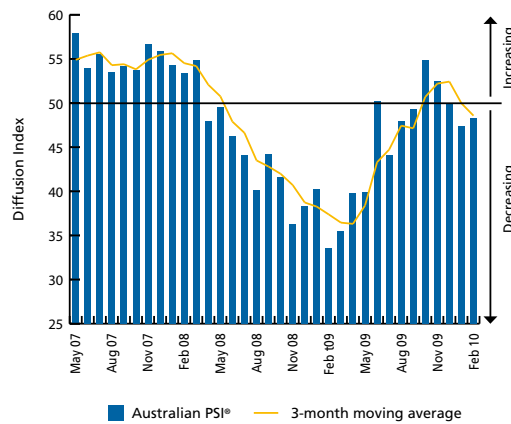


## SERVICES SECTOR CONDITIONS REMAIN SOFT

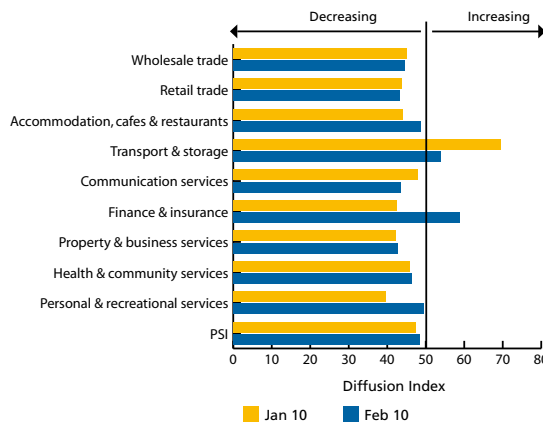
### KEY FINDINGS

- Subdued demand led to a second consecutive monthly contraction in services activity in February, although the pace of decline abated slightly.
- The seasonally adjusted Australian Industry Group/Commonwealth Bank Performance of Services Index (**Australian PSI®**) rose by 0.9 percentage points to 48.3, below the 50.0 level separating expansion from contraction.
- Sales of services fell for the first time since September 2009 and new orders continued to decline at a similar pace as in the previous two months.
- Employment and supplier delivery levels dropped further and inventories of finished goods rose for the first time in four months.
- Firms cited soft consumer and business confidence and cautious levels of investment as factors holding back services demand.
- Activity rose in only two states: Western Australia and South Australia.



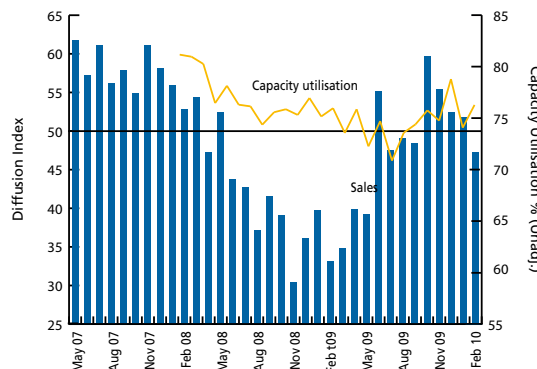
### SECTORS

- After adjustment for seasonal factors, two sectors reported growth in activity, up from one in January.
- Growth was strongest in finance & insurance, following a solid fall in activity in January, while a second month of expansion was recorded in the transport & storage sector.
- The largest fall in activity was registered in property & business services.
- Conditions remain soft in the retail trade sector, with interest rate pressures and the fading impacts of fiscal stimulus contributing to a third consecutive monthly fall in activity.
- Activity fell solidly in communication services; wholesale trade; and health & community services.
- The personal & recreational services and accommodation, cafés & restaurants sectors contracted marginally in February.

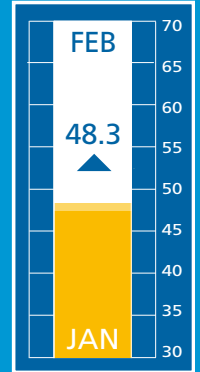


### SALES AND CAPACITY

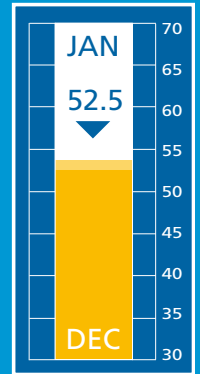
- Sales of services declined for the first time in five months in February, the seasonally adjusted sub-index dropping 4.4 points to 47.3.
- In unadjusted terms, sales increased in only finance & insurance, compared with two sectors in January.
- The retail trade and wholesale trade sectors recorded the largest declines in sales.
- Solid falls in sales were also reported in the business-related sectors of transport & storage; property & business services; and communication services.
- Sales remained steady in accommodation, cafés & restaurants and personal & recreational services.
- Capacity utilisation lifted in February, rising by 2.2 percentage points to 76.2.



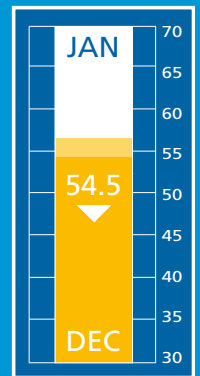
### AUSTRALIAN PSI®



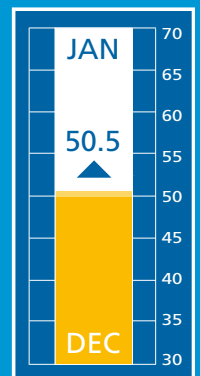
### EUROZONE SERVICES INDEX



### UK SERVICES INDEX



### USA SERVICES INDEX



## NEW ORDERS

- The pace of decline in new orders remained broadly steady in February, with the seasonally adjusted sub-index edging-up marginally from 48.0 to 48.1.
- Unadjusted, two sectors recorded new orders growth, compared with only transport & storage in the previous month.
- Transport & storage posted the strongest new orders outcome for a second consecutive month. Personal & recreational services was the only other sector to report an expansion in new business.
- The heaviest declines in new orders were in the retail trade; communication services; and wholesale trade sectors.
- New orders also fell solidly in the health & community services; finance & insurance; property & business services; and accommodation, cafés & restaurants sectors.

## EMPLOYMENT AND WAGES

- Employment fell further in February, although at a slower pace than in the previous month, with the seasonally adjusted sub-index rising 2.2 points to 47.9.
- On an unadjusted basis, employment rose in two sectors, transport & storage and personal & recreational services, the same number as in January.
- The largest falls in employment were in retail trade and the business-related sectors of property & business services and communication services.
- Elsewhere, the health & community services recorded a seventh consecutive month without jobs growth, while employment fell further in wholesale trade.
- Employment was unchanged in accommodation, cafés & restaurants and finance & insurance.
- Average wages growth eased in February, with the unadjusted sub-index falling 2.8 points to 55.9.

## STOCKS

- Inventories of finished goods were built up slightly in February; following three months of falls, with the seasonally adjusted sub-index jumping 9.8 points to 50.7.
- In unadjusted terms, stocks expanded in the finance & insurance sector and were steady in wholesale trade and transport & storage.
- Stocks were rundown most significantly in personal & recreational services and retail trade.
- The property & business services sector reported a fourth consecutive month of falling stocks.
- The depletion in inventories slowed considerably in the accommodation, cafés & restaurants; health & community services; and communication services sectors.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Following solid falls in December and January, deliveries were broadly steady in the month, with the seasonally adjusted sub-index lifting 3.3 points to 49.5.
- Unadjusted, deliveries grew in accommodation, cafés & restaurants and were unchanged in retail trade; finance & insurance; and health & community services.
- For a second successive month, communication services and personal & recreational services were amongst the sectors reporting the heaviest falls.
- Significant declines were also reported in the property & business services and wholesale trade sectors.
- Growth in input costs moderated in February, the seasonally adjusted sub-index falling 1.1 points to 62.0.
- Unadjusted, input cost increases accelerated in four sectors, most notably in accommodation, cafés & restaurants.
- Selling prices growth picked-up in the month, with the sub-index increasing by 2.1 points to 52.3.

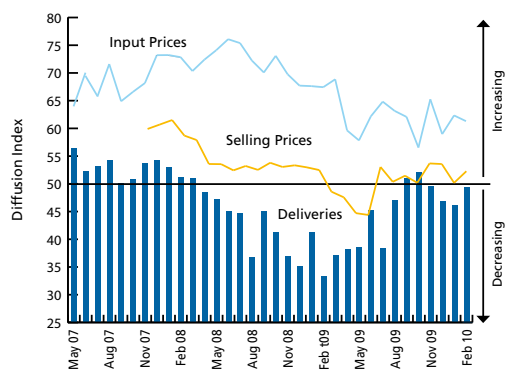
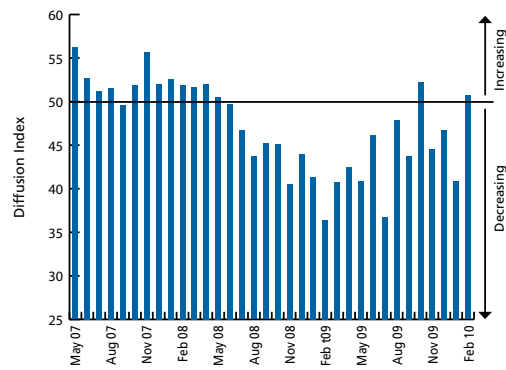
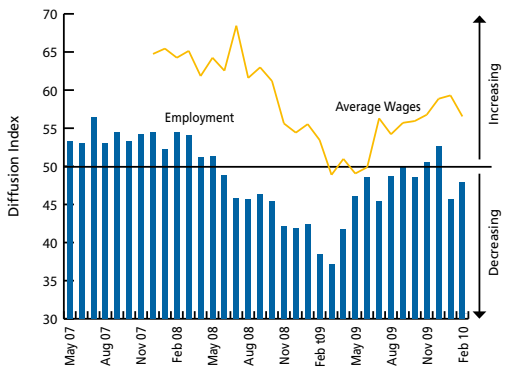
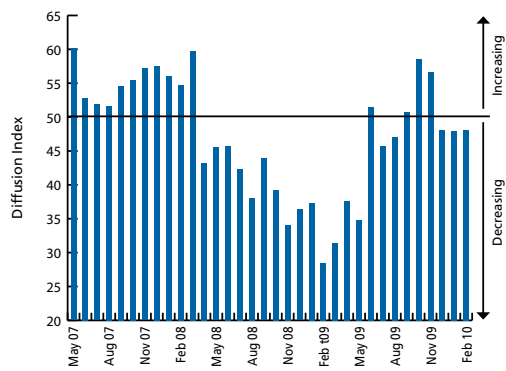
## AUSTRALIAN PSI®\*

	February 2010	January 2010	Monthly Change	Direction	Rate of Change	Trend** (Months)
<b>AUSTRALIAN PSI®</b>	48.3	47.4	+0.9	Contracting	Slower	2
<b>SALES</b>	47.3	51.7	-4.4	Contracting	From expanding	1
<b>NEW ORDERS</b>	48.1	48.0	+0.1	Contracting	Slower	3
<b>EMPLOYMENT</b>	47.9	45.7	+2.2	Contracting	Slower	2
<b>SUPPLIER DELIVERIES</b>	49.5	46.2	+3.3	Contracting	Slower	4
<b>INVENTORIES</b>	50.7	40.9	+9.8	Expanding	From contracting	1
<b>INPUT PRICES</b>	62.0	63.1	-1.1	Expanding	Slower	85
<b>SELLING PRICES</b>	52.3	50.2	+2.1	Expanding	Faster	8
<b>WAGES</b>	55.9	58.7	-2.8	Expanding	Slower	8
<b>CAPACITY UTILISATION (%)</b>	76.2	74.0	+2.2 % pts	Expanding	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.



## 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](http://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®.



## CONTACT

**Heather Ridout**  
Chief Executive,  
Ai Group  
work 02 9466 5504

**John Peters**  
Senior Economist  
Commonwealth Bank  
work 02 9117 0112  
mobile 0410 482 500

**Markit Economics**  
[www.markiteconomics.com](http://www.markiteconomics.com)

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