



# PSI AUSTRALIAN

PERFORMANCE OF SERVICES INDEX®

Ai AUSTRALIAN INDUSTRY GROUP

Commonwealth Bank

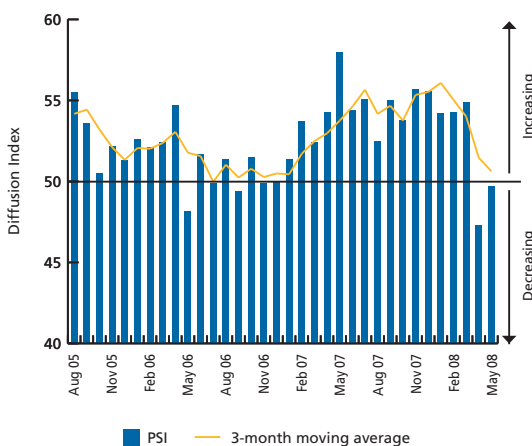


MAY 2008

## RIISING COSTS AND WEAK ORDERS FURTHER RESTRAIN SERVICES

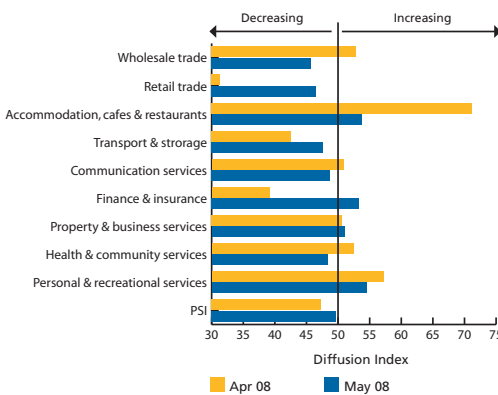
### KEY FINDINGS

- The combination of rising fuel costs, high interest rates and declining new orders further restrained services activity in May, offsetting modest increases in sales and employment.
- The seasonally adjusted Australian Industry Group/ Commonwealth Bank Performance of Services Index (Australian PSI®) rose 2.4 points to 49.7, marginally below the key 50.0 level separating expansion from contraction.
- Only four sectors reported growth in activity in May, although the rate of decline eased in retail trade and transport & storage.
- The soft conditions were underpinned by a second consecutive monthly fall in new orders and deliveries. Input cost increases grew at their fastest rate since the survey's inception, contributing to the tough conditions faced by services sector firms.
- Firms also pointed to weak consumer sentiment; a strong AUD; and skill shortages as factors holding back services activity.
- For a second consecutive month, Queensland; SA; and Victoria were the only states to register growth in services.



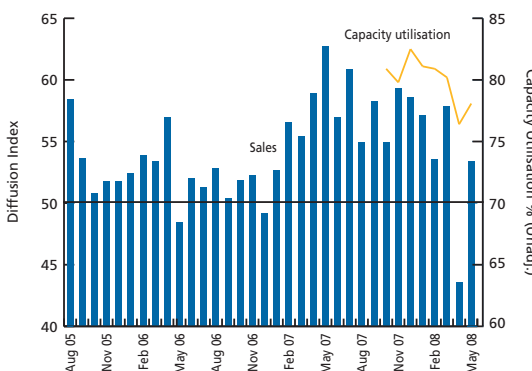
### SECTORS

- In seasonally adjusted terms, activity expanded in four of the nine services sectors (unchanged from the previous month).
- Personal & recreational services and accommodation, cafes & restaurants reported the strongest expansions in May, although growth slowed in each sector.
- Growth re-emerged in finance & insurance, marking only the second expansion in the sector in 2008. Property & business services was the only other sector to report activity growth.
- Wholesale trade recorded the largest fall in activity in May, the first decline in the sector since December 2006.
- Activity contracted in the retail trade and transport & storage sectors for a second consecutive month, although the rate of decline eased in each.
- The health & community services and communication services sectors also registered moderate falls in activity.

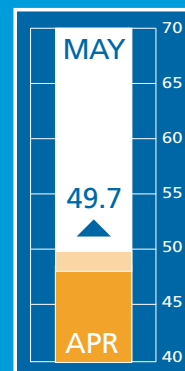


### SALES AND CAPACITY

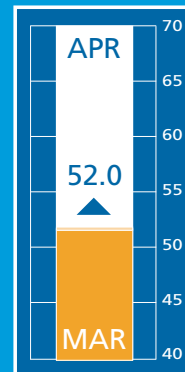
- Modest growth in sales re-emerged in May, with the seasonally adjusted sub-index lifting 9.8 points to 53.4.
- Unadjusted, sales increased in five sectors, up from two in the previous month, with transport & storage unchanged.
- Much of the improvement in sales growth took place in the business-related sectors, with finance & insurance and communication services reporting the strongest increases. Growth also resumed in property & business services.
- Sales growth returned in personal & recreational services and accelerated in health & community services.
- Wholesale trade and retail trade recorded the steepest declines in sales. Sales also fell in accommodation, cafes & restaurants, following a strong increase in the previous month.
- Capacity utilisation edged higher in the services sector, rising from 76.4% in April to 78.1% (unadjusted).



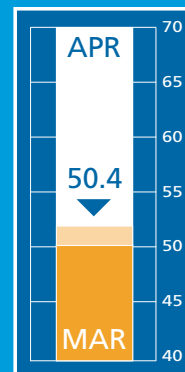
AUSTRALIAN PSI®



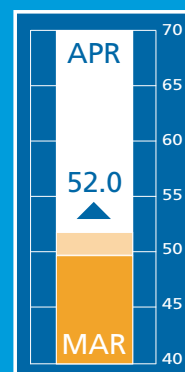
EUROZONE SERVICES INDEX



UK SERVICES INDEX



USA SERVICES INDEX





## NEW ORDERS

- New orders contracted for a second consecutive month in May, although the rate of decline eased slightly.
- The seasonally adjusted sub-index rose 1.8 points to 45.4, indicating possible weakness in the sector in the coming months.
- On an unadjusted basis, new orders grew in three sectors, up from two in April, with accommodation, cafes & restaurants and finance & insurance unchanged.
- Personal & recreational services; communication services; and property & business services were the only sectors to register new orders growth in May.
- The wholesale trade and transport & storage sectors recorded the largest falls in new orders.
- New orders also contracted in retail trade and health & community services.

## EMPLOYMENT AND WAGES

- Employment growth lifted slightly in May, the seasonally adjusted sub-index rising 0.8 points to 51.9.
- In unadjusted terms, employment expanded in three sectors, down from six in the previous month, with retail trade and transport & storage unchanged.
- Finance & insurance and personal & recreational services registered the largest increases in employment in May. Employment also expanded solidly in property & business services.
- The communication services sector reported the steepest decline in employment.
- Wholesale trade; health & community services; and accommodation, cafes & restaurants also reported contractions in employment, following growth in the previous month.
- Wages growth accelerated in May, with the sub-index increasing 2.4 points to 63.6.

## STOCKS

- Inventories of finished goods remained broadly steady in May, with the seasonally adjusted stocks index falling 4.3 points to 49.7.
- Unadjusted, stocks expanded in just three sectors (unchanged from the previous two months), with transport & storage unchanged.
- The strongest rates of inventory-building took place in the retail trade and personal & recreational services sectors.
- Stocks were also replenished in wholesale trade, following a minor run-down in April.
- Finance & insurance; health & community services; and accommodation, cafes & restaurants recorded the largest falls in inventories in May
- Moderate declines were also reported in the business-related sectors of communication services and property & business services.

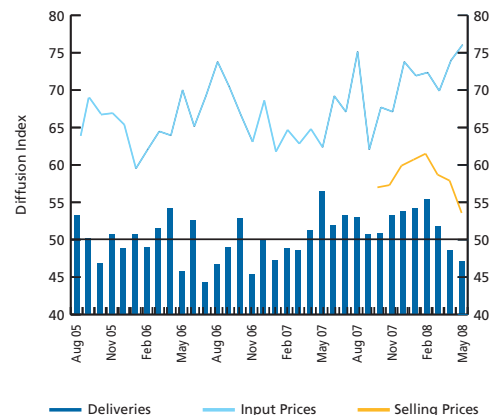
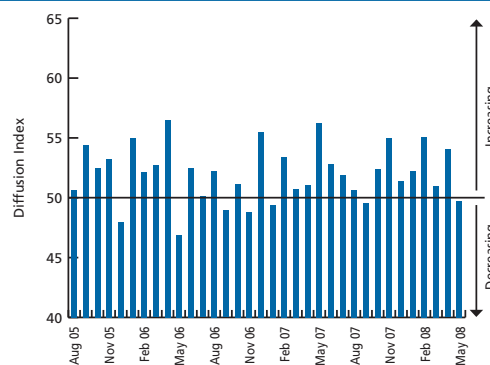
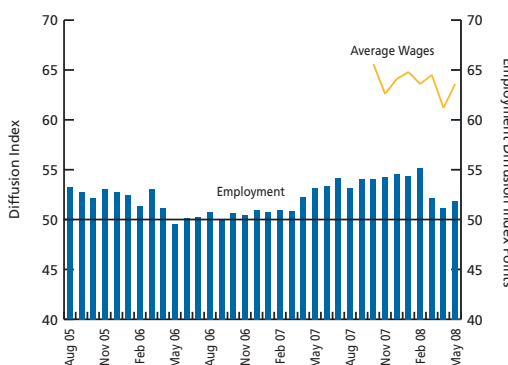
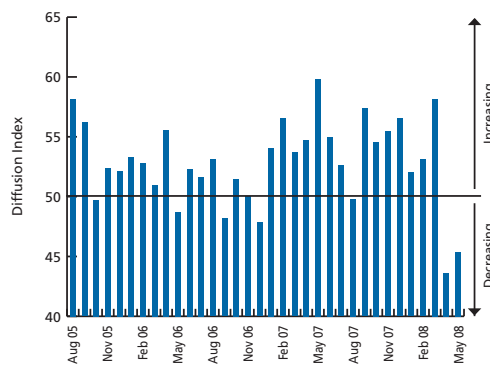
## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Supplier deliveries declined at a slightly faster rate in May, with the seasonally adjusted sub-index falling 1.5 points to 47.2.
- In unadjusted terms, only retail trade and accommodation, cafes & restaurants reported increases in deliveries, compared with five sectors in April.
- The largest falls in deliveries occurred in the key distribution sectors of transport & storage and wholesale trade.
- Solid contractions were also recorded in finance & insurance; personal & recreational services; and communication services.
- Input costs increased at their fastest pace in the history of the survey in May, spurred on by strong increases in the price of fuel. Seasonally adjusted, the input cost sub-index lifted 1.6 points in May to 75.1.
- The transport & storage sector, where fuel is a major input, recorded the strongest growth in input prices in the month.
- Growth in selling prices eased sharply in May, with the sub-index dropping 4.3 points to 53.6, suggesting a further squeeze on profit margins.

## NATIONAL INDEXES

	May 08	May 07	Apr 08	Mar 08	Feb 08	Jan 08	Dec 07	Nov 07	Oct 07	Sep 07	Aug 07
<b>AUSTRALIAN PSI*</b>	49.7	58.0	47.3	54.9	54.3	54.2	55.6	55.7	53.8	55.0	52.5
<b>SALES</b>	53.4	62.8	43.6	57.8	53.6	57.1	58.6	59.3	54.9	58.3	54.9
<b>CAPACITY (%)</b>	78.1	na	76.4	80.2	80.9	81.1	82.5	79.8	80.9	na	na
<b>NEW ORDERS</b>	45.4	59.8	43.6	58.1	53.1	52.0	56.5	55.4	54.6	57.4	49.8
<b>EMPLOYMENT</b>	51.9	53.2	51.1	52.1	55.2	54.4	54.5	54.3	54.1	54.0	53.2
<b>WAGES</b>	63.6	na	61.2	64.5	63.6	64.8	64.1	62.6	65.6	na	na
<b>INVENTORIES</b>	49.7	56.3	54.0	50.9	55.1	52.2	51.4	55.0	52.4	49.5	50.6
<b>DELIVERIES</b>	47.2	56.4	48.7	51.9	55.5	54.2	53.8	53.3	50.9	50.7	53.0
<b>INPUT PRICES</b>	75.1	64.8	73.5	70.5	72.3	72.0	73.4	68.4	68.8	64.6	74.4
<b>SELLING PRICES</b>	53.6	na	57.9	58.7	61.5	60.7	59.9	57.3	57.0	na	na

Results are based on a sample of around 200 companies. New monthly seasonal adjustment factors, derived directly from an X-12 estimation process were introduced in April 2008. The capacity utilisation, wages and selling prices indexes are reported in unadjusted terms.



## WHAT IS THE AUSTRALIAN PSI?

The Australian Performance of Services Index (Australian PSI®) is a seasonally adjusted national composite index based on the diffusion indexes for sales, new orders, employment, inventories and deliveries all with varying weights.

An Australian PSI® reading above 50 points indicates that the service industry 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 web site [www.aigroup.asn.au](http://www.aigroup.asn.au)

## SPONSOR STATEMENT

Commonwealth Bank is delighted to be the sponsor of the Australian PSI® and is pleased to be able to provide the expertise of our Chief Economist Michael Blythe as the key spokesperson for the Performance of Services Index. The Commonwealth Bank is one of Australia's premier service organisations and with the majority of the Australian economy being services based we believe this important piece of research will add real value to the industry. It will provide insights and information that have not previously been available. We look forward to continuing to work with the Australian Industry Group to enhance and develop the Australian PSI®.

**Commonwealth Bank**

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