AUSTRALIAN

psi

PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

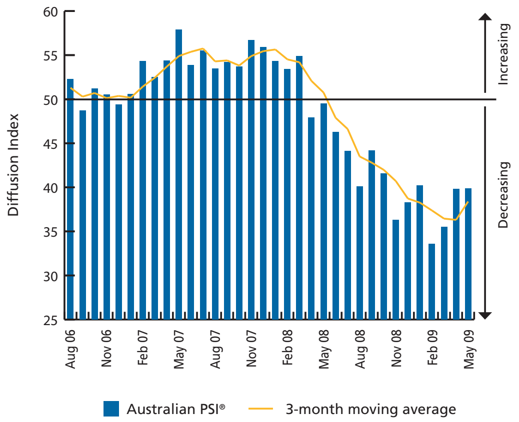
Commonwealth Bank

MAY 2009

DEMAND FOR SERVICES REMAINS SOFT

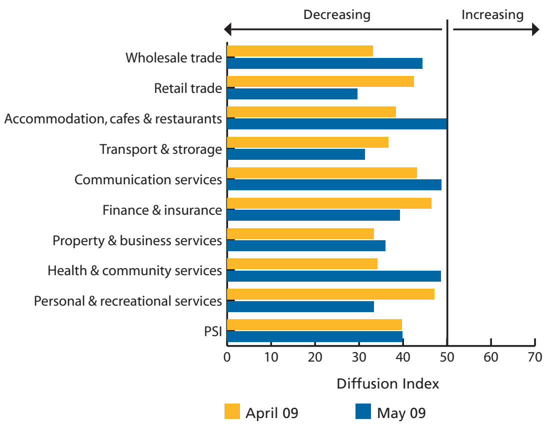
KEY FINDINGS

- Services sector activity contracted for a 14th consecutive month in May, although the pace of decline has abated from that recorded in the first quarter of 2009.
- The Australian Industry Group/Commonwealth Bank Performance of Services Index **(Australian PSI®)** rose by 0.1 points to 39.9 in May, remaining well below the 50.0 level that separates expansion from contraction.
- The sub-indexes for accommodation, cafés & restaurants; communication services; and health & community services improved in May, pushing towards growth.
- While aggregate sales and new orders fell at a slightly faster pace, the employment sub-index rose to its highest level in eight months.
- Despite the significant impact of the economic downturn, the Government's expanded business investment tax break has been indentified as having a positive influence on conditions.
- Activity fell in all states, excluding Tasmania, with the rate of decline moderating in two – Victoria and South Australia.



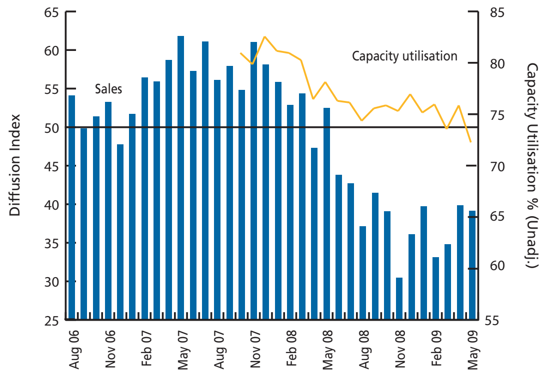
SECTORS

- Seasonally adjusted, activity rose only, and just marginally in the accommodation, cafés & restaurants sector, compared with no sectors in April.
- The sub-indexes for communication services and health & community services improved in May, despite falling just short of the 50.0 level.
- The pace of decline also slowed in the wholesale trade and property & business services sectors.
- Retail trade and transport & storage recorded the largest falls in activity in May.
- Activity also fell at a faster pace in the personal & recreational services and finance & insurance sectors.

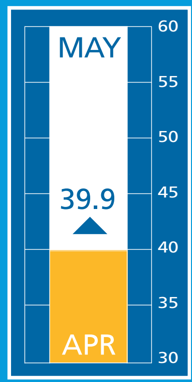


SALES AND CAPACITY

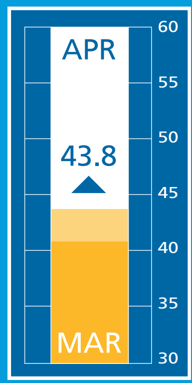
- The seasonally adjusted sales sub-index fell 0.8 points in May to 39.1.
- In unadjusted terms, sales increased in two sectors, up from one in the previous month.
- Sales in the accommodation, cafés & restaurants sector expanded for a second consecutive month in May, while communication services was the only other sector to record growth.
- The retail trade; transport & storage; and personal & recreational services sectors reported the largest declines in sales.
- More moderate falls were recorded in finance & insurance; wholesale trade; health & community services; and property & business services.
- Capacity utilisation fell back in May, decreasing from 75.8% to 72.2% (unadjusted).



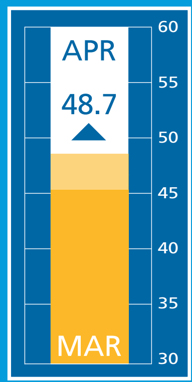
AUSTRALIAN PSI®



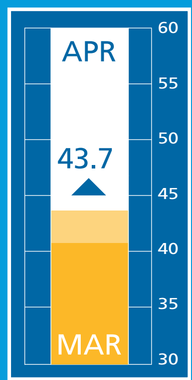
EUROZONE SERVICES INDEX



UK SERVICES INDEX

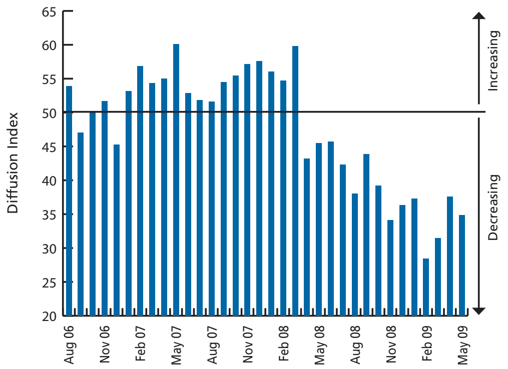


USA SERVICES INDEX



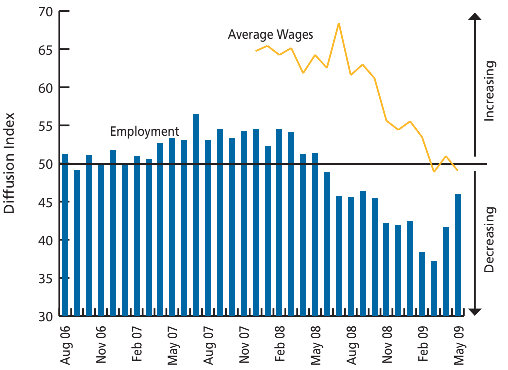
NEW ORDERS

- New orders fell for a 14th consecutive month in May. The seasonally adjusted sub-index fell by 2.7 points to 34.9.
- Unadjusted, only communication services reported an expansion in new orders, compared with only the accommodation, cafés & restaurants sector in April.
- The largest decreases in new orders were in the transport & storage; retail trade; personal & recreational services; and property & business services sectors.
- Significant falls were also recorded in finance & insurance and accommodation, cafés & restaurants.
- The rate of decline in new orders eased in health & community services and wholesale trade.



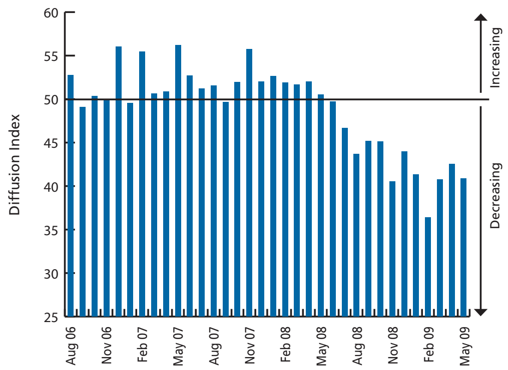
EMPLOYMENT AND WAGES

- The decline in services sector employment eased to its slowest pace in eight months in May, with the seasonally adjusted sub-index rising 4.3 points to 46.0.
- On an unadjusted basis, employment increased in two sectors, health & community services and wholesale trade, up from just one sector in the previous month.
- The heaviest falls in employment were recorded in the transport & storage; property & business services; and retail trade sectors.
- Finance & insurance and communication services registered milder rates of job-shedding in May.
- Employment remained steady in the accommodation, cafés & restaurants and personal & recreational services sectors.
- Average wages fell modestly in May, with the sub-index decreasing 1.9 points to 48.4 (unadjusted).



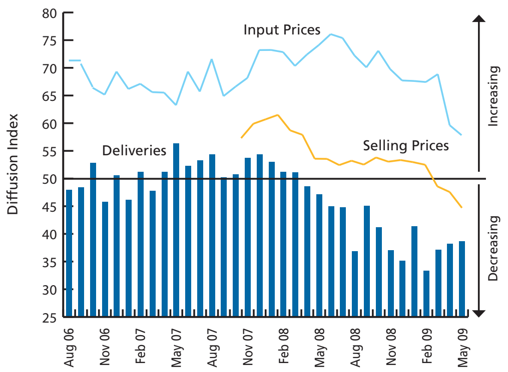
STOCKS

- Reflecting further declines in sales and new orders, demand continues to be met through a reduction in stock levels.
- The seasonally adjusted inventories sub-index fell by 1.6 points to 40.9 in May.
- In unadjusted terms, stocks rose in one sector, communication services, compared with no sectors in the previous month.
- The largest falls in inventories were in personal & recreational services; transport & storage; and property & business services.
- Inventories were run-down at a faster pace in the accommodation, cafés & restaurants and retail trade sectors. The rate of depletion moderated in wholesale trade and health & community services.
- Stock levels were unchanged in the finance & insurance sector.



DELIVERIES, INPUT COSTS, SELLING PRICES

- Supplier deliveries decreased for a 14th consecutive month in May, despite the seasonally adjusted sub-index improving by 0.4 points to 38.6.
- Unadjusted, no sector reported an increase in deliveries in May, as was the case in the previous month, although they were unchanged in health & community services.
- Personal & recreational services; transport & storage; and retail trade reported the largest falls in deliveries.
- The decline in deliveries eased in the communication services; property & business services; and wholesale trade sectors.
- Growth in input costs slowed to its slowest pace since December 2003, the seasonally adjusted sub-index falling 1.8 points to 58.6.
- Input costs lifted in all sectors, excluding finance & insurance where they were steady.
- Selling prices fell for a third consecutive month, with the sub-index decreasing by 2.9 points to 44.7 (unadjusted).



AUSTRALIAN PSI®*

	May 2009	April 2009	Monthly Change	Direction	Rate of Change	Trend**(Months)
AUSTRALIAN PSI®	39.9	39.8	+0.1	Contracting	Slower	14
SALES	39.1	39.9	-0.8	Contracting	Faster	12
NEW ORDERS	34.9	37.6	-2.7	Contracting	Faster	14
EMPLOYMENT	46.0	41.7	+4.3	Contracting	Slower	12
SUPPLIER DELIVERIES	38.6	38.2	+0.4	Contracting	Slower	14
INVENTORIES	40.9	42.5	-1.6	Contracting	Faster	12
INPUT PRICES	58.6	60.4	-1.8	Expanding	Slower	76
SELLING PRICES	44.7	47.6	-2.9	Contracting	Faster	3
WAGES	48.4	50.3	-1.9	Contacting	na	1
CAPACITY UTILISATION (%)	72.2	75.8	-3.6 % pts	Contracting	na	na

Results are based on the responses of around 200 companies. New monthly seasonal adjustment factors, derived directly from an X-12 estimation process were introduced in April 2009.
* Australian PSI® data is seasonally adjusted for sales, new orders, employment, supplier deliveries, inventories and input prices.
** Number of months moving in current direction.

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WHAT IS THE AUSTRALIAN PSI®?

The Australian Industry Group – Commonwealth Bank **Australian Performance of Services Index** (Australian PSI®) is a seasonally adjusted national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. An **Australian PSI®** reading above 50 points indicates services 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 can be obtained from the Ai Group web site www.aigroup.com.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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