AUSTRALIAN INDUSTRY GROUP

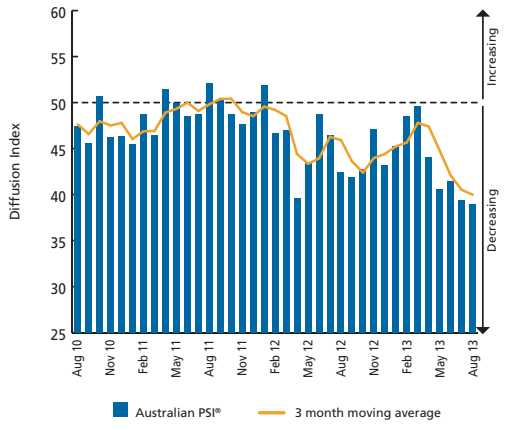
AUSTRALIAN PSI® PERFORMANCE OF SERVICES INDEX®

AUGUST 2013

AUSTRALIAN SERVICES SECTOR REMAINS SUBDUED

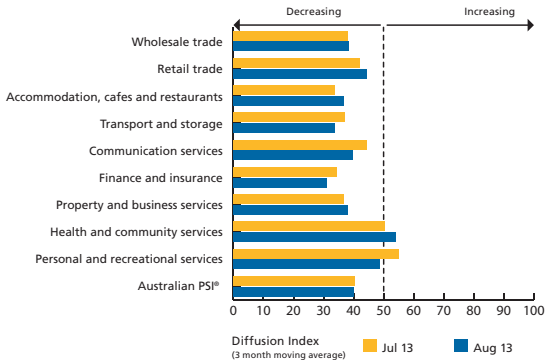
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell 0.4 points to 39.0 in August (readings below 50 points indicate contraction).
- The **Australian PSI®** has declined through 2013 and has now been below the 40 point level for two consecutive months. These are the lowest levels for the **Australian PSI®** since the GFC-related downturn in 2008-09.
- This data points to a further slowing in services sector activity, and therefore in GDP, in the September quarter.
- The monthly decline in the **Australian PSI®** was due to steeper contractions in the employment and delivery sub-indexes, partly offset by a modest rise in the new orders sub-index.
- Close to one in five businesses noted that the most important factor affecting activity in August was the "uncertainty" associated with the upcoming federal election.
- As a result of a prolonged period of contraction through 2012 and 2013, capacity utilisation recorded its second lowest level since the **Australian PSI®** series commenced in 2007.
- On top of the tough demand conditions facing the sector, the **Australian PSI®** wages and input prices sub-indexes are both well above the average levels seen over the past three years. This is placing additional pressure on business margins.



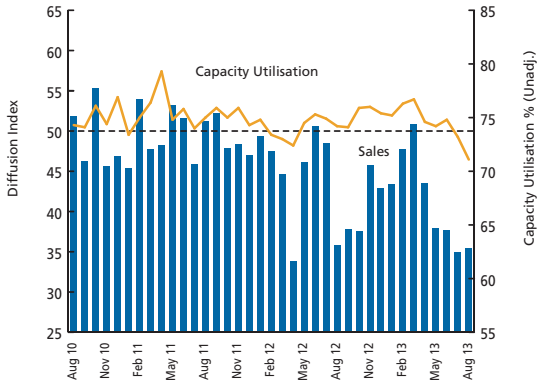
SECTORS

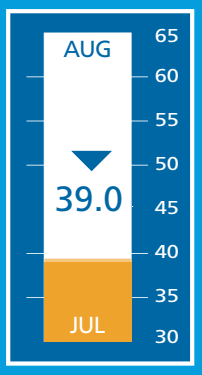
- Activity expanded in only the health & community services sub-sector in August (in three month moving average, or 3mma, terms*).
- Personal & recreational services recorded a modest contraction in August, after expanding in July. Other household-oriented sub-sectors continue to record weak activity, in line with the falls seen in broader consumer sentiment measures. In particular, the activity index for the hospitality sub-sector remains below the 40 point level (3mma).
- Activity in business-oriented sub-sectors also remains weak. The wholesale trade and transport & storage sub-sectors continued to contract in August (3mma) in line with muted demand for the storage and transport of goods from the retail, manufacturing and construction industries.
- The communication services and finance & insurance sub-sectors also contracted more sharply in August.

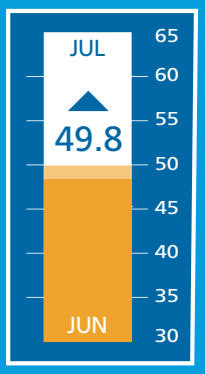


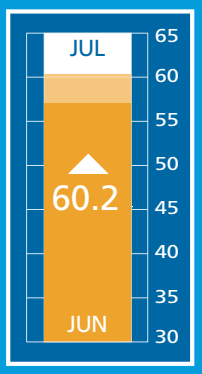
SALES AND CAPACITY

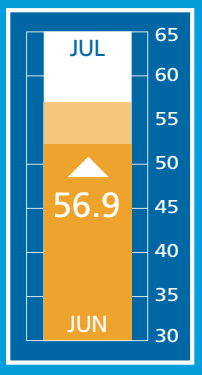
- Sales levels contracted in August for the fifth consecutive month (seasonally adjusted).
- The sales component of the **Australian PSI®** rose 0.6 points to 35.5 points.
- The monthly decline in the sales sub-index reflected solid falls in sales levels across the transport & storage, communication services, and finance & insurance sub-sectors.
- Sales growth was only recorded in the health & community services sub-sector.
- Capacity utilisation in the services sector (unadjusted) fell by 2.1 percentage points to 71.1% and is now below the average level recorded in the **Australian PSI®** series since the start of 2010.











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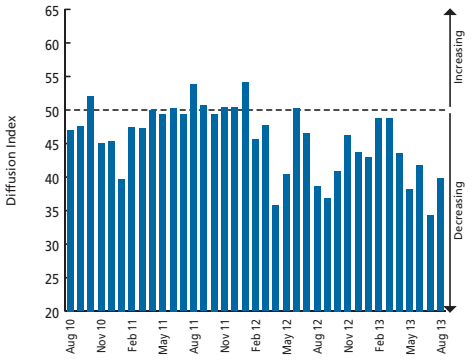
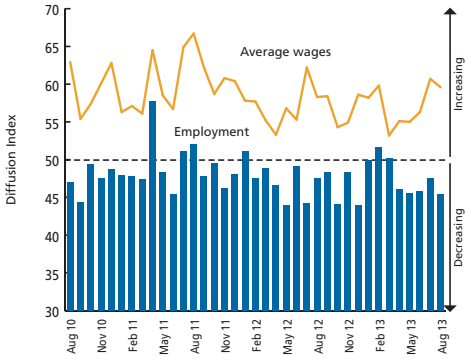
NEW ORDERS

- New orders continued to contract in August. The new orders sub-index rose by 5.5 points to 39.8, after recording its lowest level since March 2009 in July (seasonally adjusted).
- New orders for the services sector have now been in contraction (below 50 points) since June 2012.
- The decline in new order levels was driven by especially weak activity in the communications, transport & storage and property & business services sub-sectors.
- No sub-sector recorded growth in new orders in August.
- Businesses noted that falling new order levels stemmed from weakness in large parts of the manufacturing and construction sectors, as well as some moderation in mining sector demand (e.g. reduced demand for mining equipment servicing and repairs or for business services for the mining sector).



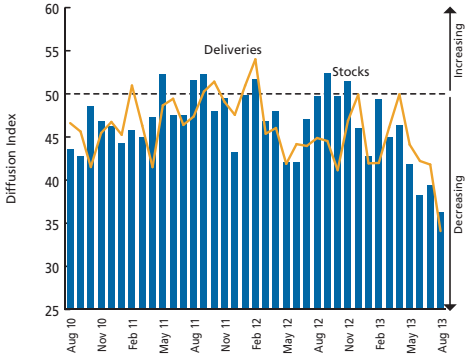
EMPLOYMENT AND WAGES

- The employment sub-index in the **Australian PSI®** fell by 2.1 points to 45.5 points in August (seasonally adjusted). This was its fifth consecutive monthly fall after a promising period of expansion in the March quarter.
- The fall in the sub-index reflected sharp employment reductions across the retail trade, wholesale trade and transport & storage sub-sectors.
- Employment growth was only recorded in the health & community services sub-sector (index readings above 50 points).
- The average wages sub-index moderated by 1.1 points to 59.6 in August (unadjusted), but remained above the average level recorded over the past year.
- Wages growth was strongest in the communications and hospitality sub-sectors.



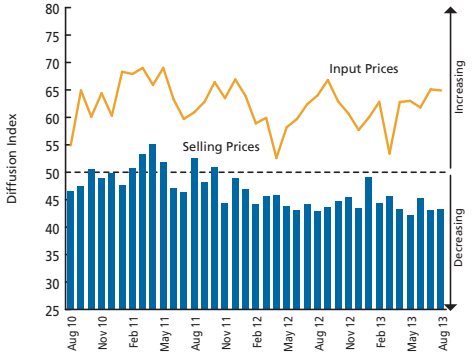
STOCKS AND DELIVERIES

- Stock levels (or inventories) in the services sector declined for the ninth consecutive month in August (seasonally adjusted).
- The stocks sub-index of the **Australian PSI®** fell 1.5 points in August to 36.3 points.
- The decline in stocks levels reflected falling inventories in the retail trade and wholesale trade sub-sectors.
- The supplier deliveries sub-index fell by 9.0 points this month to 34.1 points (seasonally adjusted).
- The fall in deliveries was driven by declining delivery activity in the finance & insurance, transport & storage, and retail trade sub-sectors.



INPUT COSTS AND SELLING PRICES

- The input prices index fell 0.2 points to 64.9 in August (unadjusted), to remain above the average level recorded since the start of 2009.
- The relatively high level of the input prices sub-index is likely to in part reflect the recent appreciation of the Australian dollar which has raised the price of some imported goods & services.
- Input price growth was strongest in the wholesale trade and communications sub-sectors.
- The average selling prices index rose by 0.1 points to 43.2 points (unadjusted).
- The low level of the average selling prices index is consistent with modest growth in CPI inflation more generally, with headline inflation recording just 2.4% p.a. in the June quarter of 2013 (despite the one-off inflationary impact of the introduction of carbon emissions pricing during this period).



AUSTRALIAN PSI®**

	August 2013	July 2012	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	39.0	39.4	-0.4	Contracting	Faster	19
SALES	35.5	34.9	0.6	Contracting	Slower	5
NEW ORDERS	39.8	34.3	5.5	Contracting	Slower	14
EMPLOYMENT	45.5	47.6	-2.1	Contracting	Faster	5
SUPPLIER DELIVERIES	34.1	43.1	-9.0	Contracting	Faster	14
INVENTORIES	36.3	37.8	-1.5	Contracting	Faster	9
INPUT PRICES	64.9	65.1	-0.2	Expanding	Slower	123
SELLING PRICES	43.2	43.1	0.1	Contracting	Slower	22
WAGES	59.6	60.7	-1.1	Expanding	Slower	48
CAPACITY UTILISATION (%)	71.1	73.2	-2.1			

Results are based on the responses of around 150 companies. Forward seasonal factors were updated in April 2013.
* Since March, we have started to present the sub-sector indices in the **Australian PSI®** as three-month moving averages, in order to more accurately identify the trends emerging from the monthly data, which are inherently volatile.
** **Australian PSI®** data is seasonally adjusted for sales, new orders, employment, supplier deliveries, inventories and input prices.
*** Number of months moving in current direction.
If you would like to participate in this survey, please send your details to economics@aigroup.asn.au

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WHAT IS THE AUSTRALIAN PSI®?

The Australian Industry Group **Australian Performance of Services Index (Australian PSI®)** is a seasonally adjusted national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. An **Australian PSI®** reading above 50 points indicates services activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.

More information can be obtained from the Ai Group website www.aigroup.com.au

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