

# OS

AUSTRALIAN



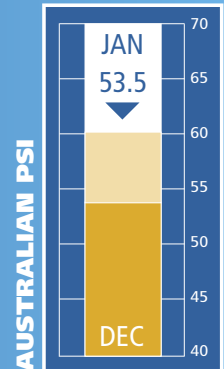
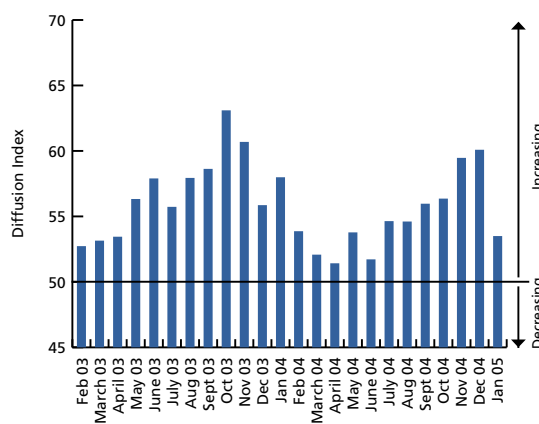
## PERFORMANCE OF SERVICES INDEX®

JANUARY 2005

### SERVICES SECTOR GROWTH MODERATES IN EARLY 2005

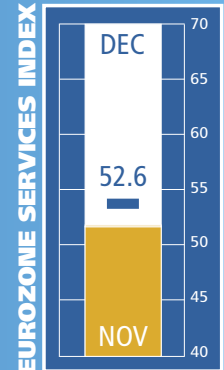
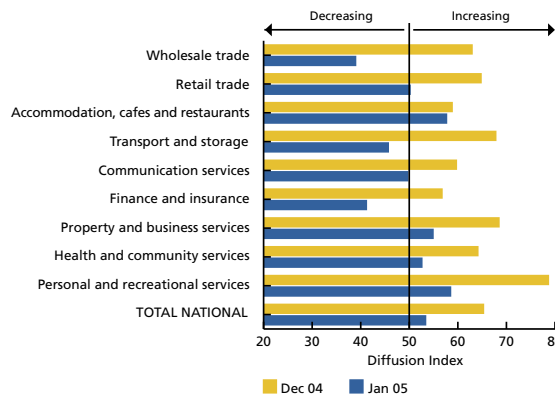
#### KEY FINDINGS

- The expansion in services sector activity slowed in January, with monthly growth easing for the first time since mid-2004. The seasonally adjusted Australian Industry Group – Commonwealth Bank Performance of Services Index (PSI®) declined to 53.5, from a revised 60.1 in December (originally reported at 65.4).
- Following an annual re-analysis, based on other information collected from individual survey responses over the past 12 months, the seasonal adjustment factors for each of the sales, new orders, employment, supplier delivery and input price sub-indices have been revised. These changes have also resulted in a revised PSI® series.
- In addition to modestly smoothing the profile of the service sector expansion over the past two years, the revised series also suggests the renewed strengthening in growth from mid-2004 has peaked. Growth in input prices increased moderately in January, but the other five sub-indices all recorded significant declines.



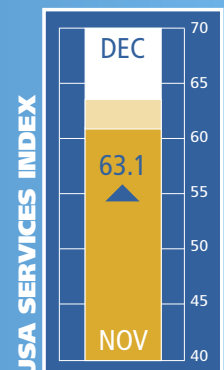
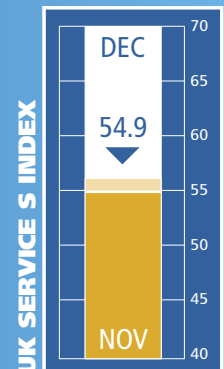
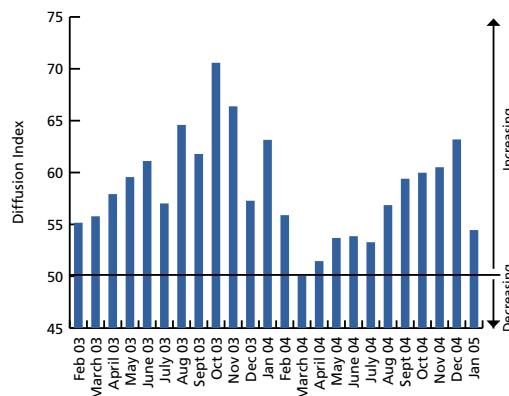
#### SECTORS

- Partly reflecting the impact of the Christmas holiday period, in unadjusted terms growth moderated in all nine sectors. The largest easings were in wholesale trade; transport & storage; and personal & recreational services.
- Despite a slowdown, personal & recreational services again reported the strongest expansion in activity during January. A further four sectors – accommodation, cafes & restaurants; property & business services; health & community services and retail trade – also reported expanding activity (above 50.0).
- Four sectors recorded contractions (readings below 50.0). The largest contraction was in wholesale trade (to the lowest reading yet recorded), followed by finance & insurance and transport & storage, while communications services reported a relatively modest decline in activity.



#### SALES

- The seasonally adjusted sales sub-index fell to 54.5, from a revised 63.2 in December (an 8.7 point decline). It was the lowest reading since July 2004, and significantly weaker than in the corresponding month of 2004 (63.2).
- In unadjusted terms, and not unexpectedly, sales growth declined in all nine sectors. The sharpest falls were again in personal & recreation (although from very strong levels in December) and in wholesale trade, along with property & business services.
- Sales contracted in wholesale trade and in finance & insurance, but continued to expand in accommodation; personal & recreational services; retail trade & transport & storage. Demand was flat (readings of 50.0) in the remaining three sectors.



## NEW ORDERS

- Seasonally adjusted new orders fell to 55.9, from a revised 65.4 in the previous month (a decline of 9.5 points). It was the lowest reading since June 2004, and 4.8 points lower than January 2004.
- Unadjusted, new orders growth fell in all sectors other than accommodation, cafes & restaurants. The sharpest slowdowns were in wholesale trade; transport & storage; and finance & insurance, with the same three sectors also reporting contractions in overall activity.
- In addition to accommodation, other sectors to report expansions were personal & recreational services; health & community services; and property & business services. New orders were flat in retail trade and communications services.

## EMPLOYMENT

- Seasonally adjusted employment fell for the second consecutive month. The index declined to 52.6, from a revised 53.9 in December (a fall of 1.3 points).
- Growth fell in all sectors other than accommodation, cafes & restaurants and in communications services (unadjusted). The largest declines were in transport & storage; personal & recreational services; and wholesale trade.
- The same three sectors, along with health & community services, also reported declines in employment levels last month. Only four sectors, comprising accommodation; property & business services; retail trade and communications services, recorded job growth.

## STOCKS

- After seasonal adjustment, the pace of stockbuilding slowed sharply in January. The inventory sub-index fell to just 51.1, from a revised 58.8 previously. In addition to the 7.7 point fall, the reading in January was also the lowest since June 2004.
- Unadjusted, the rate of inventory accumulation slowed in all sectors other than property & business services. While weaker than in the previous month, nonetheless inventory levels increased in the accommodation; health & community services and personal & recreational service sectors.
- By contrast, inventory levels fell in finance & insurance; retail trade (largely seasonal) and wholesale trade. Stocks were unchanged in transport & storage and communications.

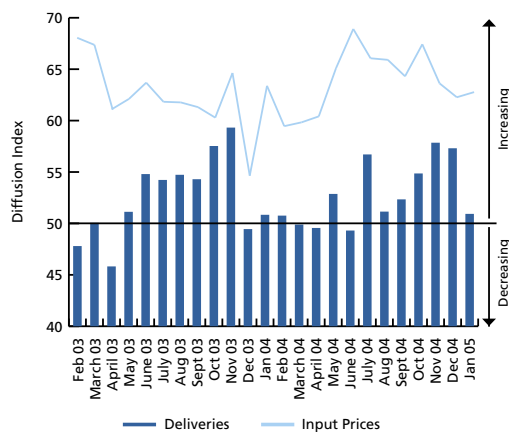
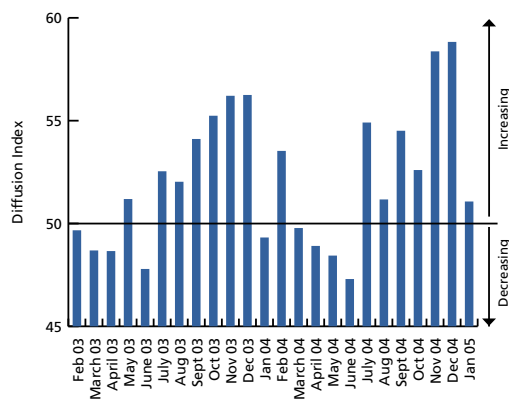
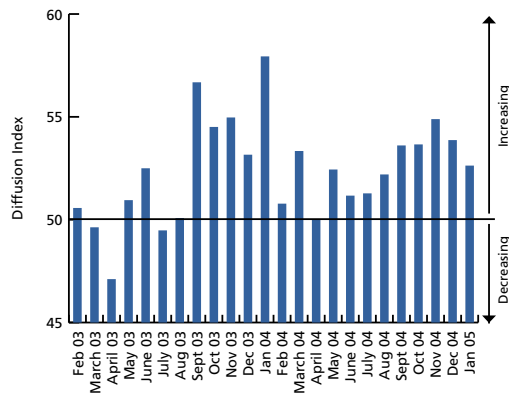
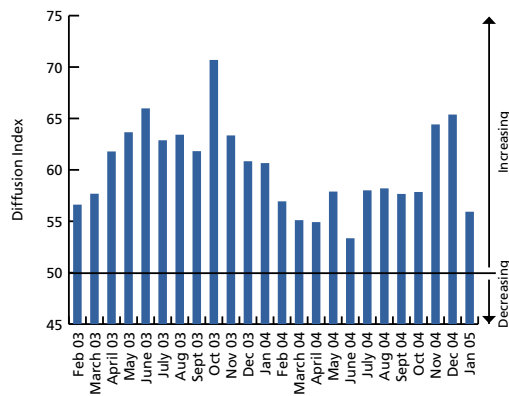
## DELIVERIES AND INPUT COSTS

- Seasonally adjusted growth in supplier deliveries fell sharply in January, suggesting some easing in bottlenecks and other supply constraints. The index fell to 50.9, from a revised 57.3 (a fall of 6.4 points and the lowest level recorded since June 2004). Growth slowed in all nine sectors (unadjusted), with deliveries actually contracting in five sectors and remaining steady in one.
- By contrast, the rate of increase in input prices strengthened slightly in January. The seasonally adjusted index edged up 0.5 points to 62.8 (from a revised 62.3).
- The small increase was concentrated in just three sectors – accommodation; personal & recreational and communications services.

## NATIONAL INDEXES

	Jan 05	Jan 04R	Dec 04R	Nov 04R	Oct 04R	Sept 04R	Aug 04R	July 04R	June 04R	May 04R	Apr 04R
<b>AUSTRALIAN PSI®</b>	53.5	58.0	60.1	59.5	56.4	56.0	54.6	54.6	51.7	53.8	51.4
<b>SALES</b>	54.5	63.2	63.2	60.5	60.0	59.4	56.9	53.3	53.9	53.7	51.5
<b>NEW ORDERS</b>	55.9	60.7	65.4	64.4	57.9	57.7	58.2	58.0	53.4	57.9	54.9
<b>EMPLOYMENT</b>	52.6	57.9	53.9	54.9	53.7	53.6	52.2	51.3	51.2	52.4	50.0
<b>INVENTORIES</b>	51.1	49.3	58.8	58.4	52.6	54.5	51.2	54.9	47.3	48.4	48.9
<b>DELIVERIES</b>	50.9	50.8	57.3	57.9	54.9	52.3	51.2	56.7	49.3	52.9	49.6
<b>INPUT PRICES</b>	62.8	63.4	62.3	63.6	67.4	64.3	65.9	66.1	68.9	65.1	60.4

Results are based on a sample of approximately 190 companies. For further information please contact Heather Ridout, Chief Executive, Ai Group on 02 9466 5504.



## WHAT IS THE PSI?

The Australian Performance of Services Index (PSI®) is a 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 services organisation and with the majority of the Australian economy 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 PSI®.

Commonwealth Bank

## CONTACT

Heather Ridout  
Chief Executive,  
Ai Group  
work 02 9466 5504  
mobile 0419 257 361

Michael Blythe  
Chief Economist  
Commonwealth Bank  
work 02 9312 4135  
mobile 0414 886 027

NTC Research  
[www.ntc-research.com](http://www.ntc-research.com)

© The Australian Industry Group, 2005  
This publication is copyright.  
Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group.

Disclaimer – The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by a person relying in whole or in part upon the contents of this publication.