AUSTRALIAN INDUSTRY GROUP
Commonwealth Bank

# psi AUSTRALIAN

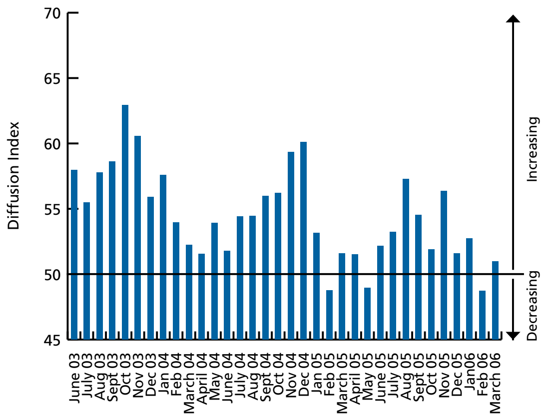
## PERFORMANCE OF SERVICES INDEX®

**MARCH 2006**

# IMPROVED CONSUMER DEMAND UNDERPINS MODERATE SERVICES PICK-UP

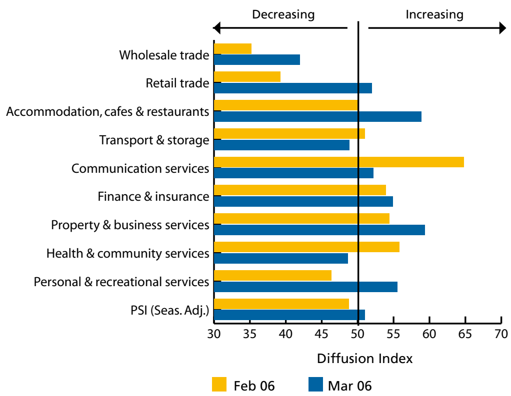
## KEY FINDINGS

- Services activity improved in March, driven largely by a pick-up in the consumer sectors. In contrast, growth in the business sectors was more mixed.
- The seasonally adjusted Australian Industry Group – Commonwealth Bank Performance of Services Index (**Australian PSI®**) rose 2.3 points to 51.0.
- The modest increase was reflected in a rise in employment, following a small decline the previous month (the first since mid-2003). Inventories and input costs also grew at a slightly faster pace.
- However, sales and new orders both fell slightly for the second consecutive month.
- Demand and employment improved in several consumer-based sectors, including retail trade; personal & recreational services; and accommodation, cafes & restaurants, although possibly reflecting the one-off effects of the Commonwealth Games.
- While growth in property & business and finance & insurance was broadly steady, activity weakened in both communication services and transport & storage.



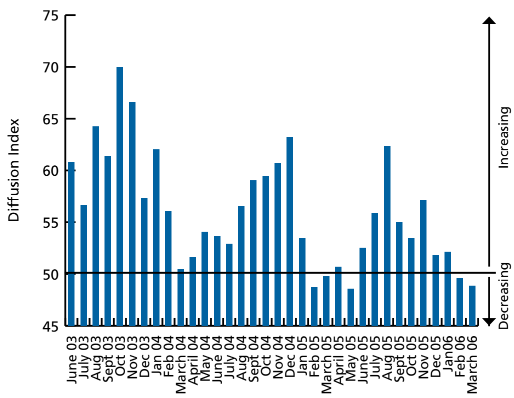

## SECTORS

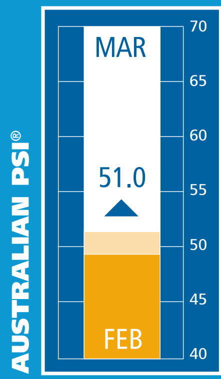
- In unadjusted terms, activity expanded in six of nine sectors in March (up from five in February).
- Key consumer sectors improved during the month, with growth resuming in both retail trade and personal & recreational services (following contractions in activity the previous month). Growth also strengthened considerably in accommodation, cafes & restaurants.
- Elsewhere, growth strengthened moderately in the property & business and finance & insurance sectors.
- Weaker activity was confined to the remaining business sectors, with the largest fall recorded in communication services.
- Both the health & community and transport & storage sectors contracted, following expansions the previous month.
- Wholesale trade experienced the sharpest decline for the second successive month, although at a slower pace.

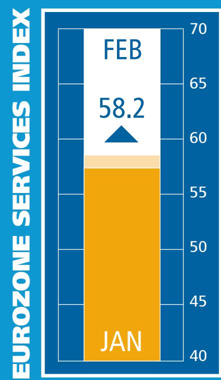


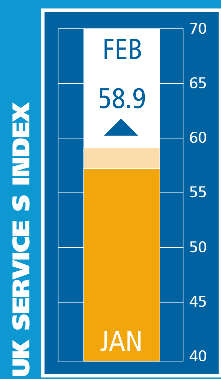

## SALES

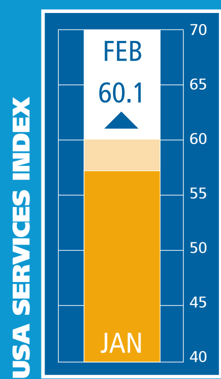
- On a seasonally adjusted basis, sales fell 0.7 points in March to 48.9.
- Unadjusted, sales rose in five sectors (up from three the previous month).
- Accommodation, cafes & restaurants and personal & recreational services were the strongest sectors, both reporting a significant turnaround after contractions the previous month.
- Sales also improved considerably in the finance & insurance sector.
- The largest falls were in communication and health & community services, with a smaller decline in transport & storage.
- Property & business service also recorded weaker sales growth.
- Sales continued to decline sharply in wholesale and retail trade, although the rate of decline was broadly unchanged.

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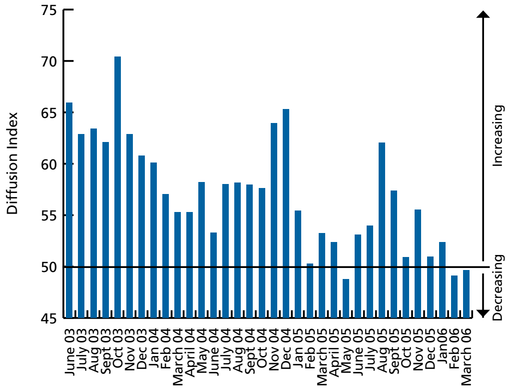
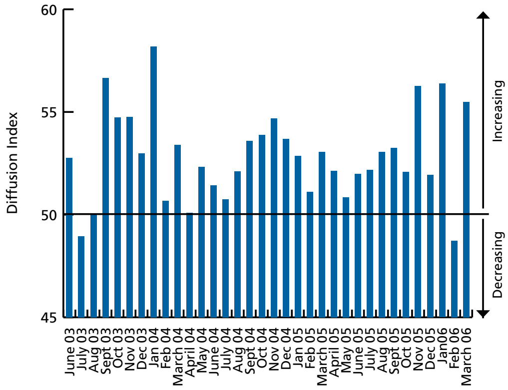
## NEW ORDERS

- Seasonally adjusted, new orders rose 0.5 points in March to 49.6. While a slower decline relative to the previous month, it was the lowest March reading in four years.
- Unadjusted, new orders expanded in four sectors (down from five previously). Accommodation, cafes & restaurants was also unchanged.
- Growth was strongest in the personal & recreational services and retail trade sectors.
- New orders also grew moderately in the property & business services and finance & insurance sectors (albeit at a slower pace).
- Communication services and health & community services reported the largest weakening in new orders, with declines in both sectors following strong growth the previous month.
- Although a considerable improvement on the previous month, wholesale trade reported the largest contraction. Transport & storage recorded a similar rate of decline as in February.



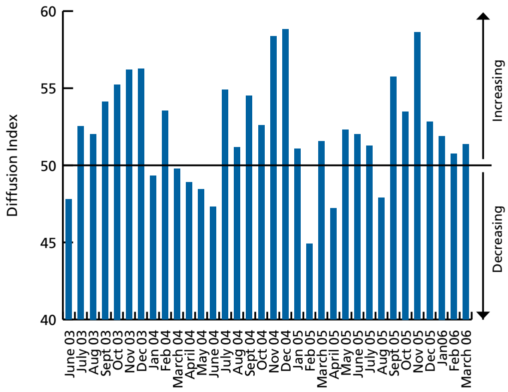

## EMPLOYMENT

- In seasonally adjusted terms, the employment index jumped 6.8 points in March to 55.5. The rise largely reverses the decline in the previous month and was the strongest March outcome in four years.
- In unadjusted terms, employment increased in eight sectors (up from two in February).
- The strongest employment expansions were in accommodation, cafes & restaurants and retail trade, both reporting a considerable turnaround from the previous month, although possibly reflecting the one-off effects of the Commonwealth Games.
- Property & business services recorded strong growth, while transport & storage; finance & insurance; and personal & recreational services recorded a moderate expansion.
- Growth was weaker in communication and health & community services.
- Although wholesale trade continued to decline, the rate of contraction was more moderate than in February.



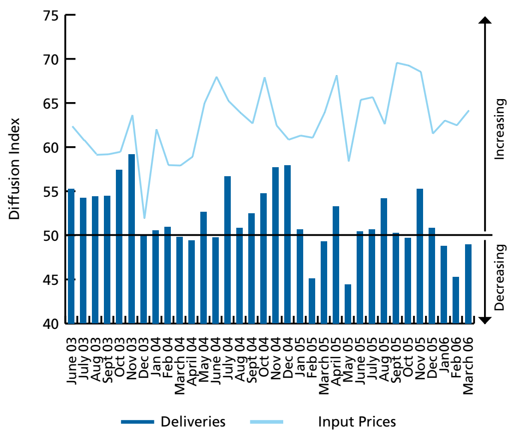

## STOCKS

- Inventories of finished goods rose in March, the unadjusted stocks index rising 0.7 points to 51.4.
- Stocks expanded in four sectors (the same number as in February), with finance & insurance; transport & storage; and health & community services unchanged.
- Inventories increased in retail trade for the first time since December 2005 reflecting stronger demand. The decline in stocks in wholesale trade also moderated.
- Property & business services reported the strongest growth, following a moderate decline the previous month.
- Growth was moderately weaker in communication services (although following a strong rise previously) and down slightly in accommodation, cafes & restaurants.
- Personal & recreational services recorded the largest decline.




## DELIVERIES AND INPUT COSTS

- Supplier deliveries continued to fall in March, albeit at a slower rate, the seasonally adjusted index rising 3.7 points to 49.0. Unadjusted, the property & business services and retail trade sectors reported increased deliveries (the same number as the previous month). In addition, three sectors were unchanged.
- Health & community services; transport & storage; and wholesale trade recorded large declines, while personal & recreational services decreased at a more moderate rate.
- The rate of input cost increases rose marginally in March (the seasonally adjusted input cost index rising 1.5 points to 65.3), continuing to edge up from the recent trough in December.
- Unadjusted, costs increased at a faster pace in four sectors (the same number as the previous month), with large rises recorded in communication; property & business; and personal & recreational services. Health & community services also reported a moderate rise.
- Costs increased at a much slower pace in accommodation, cafes & restaurants and transport & storage.




## NATIONAL INDEXES

| | Mar 06 | Mar 05 | Feb 06 | Jan 06 | Dec 05 | Nov 05 | Oct 05 | Sept 05 | Aug 05 | Jul 05 | June 05 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **AUSTRALIAN PSI®** | 51.0 | 51.6 | 48.7 | 52.7 | 51.6 | 56.4 | 51.9 | 54.5 | 57.3 | 53.3 | 52.2 |
| **SALES** | 48.9 | 49.8 | 49.6 | 52.2 | 51.8 | 57.1 | 53.4 | 55.0 | 62.4 | 55.9 | 52.6 |
| **NEW ORDERS** | 49.6 | 53.3 | 49.1 | 52.4 | 51.0 | 55.5 | 50.9 | 57.4 | 62.0 | 54.0 | 53.1 |
| **EMPLOYMENT** | 55.5 | 53.1 | 48.7 | 56.4 | 51.9 | 56.3 | 52.1 | 53.3 | 53.1 | 52.2 | 52.0 |
| **INVENTORIES** | 51.4 | 51.6 | 50.7 | 51.9 | 52.8 | 58.6 | 53.5 | 55.7 | 47.9 | 51.3 | 52.0 |
| **DELIVERIES** | 49.0 | 49.3 | 45.3 | 48.8 | 50.9 | 55.3 | 49.7 | 50.3 | 54.2 | 50.7 | 50.5 |
| **INPUT PRICES** | 65.3 | 65.1 | 63.8 | 64.3 | 63.0 | 69.0 | 69.6 | 69.9 | 64.0 | 66.6 | 66.3 |

Results are based on a sample of 200 companies.

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## 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

## 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®.

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