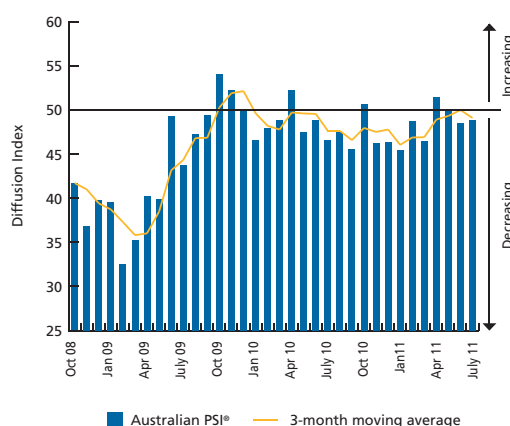


SERVICES SECTOR SUBDUED IN JULY

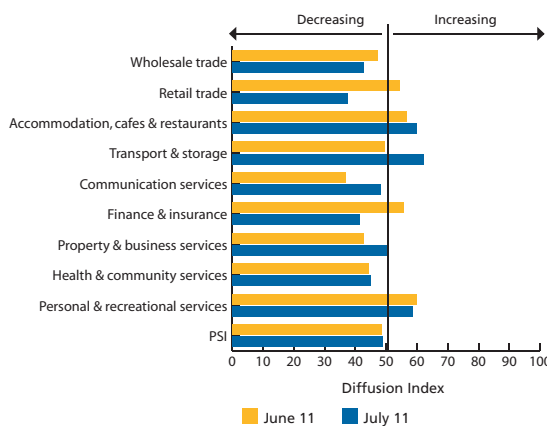
KEY FINDINGS

- The services sector contracted in July, with the latest seasonally adjusted Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (**Australian PSI®**) rising by 0.3 points to 48.8 (readings below 50 indicate a contraction in activity).
- The **Australian PSI®** has remained below the critical 50 point level separating expansion from contraction for 10 of the past 12 months.
- Nonetheless, in 3-month-moving-average terms, the **Australian PSI®** has picked up since the start of the year.
- This has reflected gradual increases in the sales and new orders components of the index, with new order levels stabilising in the services sector over recent months.
- The improvement in sales and new order levels has been largely concentrated in Queensland following recent natural disasters.
- In July, Western Australia and Queensland recorded the strongest service sector activity levels, which may reflect activity in the resources sector.



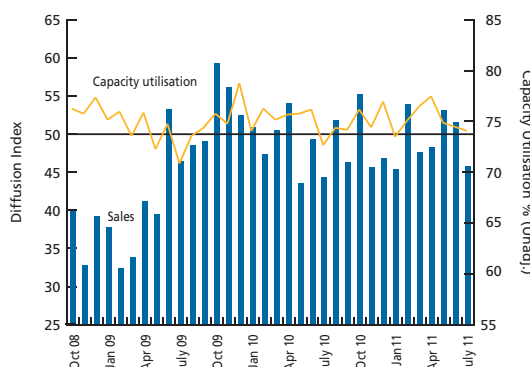
SECTORS

- Seasonally adjusted, 4 of the 9 services sub-sectors reported that activity increased in July, unchanged from June.
- Activity levels in the retail and wholesale trade sub-sectors were relatively weak during the month, while activity in the hospitality and personal & recreational services sub-sectors increased solidly.
- Activity in the transport & storage sub-sector also grew solidly in July.
- Ai Group members have reported that slowing commercial construction activity and property sales has recently contributed to weaker levels of activity.
- Two additional factors cited as hindering activity in July were uncertainty surrounding a carbon tax and interest rates.
- On the other hand, a number of members cited the benefits of mining sector activity on their business.

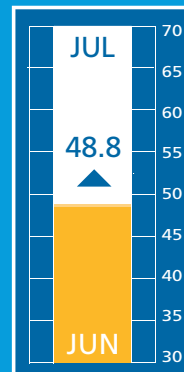


SALES AND CAPACITY

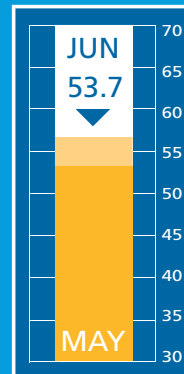
- Services sector sales fell in July, following two consecutive months of strong growth.
- The sales component of the **Australian PSI®** fell by 5.7 points to 45.9.
- This reflected sales declines in the retail, wholesale trade, and finance & insurance sub-sectors.
- The personal & recreational services sub-sector was the only services sub-sector to record an increase in sales levels during July.
- Capacity utilisation in the services sector (which is not seasonally adjusted) eased to 74.0% in July, and remains in line with the average level recorded since the start of 2010.
- Capacity utilisation has been highest in the property & business services, health & community, and personal & recreational services sub-sectors.



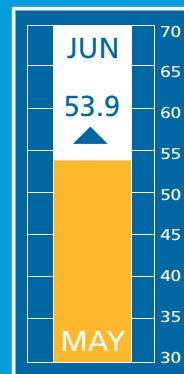
AUSTRALIAN PSI®



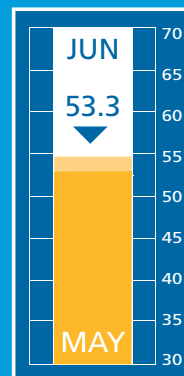
EUROZONE SERVICES INDEX



UK SERVICES INDEX

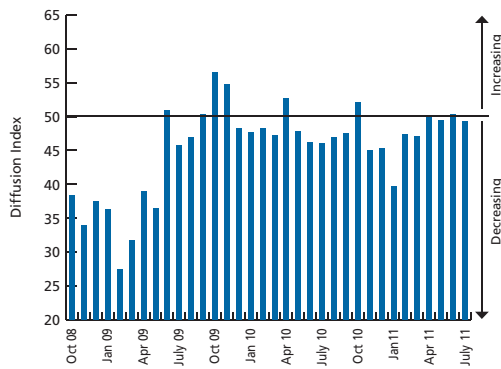


USA SERVICES INDEX



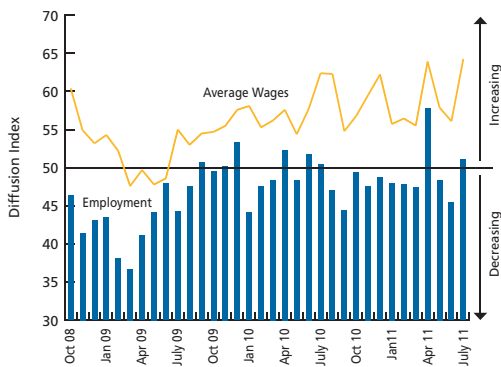
NEW ORDERS

- New orders appear to have stabilised in the services sector over recent months.
- In July, the new orders component of the **Australian PSI®** eased to 49.3.
- This is the fourth consecutive month that the new orders sub-index has been around the 50 point level separating expansion from contraction.
- The transport & storage and personal & recreational services sub-sectors recorded the strongest growth in new order levels during the month.
- On the other hand, new order levels fell relatively sharply in the retail and wholesale trade sub-sectors.



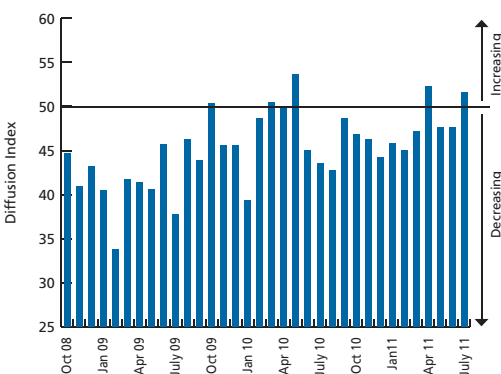
EMPLOYMENT AND WAGES

- The employment component of the **Australian PSI®** increased by 5.7 points to 51.1 in July.
- This is only the second month that employment levels have increased in the services sector over the past year.
- The rise in employment largely reflected strong employment growth in the personal & recreational services and transport & storage sub-sectors.
- On the other hand, employment levels declined in the retail trade and finance & insurance sub-sectors during the month.
- The average wages sub-index picked up to 64.9 in July.
- Abstracting from the recent monthly volatility, the wages sub-index suggests that services sector wages growth has increased modestly over the past 6 months.
- This partly reflects rising wages growth in the wholesale, retail trade and transport & storage sub-sectors.



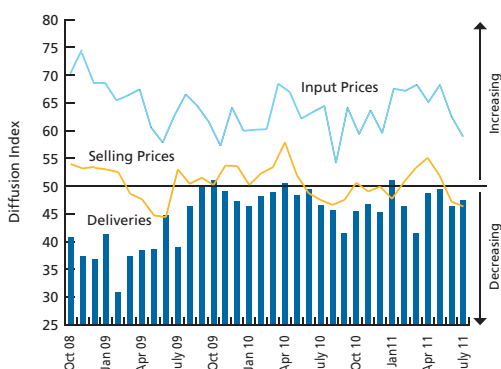
STOCKS

- Inventory levels in the services sector increased in July.
- The stocks component of the **Australian PSI®** rose 4.0 points to 51.6 in July.
- This is only the second month that stock levels have increased in the services sector over the past year, which highlights the scale of the de-stocking that has taken place over this period.
- The increase in stock levels during July was largely due to rising inventory levels in the professional service sub-sectors i.e. finance and insurance, property & business services and communication services sub-sectors.
- On the other hand, stock levels fell sharply in the personal & recreation services and wholesale trade sub-sectors.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries to the services sector fell further in July.
- The supplier deliveries component of the **Australian PSI®** increased by 1.0 point to 47.4, and has remained below the critical 50 point level separating expansion from contraction for 11 of the past 12 months.
- The input prices index fell by 3.6 points to 59.7 in July and has fallen sharply over the past 2 months. This has largely reflected slower input price growth in the wholesale trade and finance & insurance sub sectors.
- The selling prices index decreased by 0.9 points to 46.3 and has also fallen sharply in recent months.
- This has largely reflected falls in retail price inflation following the strong growth seen earlier in the year.



AUSTRALIAN PSI®*

	July 2011	June 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	48.8	48.5	0.3	Contracting	Slower	3
SALES	45.9	51.6	-5.7	Contracting	From expanding	1
NEW ORDERS	49.3	50.3	-1.0	Contracting	From expanding	1
EMPLOYMENT	51.1	45.4	5.7	Expanding	From contracting	1
SUPPLIER DELIVERIES	47.4	46.4	1.0	Contracting	Slower	6
INVENTORIES	51.6	47.6	4.0	Expanding	From contracting	1
INPUT PRICES	59.7	63.3	-3.6	Expanding	Slower	102
SELLING PRICES	46.3	47.2	-0.9	Contracting	Faster	2
WAGES	64.9	56.7	8.2	Expanding	Faster	25
CAPACITY UTILISATION (%)	74.0	74.4	-0.4			na

Results are based on the responses of around 200 companies. Forward seasonal factors were generated by the ABS in April 2011.

* 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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