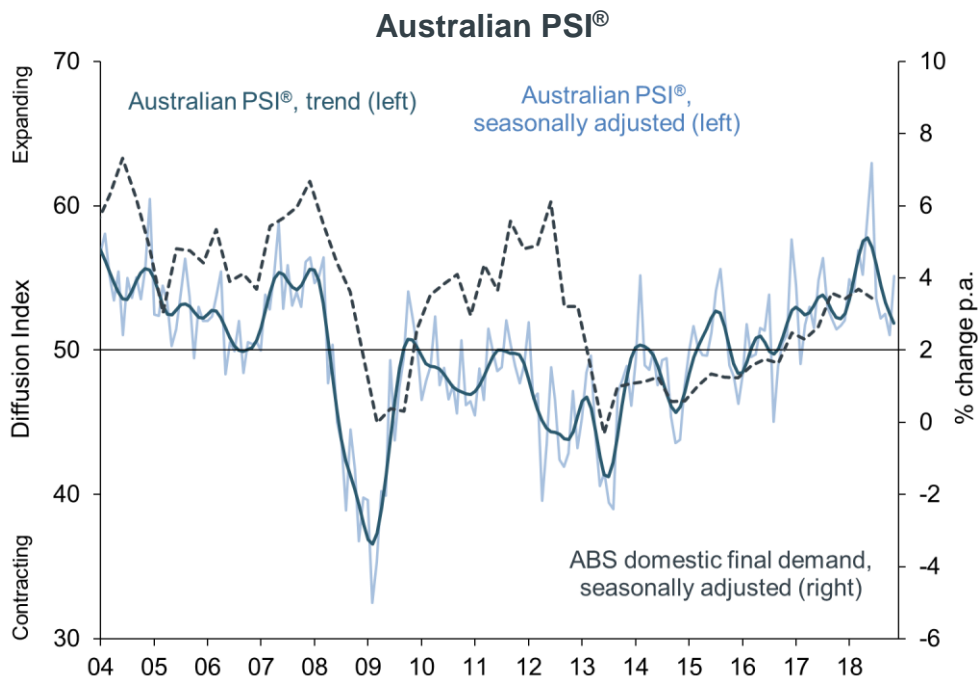


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Services activity bounces in November

The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose 4.0 points to 55.1 points (seasonally adjusted), indicating a faster pace of growth in November 2018 compared to the previous month. Results above 50 points indicate expansion in the Australian PSI®, with higher numbers indicating stronger growth rates.

The Australian PSI® indicated expansion in five of its nine sectors in November (trend). There were mixed results across business-oriented services sectors. Communication services accelerated while business & property services moderated but continued to report broadly positive conditions led by customer demand. The consumer-oriented services sectors were mostly positive, with hospitality (cafes and restaurants) and retail trade reporting expanding results (trend).



Australian PSI® consumer-oriented services sectors

| | | | | |
|--|---|--|--|--|
| AUSTRALIAN PSI® 55.1 ↑ 4.0 POINTS (seasonally adjusted) | RETAIL TRADE 56.5 - 0.0 POINTS (trend) | HOSPITALITY 62.6 ↑ 2.1 POINTS (trend) | HEALTH, EDUCATION & COMMUNITY 56.9 ↓ 1.3 POINTS (trend) | PERSONAL, REC & OTHER 47.9 ↑ 1.1 POINTS (trend) |
|--|---|--|--|--|

Australian PSI® business-oriented services sectors

| | | | | |
|---|--|--|--|---|
| BUSINESS & PROPERTY SERVICES 51.8 ↓ 1.3 POINTS (trend) | WHOLESALE TRADE 48.3 ↓ 1.7 POINTS (trend) | FINANCE & INSURANCE 46.9 ↓ 2.2 POINTS (trend) | TRANSPORT & STORAGE 43.2 ↑ 0.2 POINTS (trend) | COMMUNICATIONS 55.8 ↑ 1.6 POINTS (trend) |
|---|--|--|--|---|

Australian PSI® summary

Business-oriented services sectors: The Australian PSI® indicated expansion in only two of the five business-oriented sectors in November (trend). Business & property services reported good demand from infrastructure construction projects and communications services also described positive conditions. Businesses in the wholesale trade sector reported contracting activity after being stable the previous month. Finance & insurance contracted and at a faster pace than the previous month while transport & storage shrank at almost the same rate as October.

Consumer-oriented services sectors: Businesses in hospitality (cafes, restaurants and accommodation services) and in health, education & community services reported healthy expansion in November. Businesses in retail trade also reported positive conditions over the month, with some respondents experiencing a boost to sales as customers brought forward Christmas purchasing or participated in events such as 'Black Friday'. Personal, recreational and other services was the only consumer-oriented services sector to contract in November, although the pace of contraction has slowed from the previous month.

Services wages and prices: The input price index moderated in November, indicating a slowing pace of inflation for input prices for services businesses. This is the lowest level of cost rises seen since the first quarter of 2018, following strong growth for the past six months. Average wages continued to rise and at a faster pace than the previous month, returning to levels of growth last seen in in the middle of the year. Despite months of ongoing elevated levels in input and wage costs, average selling prices continued to fall for services businesses in November, but the rate of contraction has slowed slightly. Services businesses continue to face pressure on profit margins, which shows no signs of abating.

Services activity: All five of the activity indexes in the Australian PSI® expanded in November. Deliveries and stocks accelerated over the month, while new orders and sales both rose back into expansion in November, after contracting in October for the first time in 2018. Employment growth moderated over the month but remained above the long-term average for this series.

Services highlights: The Australian PSI® has been broadly stable or expanding for twenty-six months. It has indicated positive conditions (results above 50 points) for the past twenty-one months, but in recent months the growth has trended down. Consumer sales were buoyed by changing seasonal patterns in spending as Christmas sales were brought forward and events such as 'Black Friday' lifted turnover. The lower AUD has had a positive effect for some businesses in wholesale trade. Capacity utilisation in the Australian PSI® fell by 3.9 percentage points to 78.0% of available capacity in November. It remains above its long-run average of 75.9%, which suggests that further investment will probably be needed in order to meet future growth in demand and activity.

Services concerns: An inability to increase selling prices as input prices remain elevated put pressure on margins for services businesses even as activity levels expanded. Local skills shortages remain a top concern for some businesses.

| Australian PSI® key numbers | Index this month | Change from last month | 12-month average | | Index this month | Change from last month | 12-month average |
|-----------------------------|------------------|------------------------|------------------|-----------------------------------|------------------|------------------------|------------------|
| <i>seasonally adjusted</i> | | | | <i>trend</i> | | | |
| Australian PSI® | 55.1 | 4.0 | 55.0 | Australian PSI® | 51.9 | -0.6 | 54.8 |
| <i>Activity indexes</i> | | | | <i>Business-oriented services</i> | | | |
| Sales | 54.5 | 8.8 | 54.1 | Business & property | 51.8 | -1.3 | 59.1 |
| Employment | 52.9 | -4.4 | 55.4 | Finance and insurance | 46.9 | -2.2 | 57.5 |
| New Orders | 56.8 | 9.4 | 55.8 | Wholesale trade | 48.3 | -1.7 | 53.0 |
| Supplier deliveries | 57.8 | 3.9 | 55.0 | Transport & storage | 43.2 | 0.2 | 52.3 |
| Finished stocks | 54.1 | 0.5 | 53.9 | Communications | 55.8 | 1.6 | 50.9 |
| Capacity Utilisation (%) | 78.0 | -4.0 | 79.9 | <i>Consumer-oriented services</i> | | | |
| <i>Prices and wages</i> | | | | Retail trade | 56.5 | 0.0 | 48.7 |
| Input Prices | 59.4 | -3.4 | 62.8 | Hospitality | 62.6 | 2.1 | 50.6 |
| Selling Prices | 47.8 | 2.0 | 49.9 | Health & education | 56.9 | -1.3 | 57.2 |
| Average Wages | 60.3 | 5.6 | 59.8 | Recreation & other services | 47.9 | 1.1 | 53.2 |

Results above 50 points indicate expansion. All indexes for sub-sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

For more detail about the Ai Group Australian PSI® visit: www.aigroup.com.au/policy-and-research/economics/

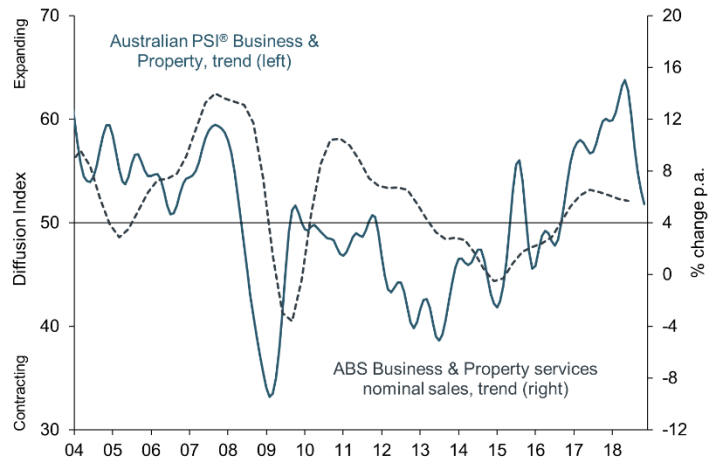
Australian PSI® business services sectors

Business & property services

Business & property services produced \$57.8bn in real value added output in the June quarter of 2018 (13% of gross domestic product). It employed 1,698,900 people in August 2018 (13% of total employment).

The index for business & property services fell by 1.3 points to 51.8 in November (trend), indicating continued but slowing growth. November marked twenty-six months of continuous expansion for this sector which includes legal, accounting, consulting, engineering, administrative and office services, as well as real estate and property management. Several respondents to the Australian PSI mentioned an increase in activity prior to Christmas while others noted skills shortages were impacting activity in their industry.

Business & property services



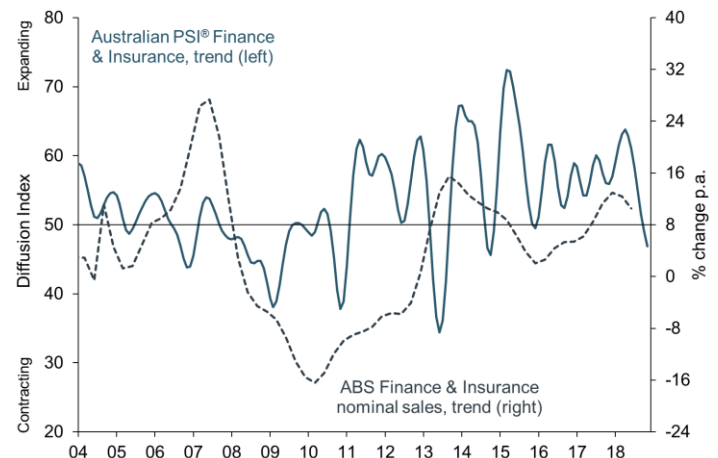
Finance & insurance

Finance & insurance services produced \$39.0bn in real value added output in the June quarter of 2018 (9% of gross domestic product). It employed 456,600 people in August 2018 (4% of total employment).

The large finance and insurance sector continued to contract in November, with its index declining by 2.2 points to 46.9 (trend).

Employment and new orders were flat in November, while sales increased but selling prices fell. Some businesses stated that their marketing efforts had increased in order to lift business activity.

Finance & insurance



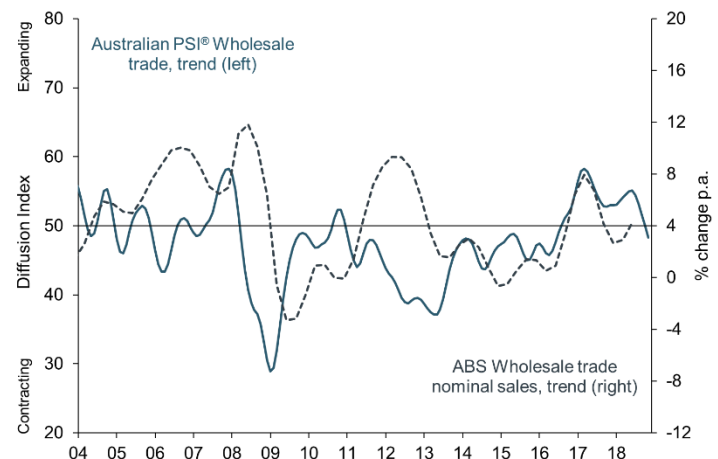
Wholesale trade

Wholesale trade produced \$17.9bn in real value-added output in the June quarter 2018 (4% of gross domestic product). It employed 363,200 people in August 2018 (3% of total employment).

The wholesale trade sector contracted in November, with its index dropping by 1.7 points to 48.3 points (trend).

Wholesale trade had been expanding for over two years until the contraction in November. Several businesses reported falling demand from housing construction activity and price rises from their suppliers. Others have benefited from the lower dollar and ongoing infrastructure construction activity.

Wholesale trade



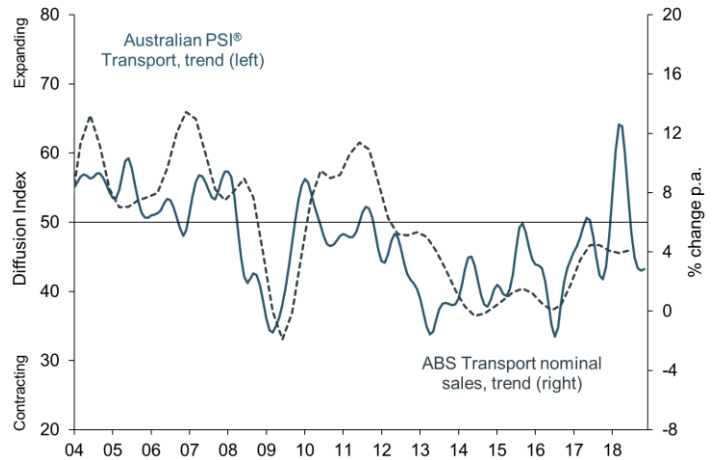
Australian PSI[®] business services sectors

Transport & storage services

Transport & storage services produced \$20.6bn in real value added output in the June quarter of 2018 (5% of gross domestic product). It employed 645,700 people in August 2018 (5% of total employment).

The transport & storage services sector contracted at a marginally slower pace in November (43.2) than it did in October (43.0) (trend). November marked the fifth month of contraction following six months of recovery and expansion in this sector. Businesses reported increased price competition in November, and some mentioned that although enquiries had increased across the month, they were not converting to sales.

Transport & storage services



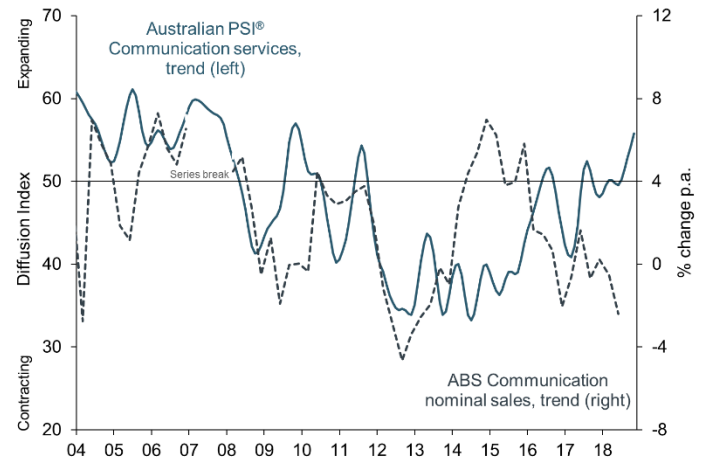
Communications

Communication services produced \$11.8bn in real value added output in the June quarter 2018 (3% of gross domestic product). It employed 222,800 people in August 2018 (2% of total employment).

The communications services sector's index rose by 1.6 point to 55.8 points in November (trend), indicating expansionary conditions for the month.

This sector continues to see rapid development of emerging products and services and is fundamental to the ability of businesses to embrace digital transformation of their operations.

Communications



Australian PSI[®] consumer services sectors

Retail trade

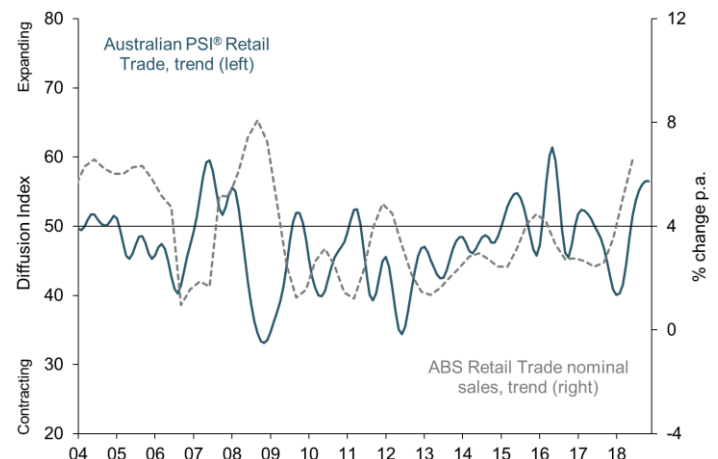
Retail trade produced \$19.6bn in real value added output in the June quarter of 2018 (4% of gross domestic product). It employed 1,270,500 people in August 2018, (10% of total employment). 51.4% work part-time.

The retail trade sector's index remained the same in November as it was in October at 56.5 points (trend), indicating the sixth month of expanding conditions.

Some retailers in the Australian PSI[®] noted robust activity from consumers bringing forward Christmas activity and changing seasonal conditions such as the participation in 'Black Friday'.

Deliveries, stocks and new orders drove activity as retailers prepare for what is historically their peak season.

Retail trade



Australian PSI[®] consumer services sectors

Hospitality

(accommodation, cafes & restaurants)

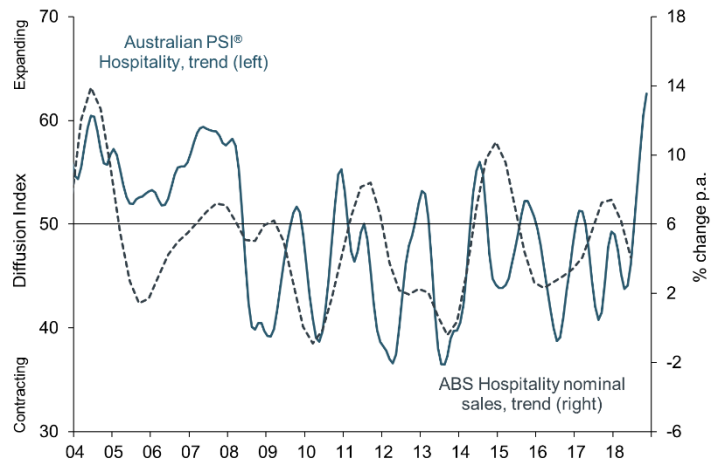
Hospitality produced \$10.6bn in real value added output in the June quarter of 2018 (2% of gross domestic product). It employed 888,300 people in August 2018 (7% of total employment). 60.7% work part-time.

The hospitality (accommodation, cafes and restaurants) sector grew in November, with its index lifting by 2.1 points to 62.6 points (trend), a series high.

This marks a fourth month of solid growth for this sector and strongest results after years of mostly contractionary conditions. All activity indicators were positive for this sector, but input costs remain high and capacity utilisation is relatively low.

Hospitality

(accommodation, cafes & restaurants)



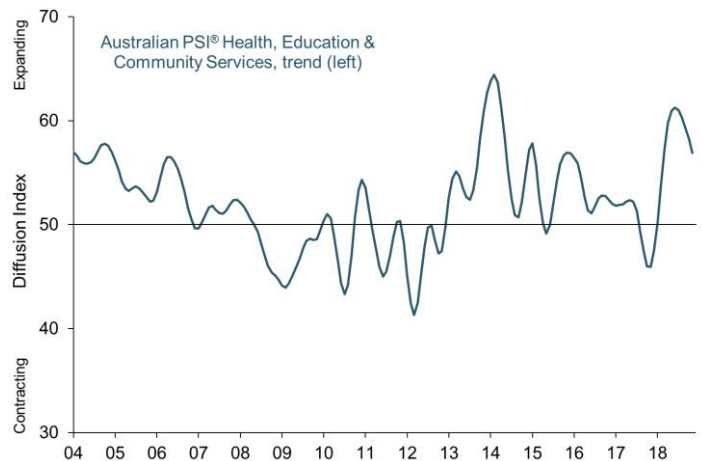
Health, education & community services

Health, education and community services produced \$53.8bn in real value added output in the June quarter of 2018 (12% of gross domestic product). They employed 2,692,100 people in August 2018 (21% of total employment). 51% of workers in education and 21% in health and welfare are employed by the public sector.

The large health, education and community services sector's index eased by 1.3 points to 56.9 points in November (trend). This marks 10 months of expansionary conditions but the rate of growth has been falling since the recent peak in June 2018.

Businesses in this sector have benefited from strong conditions in recent months. All activity indicators were positive for this sector. Input costs fell but selling prices also declined in November.

Health, education & community services



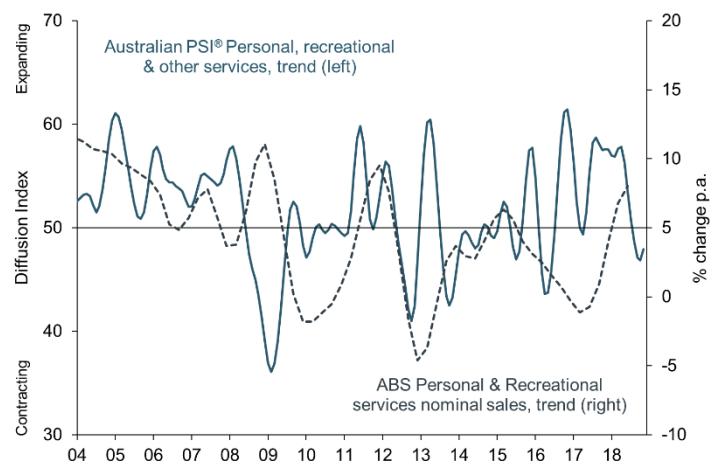
Recreational & other services

Recreational & other services produced \$11.1bn in real value added output in the June quarter 2018 (3% of gross domestic product) and employed 730,500 people in August 2018 (6% of total employment). 48% of workers in recreation and 33% in personal services are part-time.

The personal, recreational and other services sector's index rose by 1.1 point to 47.9 points in November (trend), marking four months of contraction.

Weather was the most mentioned factor affecting business activity, both as a positive and negative as drought affected some and rain impacted others.

Recreational & other services



Australian PSI[®] prices and wages

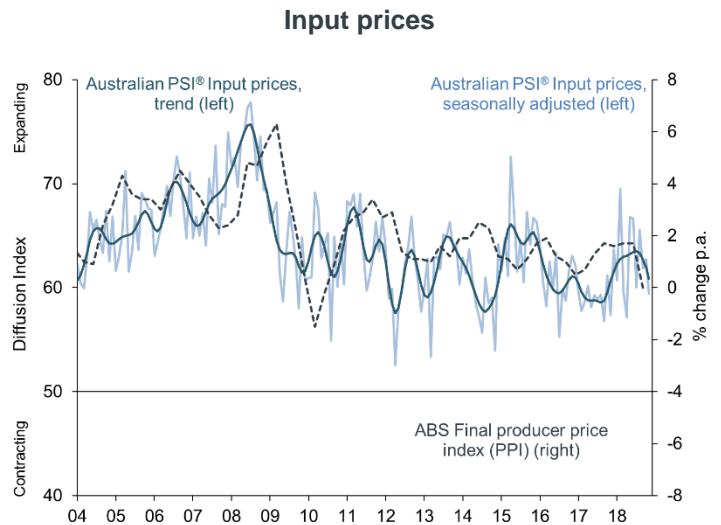
Input prices

The ABS final producer price index (PPI) rose by 0.8% q/q and 2.1% y/y in the September quarter of 2018.

The input prices sub-index fell by 3.4 points to 59.4 points in November.

Although input cost pressures overall continued to ease this month, respondents to the Australian PSI[®] continue to report increasing costs for energy (particularly gas) and imported inputs, which are exerting increased pressure on margins.

Prices for imported inputs have been rising due to the lower trading range of the Australian dollar (against the US dollar) in 2018.

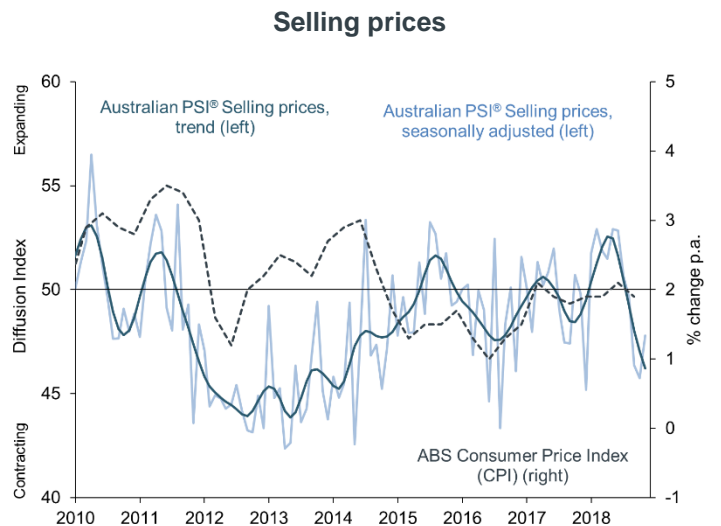


Selling prices

The ABS consumer price index (CPI) rose by 0.4% q/q and 1.9% y/y in the September quarter of 2018.

The selling prices index rose by 2.1 points to 47.8 points in November, indicating falling selling prices but at a slower pace than in October.

This was the fifth month of flat or falling prices, after price gains in the first half of 2018. This indicates services businesses have been unable to increase their charges for several months, increasing the pressure on profit margins.

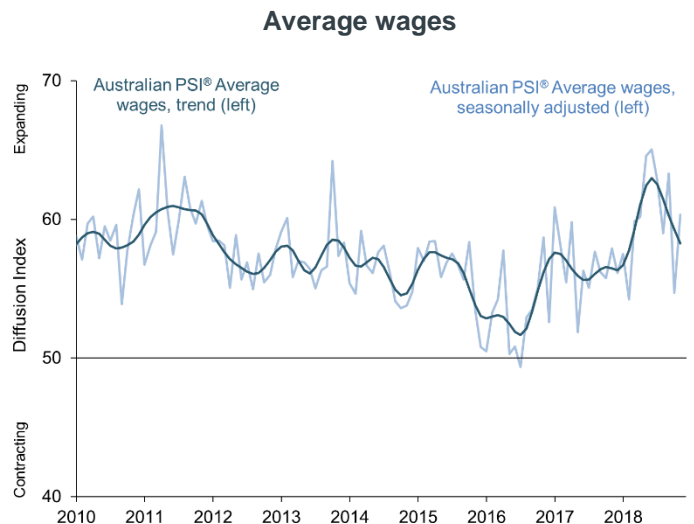


Average wages

The ABS private sector wage index rose by 0.5% q/q in and 2.1% y/y in the September quarter of 2018.

The average wages index rose by 5.6 points to 60.3 points in November, indicating accelerating wage pressures across the services sectors. The wages index rose above its medium-term average (57.0 points since August 2009).

The pace of growth in wages has eased from recent highs over the past few months, however the average across the past year has been 59.8, above the medium-term average, which is partly explained by the implementation of this year's minimum wage increase of 3.5% from 1 July 2018.



Australian PSI[®] activity

Sales

The services sectors that are included in the Australian PSI[®] produced \$242.3bn in real value added output in the June quarter of 2018 (55% of total output).

The sales index rose by 8.7 points to 54.5 points in November, marking a return to growth after the first month of contraction (October) this year.

Sales were positive across all but two sectors in November, following very mixed results across the segments last month. Changing seasonal conditions and bringing forward Christmas/end-of-year activity were cited by businesses as reasons for strong sales results this month.

Employment

The services sectors that are included in the Australian PSI[®] employed 8,958,700 people in August 2018 (71% of total employment).

The employment index in the Australian PSI[®] fell by 4.4 points to 52.9 in November, the second month of growth after the two flat months preceding it. Employment rose in the consumer segments but was generally stable across the business-oriented sectors.

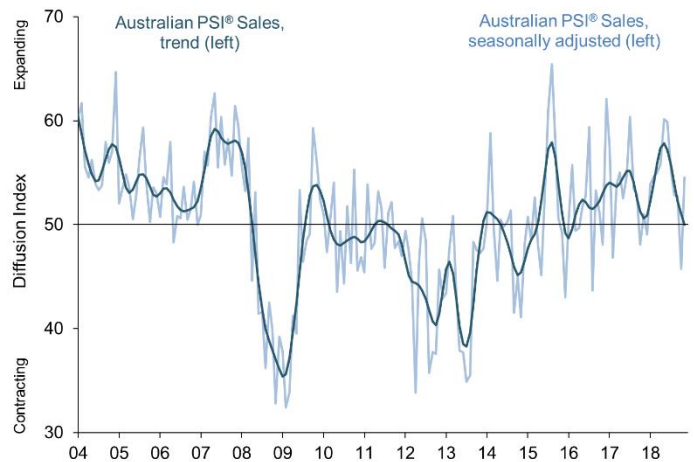
The employment index has been stable or growing over the past twenty-six months but has been trending down since the middle of the year.

New orders

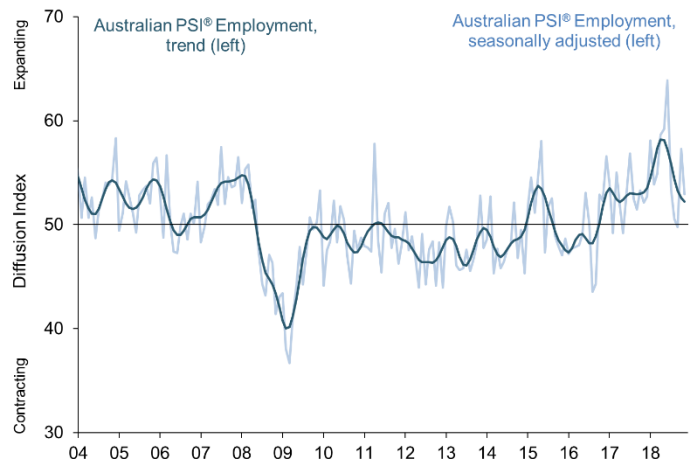
The new orders index rose by 9.4 points to 56.8 in November returning to robust growth following a contraction in October, the first seen after twenty-five months of stable or expansionary conditions for this indicator.

New orders were positive or stable across all of the sectors in November, a contrast to October where only the consumer-oriented businesses reported positive results. Nevertheless, new orders have been trending down since a recent series peak in June 2018.

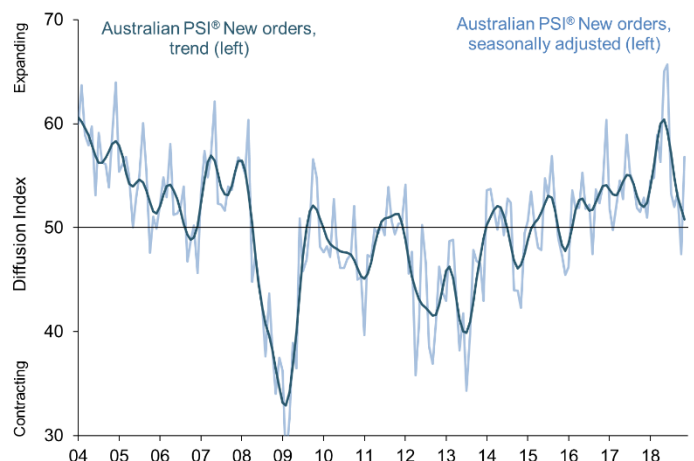
Sales



Employment



New orders



Australian PSI[®] activity

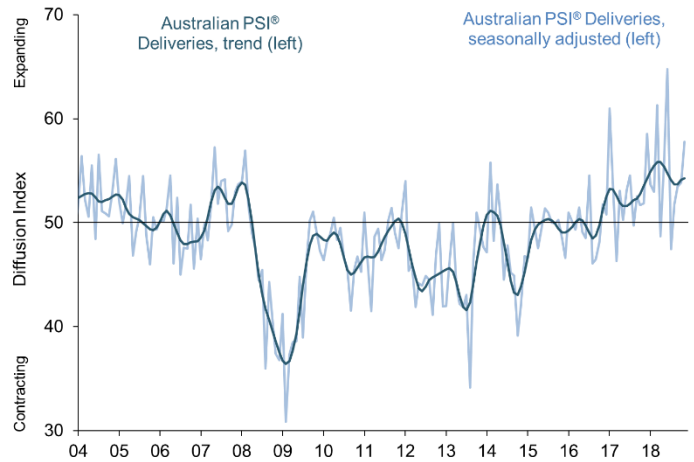
Supplier deliveries

The supplier deliveries index rose 3.9 points to 57.8 in November.

This index has grown for the past month, but the indicator is subject to volatility.

End of year activity has brought forward deliveries for some sectors in November as some businesses stock up earlier than they have historically.

Supplier deliveries

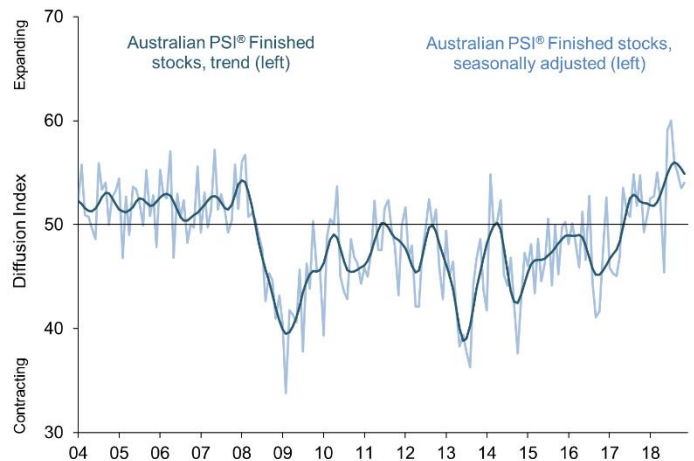


Finished Stocks

Finished stocks (inventories) continued to indicate expansion and at a slightly faster rate in November than in October, rising by 0.6 points to 54.1 points.

This is the sixth month of growth for this index, but it has trended down over the past four months.

Finished Stocks

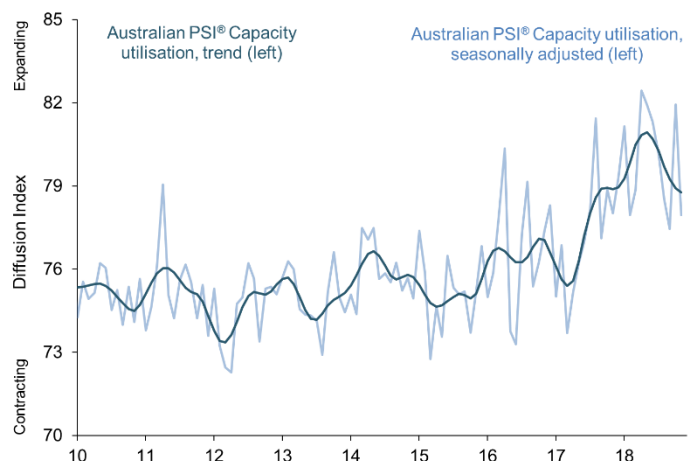


Capacity Utilisation

Capacity utilisation across the services sectors dropped by 3.9 percentage points to 78.0% of available capacity in November.

Capacity utilisation has fallen again after picking up last month but has been trending down since reaching a series peak of 82.4% in April 2018. Investment activity and employment growth has seen capacity utilisation fall in some sectors, while others are still operating at elevated levels.

Capacity Utilisation



Australian PSI[®] data definitions

The Australian PSI[®] classifies each business according to their main activity using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use the same codes. The definitions of the 9 sectors in the Australian PSI[®] are:

Business services sectors

1. Property & Business services (Divisions L, M and N) includes businesses mainly engaged in renting, hiring, or otherwise allowing the use of tangible or intangible assets (except copyrights), and businesses providing related services; businesses mainly engaged in providing professional, scientific and technical services; and businesses mainly engaged in performing routine support activities for the day-to-day operations of other businesses or organisations.
2. Wholesale trade (Division F) includes businesses mainly engaged in the purchase and onselling, the commission-based buying, and/or the commission-based selling of goods, without significant transformation, to businesses.
3. Finance & Insurance (Division K) includes businesses mainly engaged in financial transactions involving the creation, liquidation, or change in ownership of financial assets, and/or in facilitating financial transactions.
4. Transport & storage (Division I) includes businesses mainly engaged in providing transportation of passengers and freight by road, rail, water or air. Other transportation activities such as postal services, pipeline transport and scenic and sightseeing transport are included in this division.
5. Information Media & Telecommunications (Division J) includes businesses mainly engaged in: creating, enhancing and storing information products in media that allows for their dissemination; transmitting information products using analogue and digital signals (via electronic, wireless, optical and other means); and providing transmission services and/or operating the infrastructure to enable the transmission and storage of information and information products.

Consumer services sectors

6. Retail Trade (Division G) includes businesses mainly engaged in the purchase and onselling of goods, without significant transformation, to the public. The Retail Trade Division also includes units that purchase and onsell goods to the public using non-traditional means, including the internet.
7. Accommodation & Food Services (Division H) includes businesses providing short-term accommodation for visitors and/or meals, snacks, and beverages for consumption by customers both on and off-site.
8. Education, Health & Community Services (Divisions P and Q) includes businesses mainly engaged in the provision and support of education and training and businesses mainly engaged in providing human health care and social assistance.
9. Arts, Recreation & Other Services (Divisions R and S) includes businesses mainly engaged in the preservation and exhibition of objects and sites of historical, cultural or educational interest; the production of original artistic works and/or participation in live performances, events, or exhibits intended for public viewing; and the operation of facilities or the provision of services that enable patrons to participate in sporting or recreational activities. Other Services includes a broad range of personal services; religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff.

For more information about the Ai Group Australian PSI[®] visit:

www.aigroup.com.au/policy-and-research/economics/

What is the Australian PSI[®]? The Australian Industry Group Australian Performance of Services Index (Australian PSI[®]) is a national composite index constructed from data about sales/activity, new orders, deliveries, inventories and employment with varying weights. An Australian PSI[®] reading above 50 points indicates that services is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PSI[®] results are based on responses from a national sample of services businesses that includes all states and all sectors. The Australian PSI[®] uses the ANZSIC industry classifications for services sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/policy-and-research/economics/economicindicators/>.

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