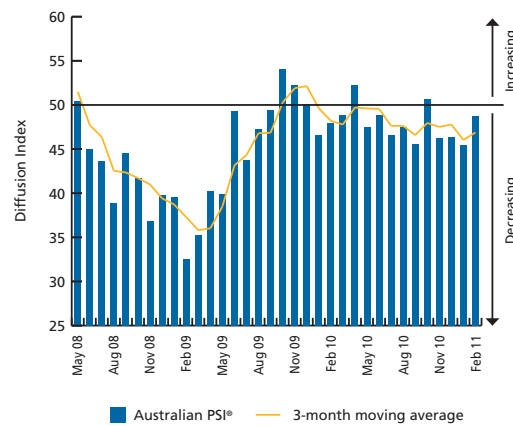


SERVICES SECTOR DECLINE EASES IN FEBRUARY

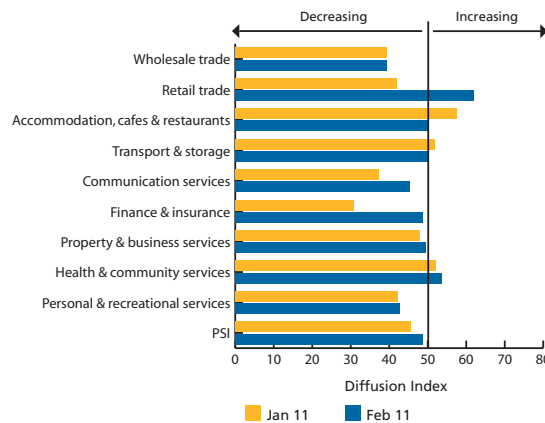
KEY FINDINGS

- The pace of decline eased in the services sector in February, with the latest seasonally adjusted Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (**Australian PSI®**) lifting 3.2 points to 48.7 (readings below 50 indicate a contraction in activity).
- While sales levels in the services sector were reported to have increased in February, new order levels, employment and deliveries continued to decline.
- Activity remains most subdued in Queensland following recent flooding and Cyclone Yasi, while Victoria performed relatively well despite recent flooding in some areas of the state.
- In trend terms, the **Australian PSI®** has gradually declined over the past 12 months, and has remained below the critical 50 point level separating expansion from contraction.
- Consistent with this, the average selling prices and average wages indices have remained relatively stable over recent months, and are well below the levels recorded before the global financial crisis.



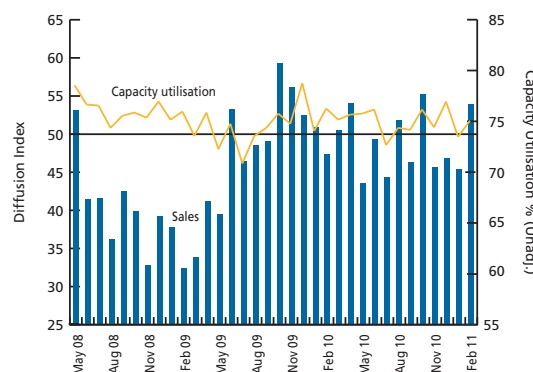
SECTORS

- Seasonally adjusted, four of the nine service sub-sectors reported that activity expanded in February, up from three in January.
- The activity index of the retail trade sub-sector increased strongly in the month, driven by strong sales growth.
- The activity indices of the professional services sub-sectors also picked up in the month, though these sectors continued to report declining activity levels.
- In trend terms, the gradual decline of the **Australian PSI®** over the past 12 months has largely reflected falling activity levels in the communication services and finance & insurance sub-sectors.
- To some extent, declining activity levels in these sectors have been offset by improved conditions in the hospitality and health & community services sub-sectors.

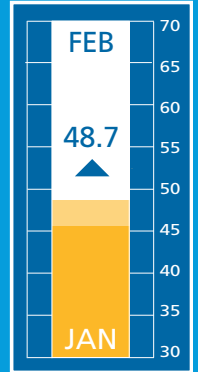


SALES AND CAPACITY

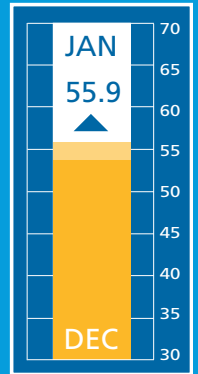
- The sales component of the **Australian PSI®** rose strongly in February, increasing by 8.5 points to 53.9.
- Sales growth was commonly reported across the services sector in February, with only three of the nine services sub-sectors reporting declining sales levels.
- The strongest sales growth was reported in the retail trade, hospitality and transport & storage sub-sectors during February.
- In contrast, sales were reported to have declined sharply in the wholesale and personal & recreational services sub-sectors.
- Capacity utilisation in the services sector (which is not seasonally adjusted) increased to 75.0% in February, to be around the average level recorded since the start of 2009.
- During February, capacity utilisation was highest in the retail trade and finance & insurance sub-sectors, and lowest in the communication services sub-sector.



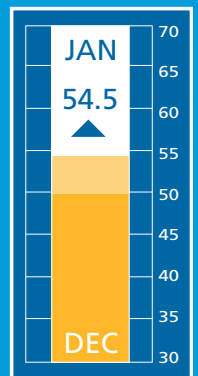
AUSTRALIAN PSI®



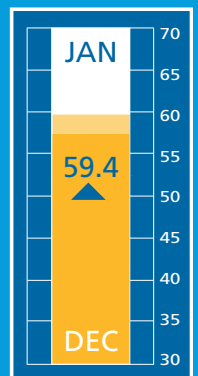
EUROZONE SERVICES INDEX



UK SERVICES INDEX



USA SERVICES INDEX



NEW ORDERS

- New order levels in the services sector declined once again in February, although the pace of decline eased.
- The new orders component of the **Australian PSI®** increased by 7.7 points to 47.4 in February, though has remained below the 50 point level separating expansion from contraction for nine of the past 10 months.
- Retail trade and property & business services were the only two sub-sectors to increase new order levels during the month.
- New orders declined particularly sharply in the wholesale trade, communication services and personal & recreational services sub-sectors in February.
- Overall, the finance & insurance and communication services sub-sectors have recorded the sharpest falls in new order levels over recent months.

EMPLOYMENT AND WAGES

- Employment in the services sector fell for the seventh consecutive month.
- The employment component of the **Australian PSI®** fell by 0.2 points to 47.8 in February.
- Employment declines were widespread across the services sector during February, with only two of the nine services sub-sectors recording employment growth in the month.
- In contrast, employment has grown in the transport & storage sub-sector for three consecutive months.
- In February, the average wages sub-index increased by 0.8 points to 57.1.
- In trend terms, wage growth has been relatively stable across most services sub-sectors over the past 12 months.
- The property & business services sub-sector is one of the few sub-sectors to have reported a gradual increase in wages growth over the past year.

STOCKS

- Inventory levels in the services sector continue to decline.
- The stocks component of the **Australian PSI®** fell by 0.8 points in February, and has remained below the 50 point level separating expansion from contraction for nine consecutive months.
- Most service sub-sectors have reported declining inventory levels over this period, and more recently, in the month of February.
- In particular, inventory levels did not grow in any services sub-sector in February.
- Stock levels fell particularly sharply in the retail trade and finance & insurance sub-sectors in the month.
- The personal & recreational services sub-sector also reported a sharp fall in stock levels during February, and has seen the sharpest falls in stock levels over recent months.

DELIVERIES, INPUT COSTS AND SELLING PRICES

- Supplier deliveries to the services sector continued to decline in February.
- The supplier deliveries component of the **Australian PSI®** fell by 4.7 points to 46.3, and is now broadly in line with the levels recorded in the December quarter 2010.
- Input price growth remained relatively strong in February compared to the rates reported over the second half of 2010.
- The input prices index fell by 0.4 points in February to 67.9.
- The average selling prices index increased by 3.0 points to 50.7 in February, and has hovered around the 50 point level separating contraction from expansion for the past five months.
- In principle, the average selling price index of the retail sub-sector should be a good guide to developments in CPI inflation. This index has generally remained below the 50 point level separating expansion from contraction over the past six to 12 months.

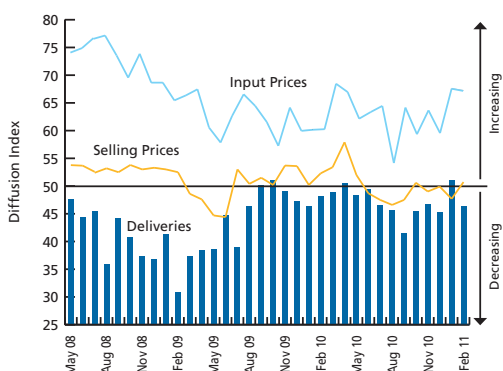
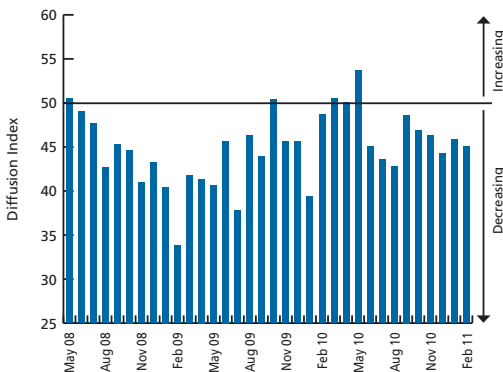
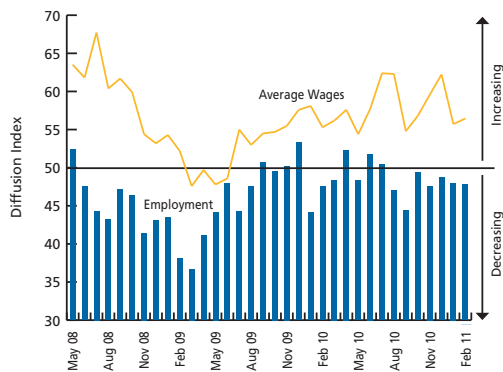
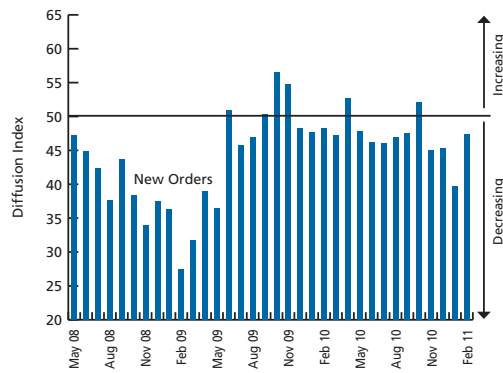
AUSTRALIAN PSI®*

	February 2011	January 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	48.7	45.5	3.2	Contracting	Slower	4
SALES	53.9	45.4	8.5	Expanding	From contracting	1
NEW ORDERS	47.4	39.7	7.7	Contracting	Slower	4
EMPLOYMENT	47.8	48.0	-0.2	Contracting	Faster	7
SUPPLIER DELIVERIES	46.3	51.0	-4.7	Contracting	From expanding	1
INVENTORIES	45.0	45.8	-0.8	Contracting	Faster	9
INPUT PRICES	67.9	68.3	-0.4	Expanding	Slower	97
SELLING PRICES	50.7	47.7	3.0	Expanding	From contracting	1
WAGES	57.1	56.3	0.8	Expanding	Faster	20
CAPACITY UTILISATION (%)	75.0	73.4	1.6			na

Results are based on the responses of around 200 companies. Forward seasonal factors were generated by the ABS in April 2010.

* 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 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

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