

# PSI AUSTRALIAN

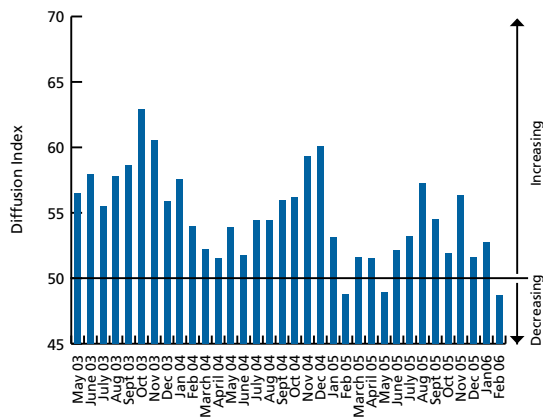
PERFORMANCE OF SERVICES INDEX®

FEBRUARY 2006

## SERVICES GROWTH STALLS ON DECLINE IN CONSUMER SPENDING

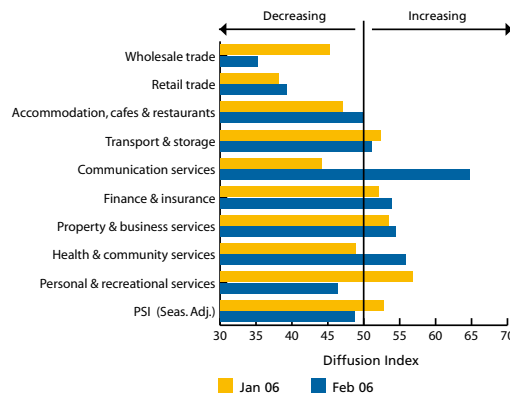
### KEY FINDINGS

- Services activity stalled in February, as declines in the consumer-based sectors more than offset continued moderate growth in the business-related sectors.
- The seasonally adjusted Australian Industry Group – Commonwealth Bank Performance of Services Index (**Australian PSI®**) fell 4.0 points to 48.7. It was the first decline in activity since May 2005 (with the 50.0 level separating expansion and contraction).
- Sales, new orders, employment and supplier deliveries all declined. The fall in employment was the first since mid-2003.
- Inventories and costs both rose at a more moderate pace relative to January.
- Much of the weakness was concentrated in the consumer sectors, with the largest declines recorded in wholesale and retail trade and a moderate decrease in personal & recreational services.
- In contrast, the business sectors continued to record the strongest growth, with communication services enjoying the largest increase and more moderate expansions in property & business; finance & insurance; and transport & storage.



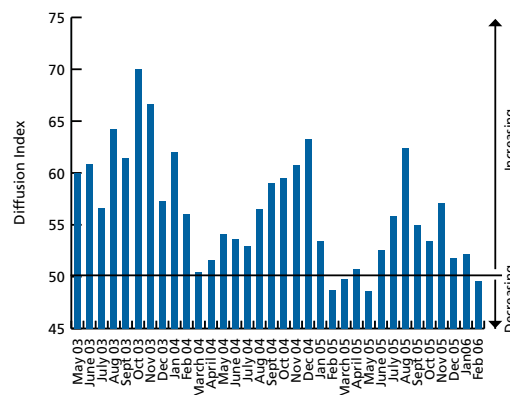
### SECTORS

- On an unadjusted basis, activity expanded in five of nine sectors in February (up from four in January).
- Growth was strongest in the business sectors. Communication services recorded the largest increase in activity, while the property & business; finance & insurance; and transport & storage sectors also expanded moderately.
- Health & community services also reported modest growth.
- The largest falls were in the consumer-related sectors of wholesale and retail trade. Consumer caution also contributed to a moderate decline in personal & recreational services.
- Activity in the accommodation, cafes & restaurants sector was unchanged. However, the reading was significantly lower than in the comparable month of the past two years.

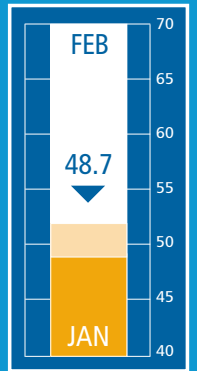


### SALES

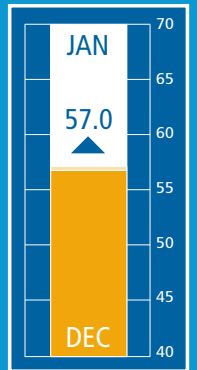
- Seasonally adjusted, sales fell 2.6 points in February to 49.6. While sales growth has moderated steadily since August, the February outcome was broadly similar to the corresponding reading of 2005.
- Unadjusted, sales rose in three sectors (the same number as the previous month). In addition, finance & insurance was unchanged.
- Communication services recorded the strongest growth. Sales also expanded strongly in the property & business and health & community sectors.
- Sales declined sharply in the wholesale and retail trade sectors, with moderate falls in personal & recreational services; accommodation, cafes & restaurants; and transport & storage.



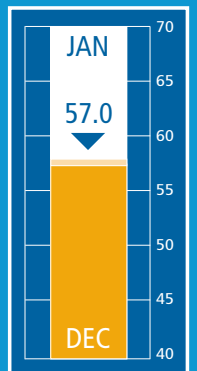
AUSTRALIAN PSI®



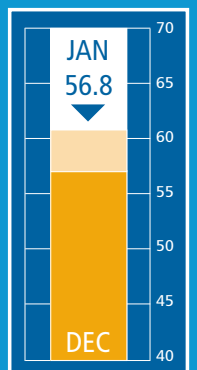
EUROZONE SERVICES INDEX



UK SERVICE S INDEX

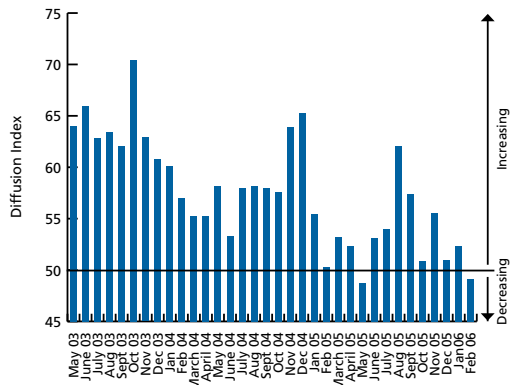


USA SERVICES INDEX



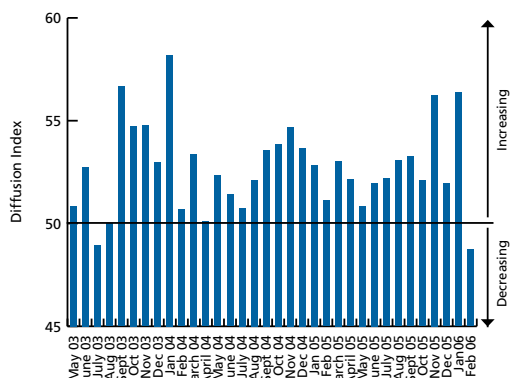
## NEW ORDERS

- In seasonally adjusted terms, new orders fell 3.3 points in February to 49.1. Similar to sales, this was the first decline since May.
- Unadjusted, new orders expanded in five sectors (up from two the previous month). Personal & recreational services was also unchanged.
- Growth was strongest in the communications and property & business sectors. New orders also expanded moderately in health & community services; finance & insurance; and accommodation, cafes & restaurants.
- Wholesale trade recorded the largest decline, while retail trade also decreased sharply.
- In addition, the transport & storage sector reported a modest contraction.



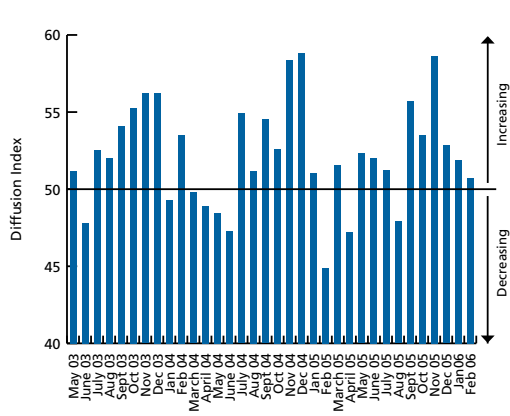
## EMPLOYMENT

- On a seasonally adjusted basis, the employment index fell 7.7 points in February to 48.7, the first decline since mid-2003.
- On an unadjusted basis, employment increased in two sectors (down from four in January). In addition, four sectors were unchanged.
- Of the three sectors to decline, wholesale and retail trade fell sharply, while accommodation, cafes & restaurants reported a moderate contraction.
- Health & community and communication services recorded strong growth.
- The transport & storage; finance & insurance; property & business; and personal & recreational sectors were all unchanged.



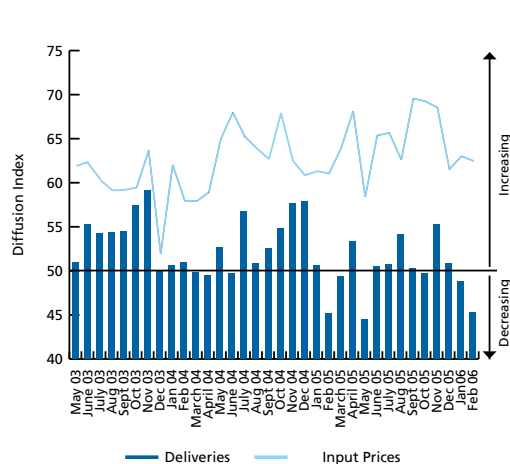
## STOCKS

- Stock accumulation slowed in February, the unadjusted stocks index falling 1.2 points to 50.7. However stocks rose strongly in most of the business sectors.
- Inventories of finished goods expanded in four sectors (down from five in January).
- Stock levels declined sharply in wholesale trade and contracted more moderately in retail trade.
- Personal & recreational services recorded the largest decline. By contrast, accommodation, cafes & restaurants expanded moderately.
- Finance & insurance recorded the strongest increase, while communication services and transport & storage expanded strongly. However, stocks fell moderately in property & business services.
- Stocks also declined in health & community services.



## DELIVERIES AND INPUT COSTS

- Supplier deliveries continued to fall in February, the seasonally adjusted index falling 3.5 points to 45.3. Unadjusted, the communication; transport & storage; and finance & insurance sectors reported increased deliveries (up from two previously). In addition, health & community services was unchanged.
- The largest declines were in wholesale trade; retail trade; and personal & recreational services.
- The rate of input cost increases fell marginally in February (the seasonally adjusted input cost index falling 0.5 points to 63.8), remaining below recent highs.
- Unadjusted, costs increased at a faster pace in four sectors (down from three in January), with large rises recorded in retail trade and finance & insurance. Accommodation, cafes & restaurants and transport & storage also reported moderate rises.
- Costs increased at a much slower pace in personal & recreational services. Slower increases were also recorded in the property & business; health & community; and communication sectors.



## NATIONAL INDEXES

|                        | Feb 06 | Feb 05 | Jan 06 | Dec 05 | Nov 05 | Oct 05 | Sept 05 | Aug 05 | Jul 05 | June 05 | May 05 |
|------------------------|--------|--------|--------|--------|--------|--------|---------|--------|--------|---------|--------|
| <b>AUSTRALIAN PSI®</b> | 48.7   | 48.8   | 52.7   | 51.6   | 56.4   | 51.9   | 54.5    | 57.3   | 53.3   | 52.2    | 49.0   |
| <b>SALES</b>           | 49.6   | 48.7   | 52.2   | 51.8   | 57.1   | 53.4   | 55.0    | 62.4   | 55.9   | 52.6    | 48.6   |
| <b>NEW ORDERS</b>      | 49.1   | 50.3   | 52.4   | 51.0   | 55.5   | 50.9   | 57.4    | 62.0   | 54.0   | 53.1    | 48.8   |
| <b>EMPLOYMENT</b>      | 48.7   | 51.1   | 56.4   | 51.9   | 56.3   | 52.1   | 53.3    | 53.1   | 52.2   | 52.0    | 50.9   |
| <b>INVENTORIES</b>     | 50.7   | 44.9   | 51.9   | 52.8   | 58.6   | 53.5   | 55.7    | 47.9   | 51.3   | 52.0    | 52.3   |
| <b>DELIVERIES</b>      | 45.3   | 45.1   | 48.8   | 50.9   | 55.3   | 49.7   | 50.3    | 54.2   | 50.7   | 50.5    | 44.5   |
| <b>INPUT PRICES</b>    | 63.8   | 62.6   | 64.3   | 63.0   | 69.0   | 69.6   | 69.9    | 64.0   | 66.6   | 66.3    | 60.3   |

Results are based on a sample of 233 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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