AUSTRALIAN

psi

PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

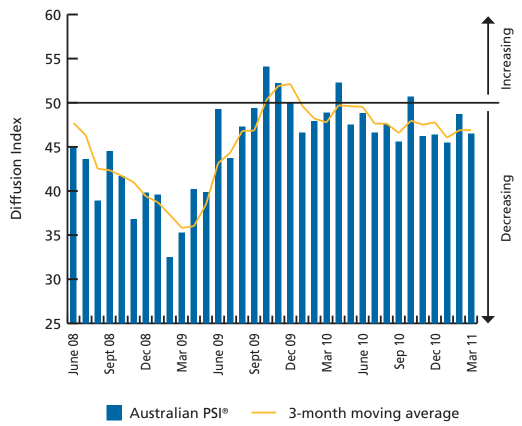
Commonwealth Bank

MARCH 2011

THE SERVICES SECTOR REMAINS SLOW

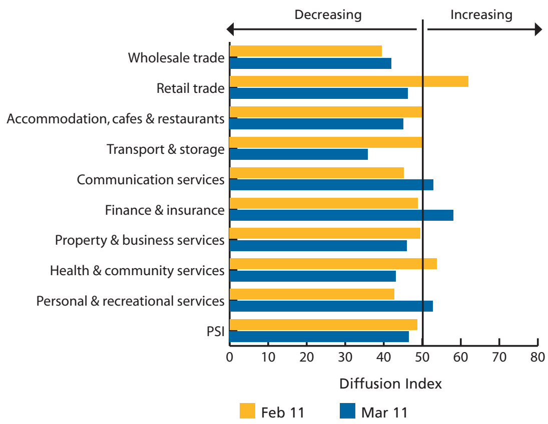
KEY FINDINGS

- The services sector remained in the slow lane in March, with the latest seasonally adjusted Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (**Australian PSI®**) falling 2.2 points to 46.5.
- The monthly fall in the **Australian PSI®** was driven by solid declines in the activity indices of the retail trade and transport & storage sub-sectors.
- While the **Australian PSI®** has gradually declined over the past 12 months, both the input prices and average selling prices indices have picked up since the start of the year and are now both at their highest levels in almost 12 months.
- Higher input price growth has so far been concentrated in the wholesale trade, retail trade, hospitality and transport & storage sub-sectors.
- Both the wholesale trade and retail trade sub-sectors have also reported rising selling price growth since the start of the year.
- The recent rise in the input prices and average selling prices indices may partly reflect the impact of natural disasters on fruit and vegetable crops and recent petrol price increases.



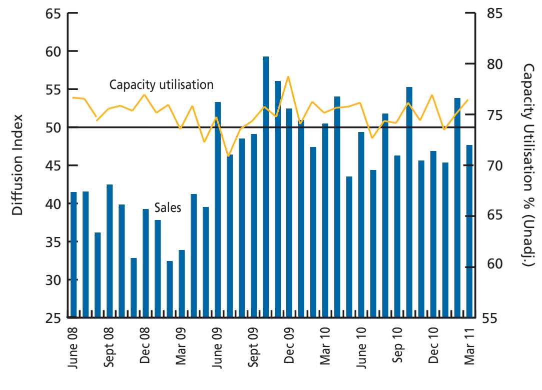
SECTORS

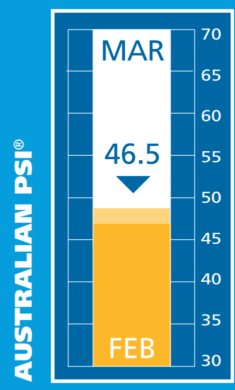
- Seasonally adjusted, three of the nine services sub-sectors reported expansions in activity in March, down from four in February.
- The activity index of the retail trade sub-sector fell back in March after increasing strongly in February.
- The gradual decline in the **Australian PSI®** over recent months has, until recently, largely reflected activity in the communication services and finance & insurance sub-sectors.
- Since the start of the year, the activity indices of these sectors have risen, with both sectors reporting increased activity levels in March.
- The recent improvement reported by these sectors since the start of the year has, however, been largely offset by weaker activity in the transport & storage and hospitality (accommodation, cafes & restaurants) sub-sectors.

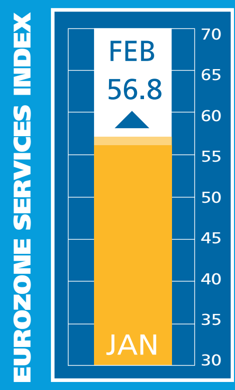


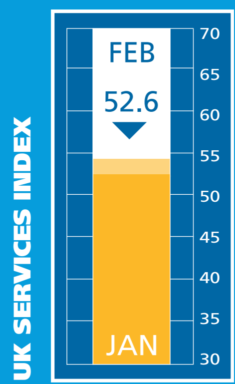
SALES AND CAPACITY

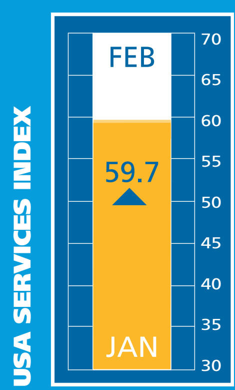
- The sales component of the **Australian PSI®** fell back in March, after increasing strongly in February.
- The sales sub-index fell by 6.2 points to 47.7.
- Sales declines were fairly broad-based across the services sector in March, with only three of the nine services sub-sectors recording sales growth.
- Sales in the wholesale trade, transport & storage, and health & community services sub-sectors all declined sharply in the month.
- While the finance & insurance and communication services sub-sectors have recorded the sharpest falls in sales levels over recent months, both of these sectors saw a sharp rise in their respective indices in March.
- Capacity utilisation in the services sector (which is not seasonally adjusted) increased to 76.4% in March, to be around the average level recorded since the start of 2010.











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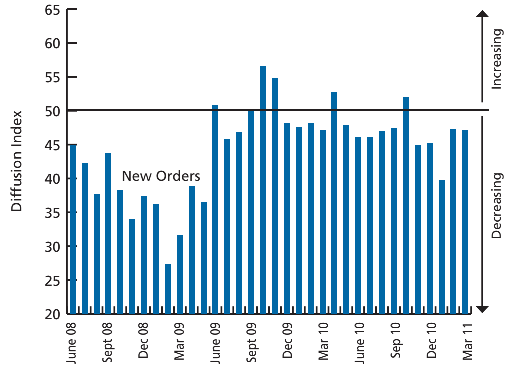
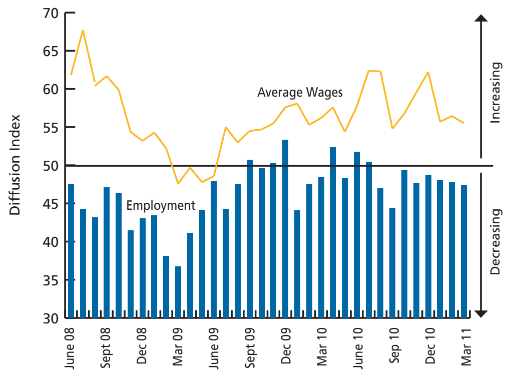
NEW ORDERS

- New orders to the services sector have contracted in nine of the past 10 months.
- The new orders component of the **Australian PSI®** fell by 0.2 points to 47.2 in March.
- Personal & recreational services was the only services sub-sector to record growth in new order levels in March.
- Declines in new order levels were particularly sharp in the wholesale trade and health & community services sub-sectors during the month.
- While the finance & insurance and communication services sub-sectors have recorded the sharpest falls in new order levels over recent months, both sub-sectors saw a sharp rise in their respective indices in March.



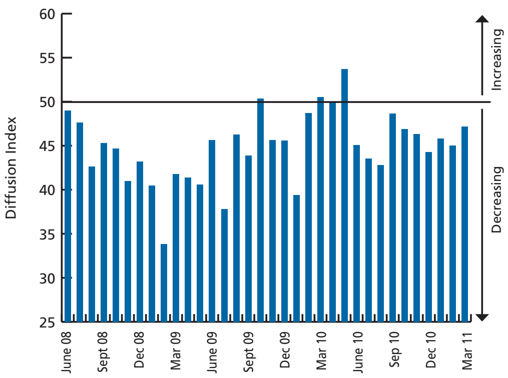
EMPLOYMENT AND WAGES

- Employment in the services sector fell for the eighth consecutive month.
- The employment component of the **Australian PSI®** fell by 0.4 points to 47.4 in March.
- Weak employment outcomes were broad-based across the services sector in March, with only two of the nine services sub-sectors recording employment growth in the month.
- The average wages sub-index fell by 1 point to 56.1 in March.
- In trend terms, wage growth has been relatively stable over the past 12 months.
- Most service sub-sectors have reported stable wages growth over this period. The one exception has been the property & business services sub-sector which has recorded a gradual increase in average wages growth over the past six months.



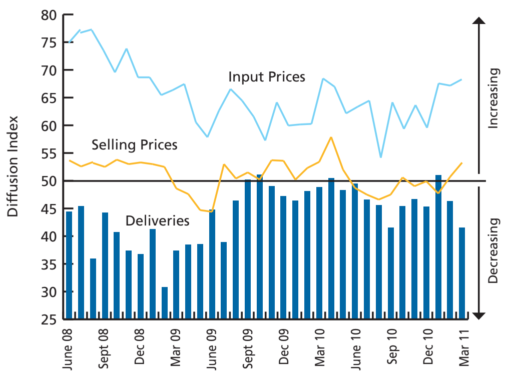
STOCKS

- Inventory levels in the services sector continue to decline.
- The stocks component of the **Australian PSI®** increased by 2.4 points in March, though has remained below the 50 point level separating expansion from contraction for 10 consecutive months.
- Declining stock levels have been commonly reported by most service sub-sectors during this period.
- Only two service sub-sectors recorded growth in inventory levels during March.
- Stock levels fell particularly sharply in the retail trade and the transport & storage sub-sectors.
- The personal & recreational services sub-sector has seen the sharpest falls in stock levels over recent months.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries to the services sector fell sharply in March.
- The supplier deliveries component of the **Australian PSI®** fell by 4.8 points to 41.5, which is broadly in line with the levels recorded following the global financial crisis.
- The input prices index increased by 1.1 points in March to 69.0, which is noticeably above the average level recorded over the past six months.
- Input price growth picked up solidly in the hospitality and personal & recreational services sub-sectors in the month.
- The average selling prices index increased by 2.6 points to 53.3 in March, and has increased strongly over the past two months.
- In particular, the average selling price index of the retail trade sub-sector has picked up strongly since the start of the year, after remaining broadly stable over the previous six to 12 months.



AUSTRALIAN PSI®*

	March 2011	February 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	46.5	48.7	-2.2	Contracting	Faster	5
SALES	47.7	53.9	-6.2	Contracting	From expanding	1
NEW ORDERS	47.2	47.4	-0.2	Contracting	Faster	5
EMPLOYMENT	47.4	47.8	-0.4	Contracting	Faster	8
SUPPLIER DELIVERIES	41.5	46.3	-4.8	Contracting	Faster	2
INVENTORIES	47.4	45.0	2.4	Contracting	Slower	10
INPUT PRICES	69.0	67.9	1.1	Expanding	Faster	98
SELLING PRICES	53.3	50.7	2.6	Expanding	Faster	2
WAGES	56.1	57.1	-1.0	Expanding	Slower	21
CAPACITY UTILISATION (%)	76.4	75.0	1.4	Increase		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®.

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