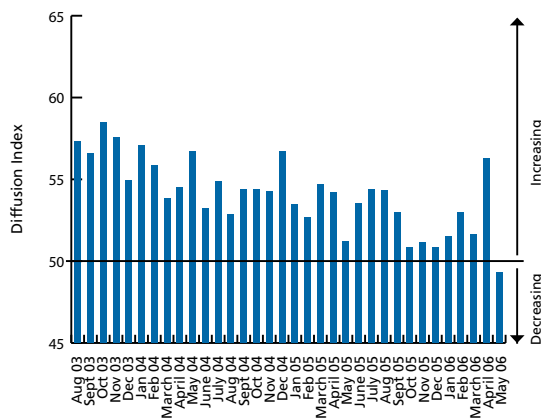


## HIGHER FUEL COSTS AND INTEREST RATES CURTAIL SERVICES GAINS

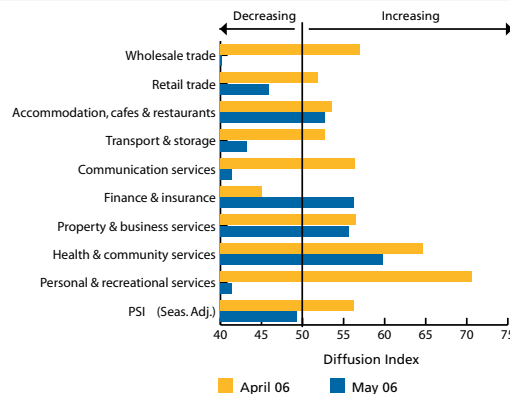
### KEY FINDINGS

- Services sector activity fell back in May, curtailing the strong gains in April, as higher interest rates and fuel costs dampened both household spending and business activity.
- The seasonally adjusted Australian Industry Group – Commonwealth Bank Performance of Services Index (**Australian PSI®**) fell 7.0 points to 49.3.
- This was the lowest reading of the **Australian PSI®** recorded since the series commenced in February 2003.
- Although broadly based, the weakness in demand was most evident in the consumer-related sectors. The largest falls were in personal & recreational; wholesale trade; and communication services. More moderate declines were also recorded in transport & storage and retail trade.
- Accordingly, sales, inventories and supplier deliveries all fell, following large gains in the previous month. Reflecting the weaker demand environment, new orders growth also moderated appreciably.
- Employment also decreased slightly, the first fall recorded by the survey.



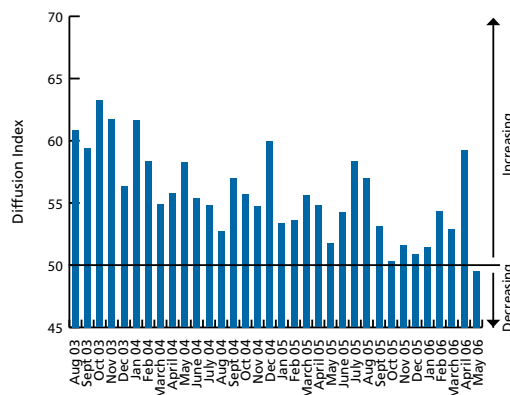
### SECTORS

- On a seasonally adjusted basis, activity expanded in four of nine sectors in May (down from eight in April).
- While the falls in activity were broadly based, especially large declines were reported in the consumer-related sectors. The largest declines were in the personal & recreational; wholesale trade; and communication sectors.
- Moderate contractions were also reported in transport & storage and retail trade.
- Health & community services recorded the largest expansion, albeit at a slower pace than in April. The property & business, accommodation, cafes & restaurants sectors also grew moderately.
- Finance & insurance was the only sector to improve, recording modest growth.

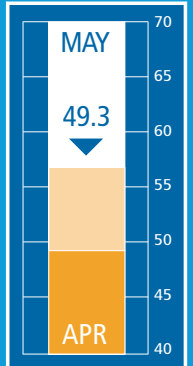


### SALES

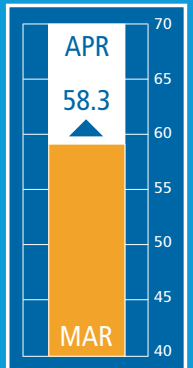
- In seasonally adjusted terms, sales fell 9.8 points in May to 49.5, partly unwinding the strong gains made in April.
- In unadjusted terms, sales rose in three sectors (down from eight the previous month).
- Growth was strongest in finance & insurance. Sales also continued to expand strongly in health & community services (although down from April).
- Property & business services expanded at a moderate pace, virtually unchanged from the previous month.
- The consumer based sectors recorded the largest declines, partially reflecting the impact of higher interest rates on consumer sentiment. Activity dropped sharply in retail trade; wholesale trade; personal & recreational services; and communication services, all recording significant declines.
- Sales also fell in the transport & storage and accommodation, cafes & restaurants sectors, although the pace of decline was less severe.



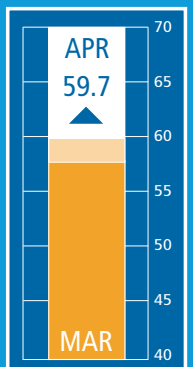
AUSTRALIAN PSI®



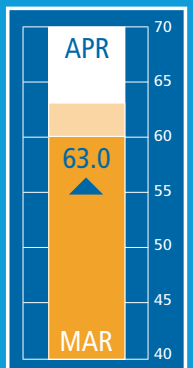
EUROZONE SERVICES INDEX



UK SERVICES INDEX

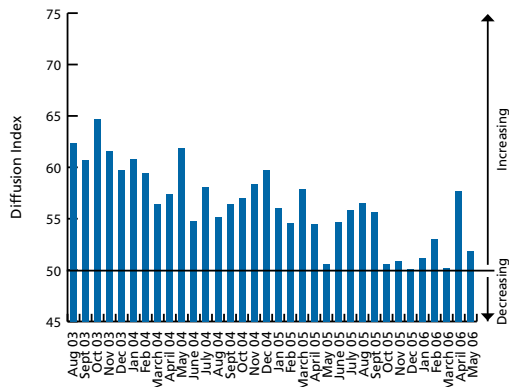


USA SERVICES INDEX



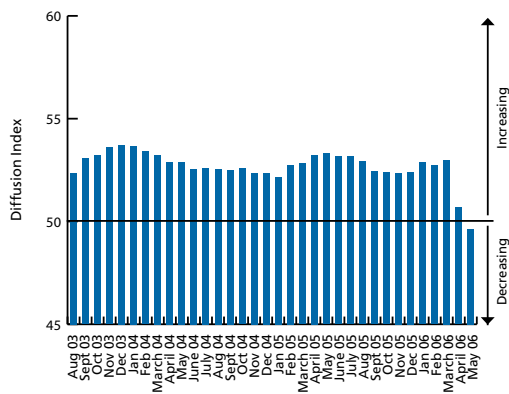
## NEW ORDERS

- Seasonally adjusted, new orders fell 5.9 points in May to 51.8.
- Unadjusted, new orders expanded in four sectors (down from five previously). Accommodation, cafes & restaurants was also unchanged.
- Finance & insurance recorded the strongest growth, a significant turnaround from the previous month. Property & business services also expanded strongly.
- Following April's peak, growth was considerably slower in health & community services.
- Retail trade and wholesale trade were significantly weaker, recording the largest declines. Personal & recreational services also deteriorated at a similar rate, to record a moderate contraction in activity.
- New orders continued to fall in the transport & storage sector, reporting a large decline.



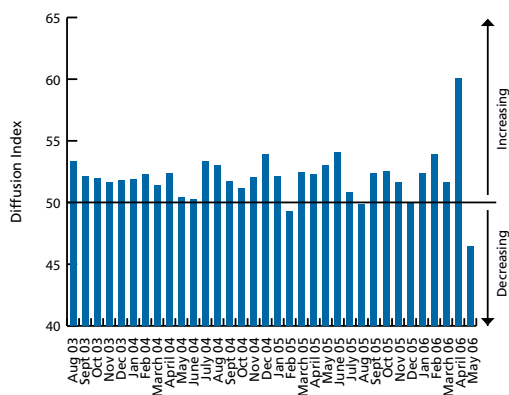
## EMPLOYMENT

- On a seasonally adjusted basis, the employment index fell 1.1 points in May to 49.6, the first decline recorded by the survey.
- On an unadjusted basis, employment increased in two sectors (the same number as in April).
- Health & community services continued to report the strongest (albeit moderate) rate of growth. As well, employment improved in the finance & insurance sector.
- Employment remained unchanged in the property & business sector (a reading of 50.0).
- Employment deteriorated significantly in the consumer sectors, with retail trade and personal & recreational services both reporting declines. In addition, activity contracted moderately in accommodation, cafes & restaurants.
- Transport & storage and communication services decreased moderately, while wholesale trade fell at a more modest rate.



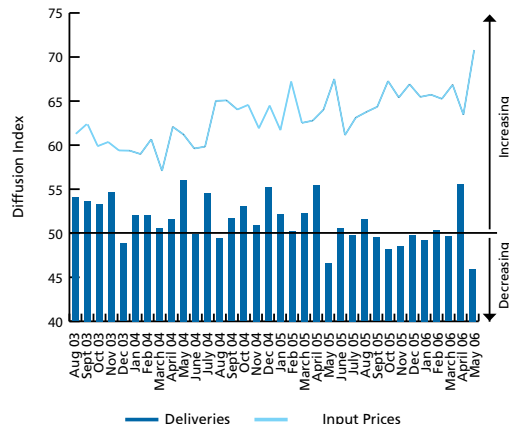
## STOCKS

- Inventories of finished goods fell in May, the seasonally adjusted stocks index dropping 13.7 points to 46.4.
- In unadjusted terms, stocks expanded in two sectors (down from six in April), with communication and personal & recreational services unchanged.
- Stock accumulation weakened considerably in retail trade and wholesale trade, reflecting the renewed weakness in sales and new orders.
- Property & business services reported the strongest growth, although down from the previous month. Stocks were also at a similar level in health & community services.
- Inventories declined significantly in the transport & storage and accommodation, cafes & restaurants sectors.
- Stock building levels continued to fall sharply in finance & insurance, at a slightly faster pace.



## DELIVERIES AND INPUT COSTS

- Growth in supplier deliveries weakened in May, the seasonally adjusted index falling 9.6 points to 45.9. Unadjusted, two sectors reported increased deliveries (down from six the previous month), health & community services and finance & insurance.
- Retail trade; personal & recreational services; wholesale trade; and transport & storage recorded the largest declines. In addition, accommodation, cafes & restaurants; property & business; and communication services contracted moderately.
- The rate of input cost increases rose sharply in May (the seasonally adjusted input cost index rising 6.3 points to 71.0), reflecting the full impact of higher fuel prices.
- Unadjusted, costs increased at a faster pace in four sectors (down from five previously).
- Property & business and finance & insurance recorded the largest rises. Wholesale trade and accommodation, cafes & restaurants sectors also increased moderately.
- Costs increased at a significantly slower pace in transport & storage and health & community services.



## NATIONAL INDEXES

	May 06	May 05	Apr 06	Mar 06	Feb 06	Jan 06	Dec 05	Nov 05	Oct 05	Sept 05	Aug 05
<b>AUSTRALIAN PSI®</b>	49.3	51.2	56.3	51.6	53.0	51.5	50.8	51.2	50.8	53.0	54.3
<b>SALES</b>	49.5	51.8	59.3	52.9	54.4	51.4	50.9	51.6	50.3	53.2	57.0
<b>NEW ORDERS</b>	51.8	50.6	57.7	50.3	53.0	51.2	50.1	50.9	50.6	55.6	56.5
<b>EMPLOYMENT</b>	49.6	53.3	50.7	53.0	52.7	52.9	52.4	52.4	52.4	52.4	52.9
<b>INVENTORIES</b>	46.4	53.0	60.1	51.7	53.9	52.3	50.0	51.6	52.5	52.4	49.9
<b>DELIVERIES</b>	45.9	46.6	55.5	49.6	50.4	49.2	49.8	48.6	48.1	49.5	51.6
<b>INPUT PRICES</b>	71.0	62.7	64.7	67.6	66.2	66.6	66.4	67.6	66.4	68.0	65.5

Results are based on a sample of 200 companies.



## WHAT IS THE AUSTRALIAN PSI®?

The Australian Performance of Services Index (Australian 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 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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