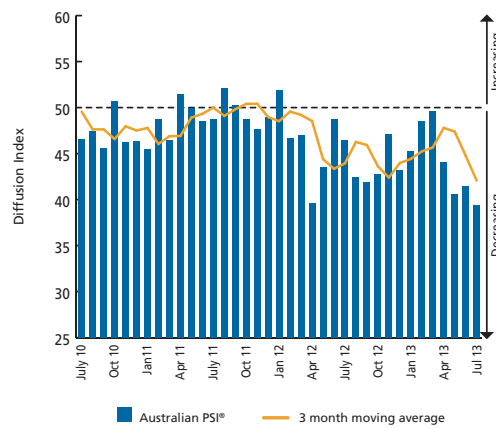


ELECTION UNCERTAINTY BLAMED FOR SERVICES SLUMP

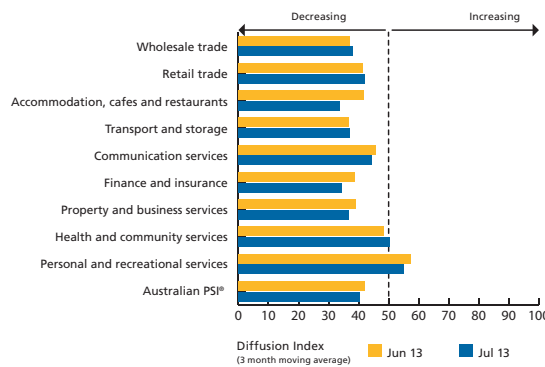
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) fell 2.1 points to 39.4 in July.
- This is the lowest level seen in the **Australian PSI®** since March 2009 and, apart from the GFC-related downturn, is the first time the index has fallen below the 40 point mark.
- The monthly decline in the **Australian PSI®** was driven by sharp falls in sales and new orders across the sector.
- Businesses reported that recent interest rate cuts and the depreciation of the Australian dollar are yet to have a significant impact on activity in the services sector.
- In particular, the retail trade index fell 6.3 points to 41.3 in July and has been below the 50 point level separating expansion from contraction for 10 of the past 12 months.
- One in five businesses also noted that the most important factor affecting activity in July was the uncertainty associated with the upcoming federal election.
- On top of the tough demand conditions facing the sector, the input prices index is at its highest level in 10 months while the selling price index fell back in July to its third lowest reading since the series started in 2007.



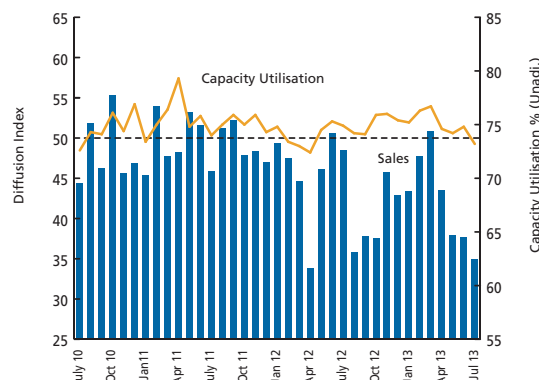
SECTORS

- In three month moving average (3mma) terms*, activity expanded in only two of the nine service sub-sectors surveyed in the month.
- Personal & recreational and health & community services both expanded in July, which may have in part reflected the timing of school holidays around the country.
- Other household-oriented sub-sectors however have lost momentum over the past few months, in line with the falls seen in broader consumer sentiment measures.
- In particular, in 3mma terms, the activity index of the hospitality sub-sector fell to its lowest levels since May 2012 (41.7).
- Activity in business-oriented sub-sectors also remains weak.
- Specifically, (in 3mma terms) wholesale trade and transport & storage sub-sectors continued to contract in July in line with low levels of demand from retail, manufacturing and construction.
- Communication services, finance & insurance, and property and business services also contracted sharply during the month.

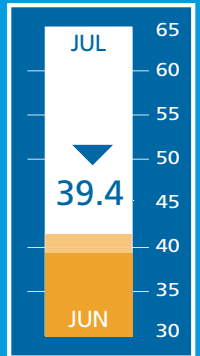


SALES AND CAPACITY

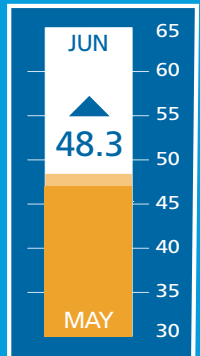
- On a seasonally adjusted basis, sales levels contracted in July for the fourth consecutive month.
- The sales component of the **Australian PSI®** fell 2.8 points to 34.9 points, its lowest level since April 2012.
- The monthly decline in the sales sub-index reflected solid falls in sales levels across the finance & insurance, hospitality, and retail trade sub-sectors.
- Sales growth was only recorded in the health & community services sub-sector.
- Capacity utilisation in the services sector (which is not seasonally adjusted) fell by 1.6 points to 73.2%, and is now below the average level recorded since the start of 2010.



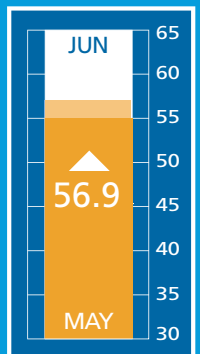
AUSTRALIAN PSI®



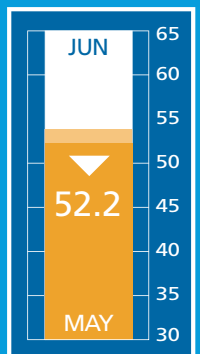
EUROZONE SERVICES INDEX



UK SERVICES INDEX

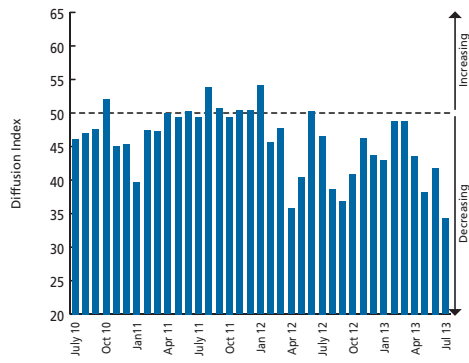


USA SERVICES INDEX



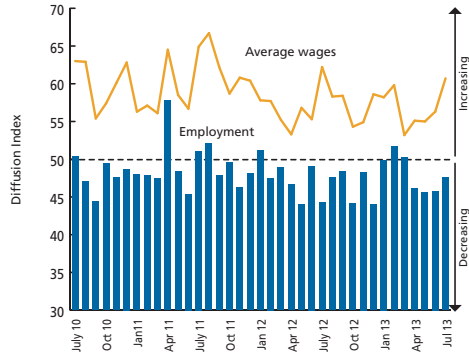
NEW ORDERS

- On a seasonally adjusted basis, new orders fell sharply in July.
- The new orders sub-index fell by 7.5 points to 34.3, its lowest level since March 2009.
- 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 finance & insurance, hospitality and property & business services sub-sectors.
- 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).



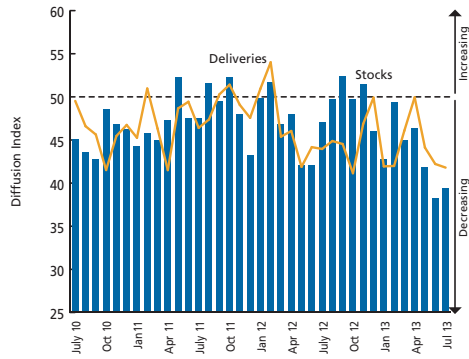
EMPLOYMENT AND WAGES

- On a seasonally adjusted basis, the employment sub-index increased by 1.8 points to 47.6 points in July. This was its fourth consecutive monthly fall after a promising period of expansion in March and February.
- The fall in the sub-index reflected sharp employment reductions across the wholesale trade, hospitality, and property & business service sub-sectors.
- Employment growth was only recorded in the retail trade sub-sector.
- On a non-seasonally adjusted basis, the average wages sub-index rose by 4.4 points to 60.7 in July, to be above the average level recorded over the past year.
- The rise in the average wages index (which is not seasonally adjusted) may in part reflect the increase in the minimum wage which took effect from July 1.
- Wages growth was strongest in the communications and property & business services sub-sectors.



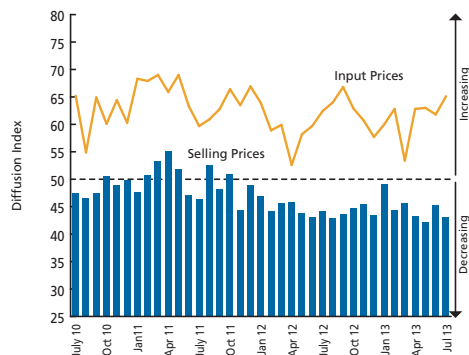
STOCKS AND DELIVERIES

- On a seasonally adjusted basis, stock levels (or inventories) in the services sector declined for the ninth consecutive month in July.
- The stocks sub-index of the Australian PSI® fell 1.6 points in July to 37.8.
- The decline in stocks levels across the services sector reflected falling inventories in the retail trade, hospitality and business & property services sub-sectors.
- The supplier deliveries sub-index increased by 1.3 points this month to 43.1.
- The fall in deliveries to the services sector was driven by declining delivery activity in the hospitality, transport & storage, and business & property service sub-sectors.



INPUT COSTS AND SELLING PRICES

- On a non-seasonally adjusted basis, the input prices index rose 3.3 points to 65.1 in July, to be 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 retail trade, wholesale trade and transport & storage sub-sectors.
- On a non-seasonally adjusted basis, the average selling prices index fell by 2.2 points to 43.2.
- 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®**

	July 2013	June 2013	Monthly Change	Direction	Rate of Change	Trend*** (Months)
AUSTRALIAN PSI®	39.4	41.5	-2.1	Contracting	Faster	18
SALES	34.9	37.7	-2.8	Contracting	Faster	4
NEW ORDERS	34.3	41.8	-7.5	Contracting	Faster	13
EMPLOYMENT	47.6	45.8	1.8	Contracting	Slower	4
SUPPLIER DELIVERIES	43.1	41.8	1.3	Contracting	Slower	13
INVENTORIES	37.8	39.4	-1.6	Contracting	Faster	8
INPUT PRICES	65.1	61.8	3.3	Expanding	Faster	124
SELLING PRICES	43.1	45.3	-2.2	Contracting	Faster	21
WAGES	60.7	56.3	4.4	Expanding	Faster	47
CAPACITY UTILISATION (%)	73.2	74.8	-1.6			

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

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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