

AI GROUP PERFORMANCE INDEXES



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Manufacturing activity in January

- The first month of 2010 saw a return to growth in the Australian manufacturing sector, although employment fell back following modest improvement in both November and December.
- The seasonally adjusted Australian Industry Group-PricewaterhouseCoopers **Australian PMI**[®] rose by 2.5 points in January to 51.0, just above the 50 point level separating expansion from contraction.
- Growth in new orders and exports resumed in January, leading to a moderate expansion in production. Companies in some sectors also relied on existing inventories to meet demand, with aggregate stock levels being run down strongly.
- The sectors driving the expansion in manufacturing activity in January were those whose fortunes are closely tied to the performance of the nation's housing and resources sectors, such as construction materials; transport equipment; petroleum & coal products; and basic metal products.
- Activity expanded in Western Australia; South Australia; and Queensland, but fell in the other three states.
- Despite a rise in export levels in January, survey respondents continued to point to the high AUD exchange rate as the key factor constraining activity.
- In all, the subdued readings of the **Australian PMI**[®] in recent months suggest the improvements in domestic conditions are yet to translate into a strong upswing in manufacturing production.

Services activity in January

- Services activity contracted for the first time in four months in January, suggesting uncertainty around prospects for the sector in the near term.
- The seasonally adjusted Australian Industry Group/Commonwealth Bank Performance of Services Index (**Australian PSI**[®]) fell by 2.6 points to 47.4, dropping below the 50.0 level separating expansion from contraction.
- Despite a modest lift in sales, employment fell heavily in the month and new orders and supplier deliveries continued to decline.
- The downturn in activity was broadly based, with all sectors, excluding the often volatile transport & storage sector, registering declines in the month.
- Firms attributed the weakening in demand largely to successive increases in the official interest rate between October and December, which have dampened consumer and business confidence.
- Activity contracted in all states other than Western Australia.

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Construction activity in January

- The national construction industry expanded in January driven by a stronger rate of increase in house building and improved conditions in the apartment, engineering and commercial building sectors.
 - The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index® increased by 8.4 points to 57.7 in January. This was above the critical 50 points level separating expansion from contraction, and signalled the industry's strongest performance since January 2008.
 - Firms noted that activity had strengthened in response to firmer levels of demand, increased tendering opportunities and the successful acquisition of new contracts. There were also reports of continued support for building activity from Government stimulus spending, with respect to schools, health infrastructure and social housing projects.
 - By industry sector, the main growth impetus came from house building which expanded for a seventh consecutive month and at its highest rate over the past three months. Commercial construction posted its first increase since October 2008, while engineering and apartment building work both recovered from falls registered in the past seven and two months respectively.
 - On an aggregate industry basis, both activity and new orders registered growth in January. This resulted in firms increasing their deliveries from suppliers and expanding their workforces at the highest rate since January 2008.
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What are the Australian PMI®, Australian PSI® and Australian PCI®?

- The Australian Performance of Manufacturing Index (**Australian PMI®**) 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®**) 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®**) 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.
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