AUSTRALIAN PSI

PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

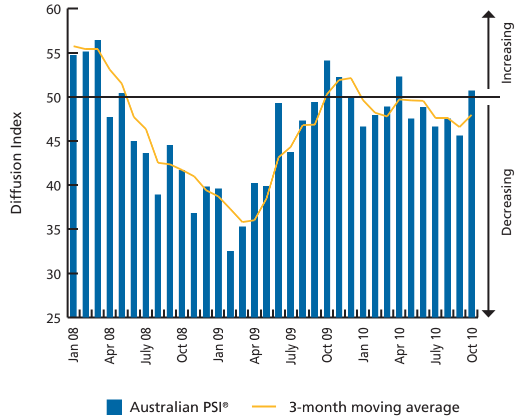
Commonwealth Bank

OCTOBER 2010

SERVICES SECTOR LIFTS IN OCTOBER

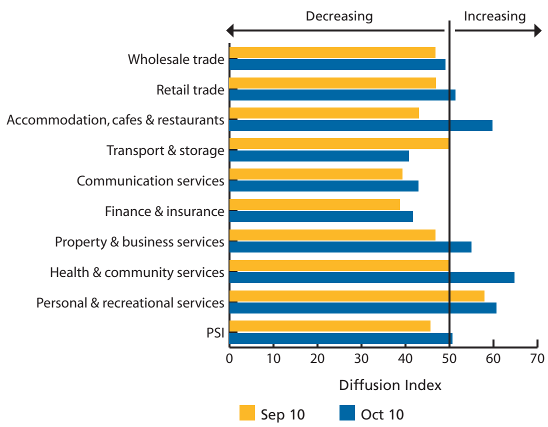
KEY FINDINGS

- The services sector expanded in October for the first time since April, with the latest seasonally adjusted Australian Industry Group/ Commonwealth Bank Australian Performance of Services Index **(Australian PSI®)** rising 5.1 points to 50.7. This is marginally above the critical 50 point level separating expansion from contraction.
- Sales and new orders in the services sector both expanded in October.
- Activity in the retail and wholesale sub-sectors has improved steadily over recent months, which is a positive sign for consumer spending in the December quarter 2010.
- The average wages, selling prices and input prices sub-indices have remained relatively stable since the start of the year, and are well below the levels recorded before the global financial crisis (GFC). This is consistent with the relatively modest pace of underlying inflation seen over the past six months.



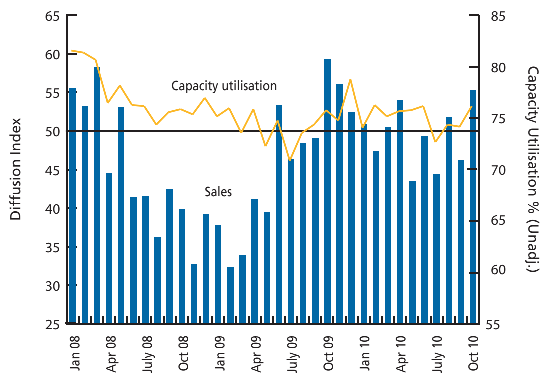
SECTORS

- Activity improved across most services sectors in October.
- In particular, activity expanded strongly in the health & community services, property & business services, and hospitality sub-sectors.
- The transport & storage sector was the only sub-sector to record weaker conditions in October.
- Conditions in the retail and wholesale sub-sectors have picked up steadily over the past few months.
- However, activity in the finance & insurance, communication services, and transport & storage sub-sectors remains weak.

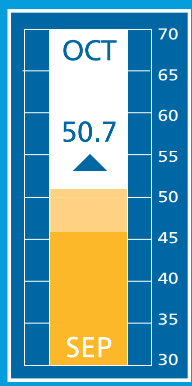


SALES AND CAPACITY

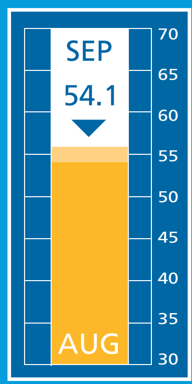
- Sales expanded in the services sector in October with the sales component of the Australian PSI® increasing by 9.0 points to 55.3.
- The monthly rise in the sales component of the Australian PSI® reflected solid sales growth across a number of sub-sectors, including the retail, wholesale, and hospitality sectors.
- This was partly offset by a fall in sales in the transport & storage sub-sector. Overall, sales are currently weakest in the finance & insurance sector.
- Capacity utilisation increased to 76.1% in October, and is currently around the average level recorded since the start of 2009.



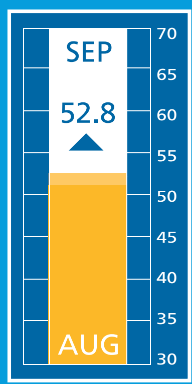
AUSTRALIAN PSI®



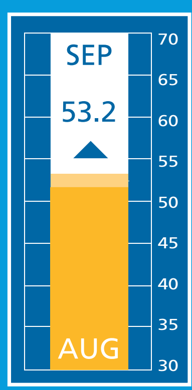
EUROZONE SERVICES INDEX



UK SERVICES INDEX

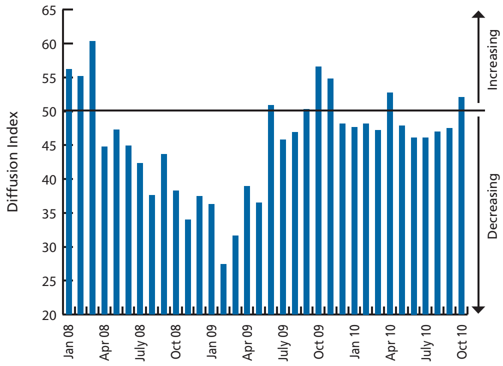


USA SERVICES INDEX



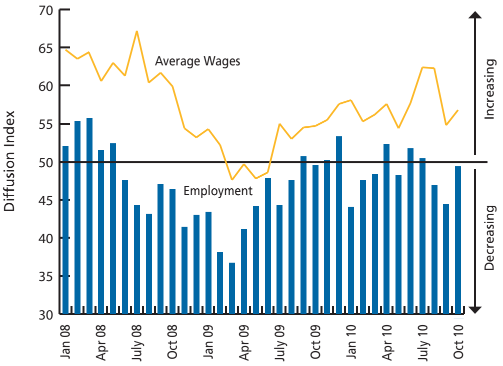
NEW ORDERS

- New orders expanded in the services sector in October, with the new orders component of the Australian PSI® increasing by 4.6 points to 52.1.
- The monthly rise in the new orders component of the Australian PSI® reflected solid orders growth across a number of sub-sectors including the retail, hospitality and health & community services sectors.
- This was partly offset by falling order levels in the transport & storage and personal & recreational services sub-sectors.
- Overall, new orders are weakest in the finance & insurance and transport & storage sub-sectors.



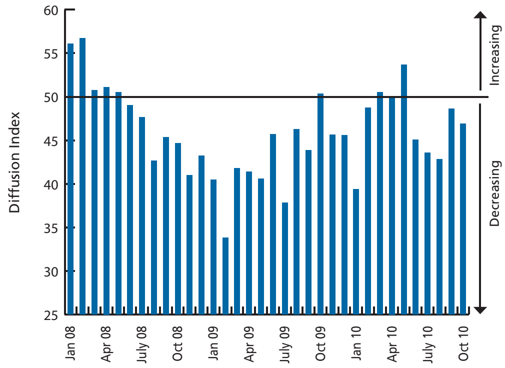
EMPLOYMENT AND WAGES

- Employment in the services sector contracted at a significantly slower pace in October.
- The employment component of the Australian PSI® increased to 49.4 in October, though has remained below 50.0 for three consecutive months.
- Employment conditions improved across a number of sub-sectors in the month, including the retail and hospitality sectors.
- Overall, employment is currently contracting most heavily in the wholesale and transport & storage sub-sectors.
- Wages growth in the services sector remains relatively modest compared to the period before the GFC. The wages sub-index picked up modestly in October and has remained relatively stable since the start of the year.



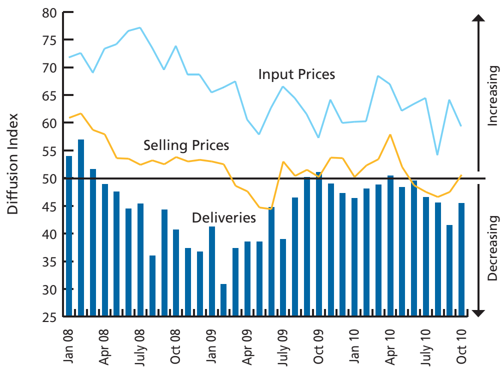
STOCKS

- Firms in the services sector continue to run-down inventories.
- The stocks component of the Australian PSI® eased back to 46.9 in October, and has remained below 50.0 for five consecutive months.
- Stocks are reported to be declining most sharply in the wholesale and communication services sub-sectors.
- On the other hand, the retail and hospitality sub-sectors report growing inventory levels.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Supplier deliveries continue to contract in the services sector.
- The supplier deliveries sub-index rose modestly in October, though has been below 50.0 for nine of the past ten months.
- Supplier deliveries are contracting most heavily in the communication services and finance & insurance sub-sectors.
- Input price growth in the services sector remains relatively modest compared to the period before the GFC. The input prices sub-index fell by 4.8 points in October to 60.1, and has remained relatively stable since the start of 2009.
- The average selling prices sub-index has picked up over the past three months and recorded 50.6 in October. Consistent with the input prices index, selling price growth is reported to be relatively modest compared to the period before the GFC.



AUSTRALIAN PSI®*

	Oct 2010	Sep 2010	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	50.7	45.6	5.1	Expanding	From contracting	1
SALES	55.3	46.3	9.0	Expanding	From contracting	1
NEW ORDERS	52.1	47.5	4.6	Expanding	From contracting	1
EMPLOYMENT	49.4	44.4	5.0	Contracting	Slower	3
SUPPLIER DELIVERIES	45.5	41.5	3.9	Contracting	Slower	6
INVENTORIES	46.9	48.6	-1.7	Contracting	Faster	5
INPUT PRICES	60.1	64.9	-4.8	Expanding	Slower	93
SELLING PRICES	50.6	47.5	3.1	Expanding	From contracting	1
WAGES	57.4	55.4	2.0	Expanding	Faster	16
CAPACITY UTILISATION (%)	76.1	74.1	2.0	Increase	na	na

* Australian PSI® data is seasonally adjusted for sales, new orders, employment, supplier deliveries, inventories and input prices.
** Number of months moving in current direction.
Results are based on the responses of around 200 companies. Forward seasonal factors were generated by the ABS in April 2010.

AUSTRALIAN INDUSTRY GROUP

Commonwealth Bank

Supported by:
markit

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 website 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

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

AIG9296