

# AI GROUP PERFORMANCE INDEXES



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## Manufacturing activity in October

- October saw manufacturing activity grow for a third consecutive month. Growth remains tentative however, and is coming from the sub-par base of the past year. The rise was driven by solid growth in new orders and modestly higher production. Growth was constrained by further falls in employment and a drop in supplier deliveries.
- The seasonally adjusted Australian Industry Group-PricewaterhouseCoopers **Australian PMI**<sup>®</sup> remained relatively steady, down slightly by 0.3 points in October, to 51.7.
- This month's result suggests that improving domestic demand for manufactures is encouraging higher production but the lagged effects of the past year's downturn continue to drag on employment.
- Across the sector, the spreading of the improvement in manufacturing activity over recent months slowed in October. Six of the twelve sub-sectors grew compared to seven in September.
- Overall, survey respondents are indicating ongoing, albeit mild, improvements in orders, including in the automotive and housing sectors. However, an increasing number of respondents are pointing to the higher \$A exchange rate as a negative influence, though some are benefitting from lower imported input costs.
- Input and wages cost growth slowed moderately in October, but prices fell maintaining the pressure on profit margins.
- Manufacturing activity rose in Western Australia, New South Wales and Victoria, but fell in the other states.

## Services activity in October

- The services sector returned to growth in October, driven by a second consecutive monthly rise in new orders and increases in sales, inventories and supplier deliveries.
- However, reflecting that services activity is in the early stages of improvement following a sustained downturn, employment fell for a 17th consecutive month.
- The seasonally adjusted Australian Industry Group/Commonwealth Bank Performance of Services Index (**Australian PSI**<sup>®</sup>) rose by 5.5 points to 54.8, its highest level for 19 months.
- Growth continued to broaden in October, with seven out of nine sub-sectors expanding, compared to five in September and four in August.
- Firms cited improving market conditions in the property and infrastructure related sectors. A number also noted a negative impact from the rise in interest rates announced in early October.
- Activity expanded in all states except South Australia.

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## Construction activity in October

- The national construction industry recorded a second consecutive month of modest growth in October 2009 in response to further rises in activity, employment and supplier deliveries.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index registered 50.9 in October to be slightly above the reading of the previous month (50.8).
- Nevertheless, the improvement remains tentative as evident by a reduction in new orders following a solid lift in September.
- By industry sector, house building continued to expand, albeit at a much slower rate, while apartment sector activity posted its first increase in the past 21 months. In contrast, commercial construction activity declined at a more pronounced rate and engineering construction fell for a fifth consecutive month, despite a further easing in the pace of contraction.
- While total industry growth was maintained in October, numerous construction firms continued to cite difficult market conditions and intense competition in securing new contracts. There were also reports linking the moderation in demand in house building to the recent lift in interest rates and the reduction in the First Home Owners subsidy at the start of the month.
- On an aggregate industry basis, firms undertook to further expand employment and deliveries from suppliers, mainly reflecting the gain in new orders from the previous month.

## What are the Australian PMI<sup>®</sup>, Australian PSI<sup>®</sup> and Australian PCI<sup>®</sup>?

- The Australian Performance of Manufacturing Index (**Australian PMI<sup>®</sup>**) is a seasonally adjusted composite index based on the diffusion indexes for production, new orders, deliveries and inventories in the manufacturing sector, all with varying weights.
- The Australian Performance of Services Index (**Australian PSI<sup>®</sup>**) is a seasonally adjusted composite index based on the diffusion indexes for sales, new orders, employment, inventories and deliveries in the services sector, all with varying weights.
- The Australian Performance of Construction Index (**Australian PCI<sup>®</sup>**) is a seasonally adjusted national composite index based on the diffusion indexes for activity, orders/new business, deliveries and employment in the construction sector, all with varying weights.
- A reading above 50 in each of the surveys indicates 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 about of each of the surveys can be obtained from the Ai Group Website at [www.aigroup.asn.au](http://www.aigroup.asn.au).