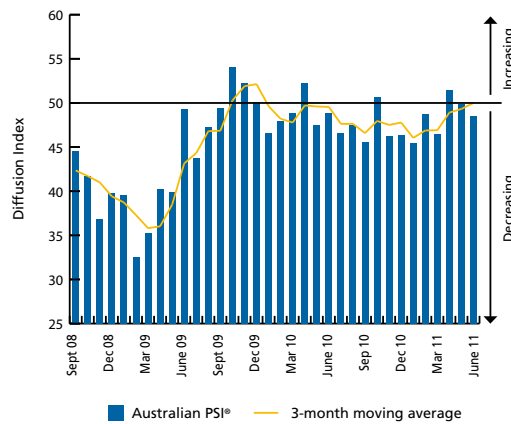


SERVICE SECTOR ACTIVITY REMAINS SUBDUED

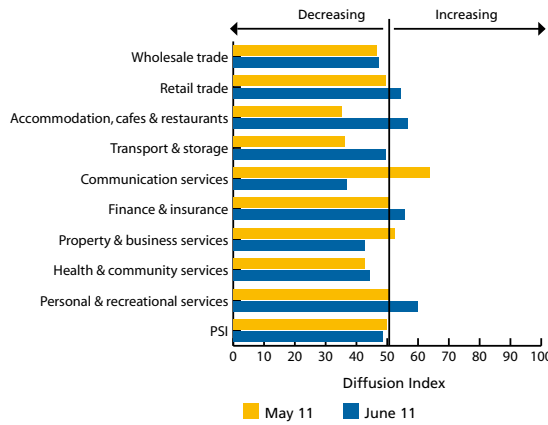
KEY FINDINGS

- The services sector contracted in June, with the latest seasonally adjusted Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (**Australian PSI[®]**) decreasing by 1.4 points to 48.5.
- 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 the sales sub-index rising above the critical 50 point level in May and June.
- On a state basis, Queensland recorded the strongest growth in activity during the June quarter, following the disruptions to activity caused by recent natural disasters.
- On the other hand, Ai Group members in Western Australian reported that activity has slowed somewhat from the high levels recorded at the start of the year.



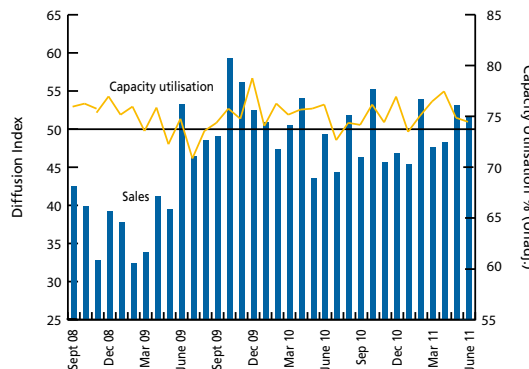
SECTORS

- Seasonally adjusted, four of the nine services sub-sectors reported that activity increased in June, unchanged from May.
- Activity levels in the service sub-sectors directly exposed to household spending (the retail trade, accommodation, cafes & restaurants, and personal & recreational service sub-sectors) expanded during the month.
- On the other hand, activity remained soft in other areas of the services sector such as wholesale trade, property & business services and transport & storage.
- Ai Group members from these sub-sectors reported that slowing commercial construction activity and property sales contributed to weaker levels of activity during the month.
- In addition, members from the property & business services and wholesale trade sub-sectors reported that the current uncertainty surrounding the introduction of a carbon tax was delaying some activity.

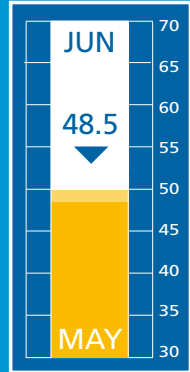


SALES AND CAPACITY

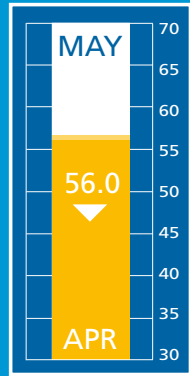
- Services sector sales increased in June.
- The sales component of the Australian PSI[®] fell by 1.6 points, though remained above the critical 50 point level separating expansion from contraction.
- The sales index has been gradually increasing over the past six months.
- This partly reflects improving order levels in the finance & insurance, personal & recreational services and property & business services sub-sectors.
- Capacity utilisation in the services sector (which is not seasonally adjusted) eased to 74.4% in June, to be in line with the average level recorded since the start of 2010.
- In the June quarter, capacity utilisation was highest in the property & business services, health & community, and personal & recreational services sub-sectors.



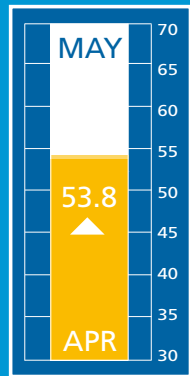
AUSTRALIAN PSI[®]



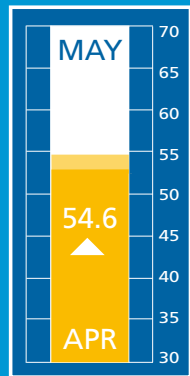
EUROZONE SERVICES INDEX



UK SERVICES INDEX



USA SERVICES INDEX



NEW ORDERS

- New orders to the services sector increased slightly in June.
- The new orders component of the Australian PSI® rose by 0.9 points to 50.3.
- This is the first monthly rise in new order levels since October last year.
- The new orders index has also been gradually increasing over the past six months.
- This partly reflects improving order levels in the finance & insurance, personal & recreational services and property & business services sub-sectors.
- On the other hand, new order levels have fallen relatively sharply in the accommodation, cafes, & restaurants and transport & storage sub-sectors.

EMPLOYMENT AND WAGES

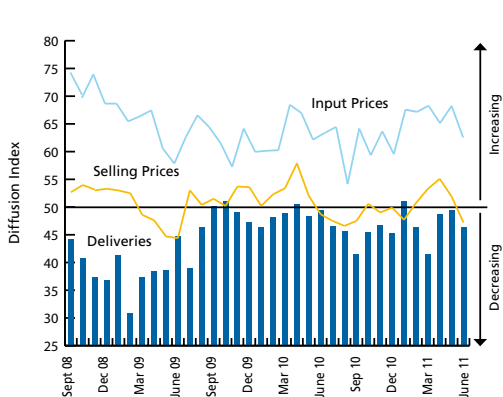
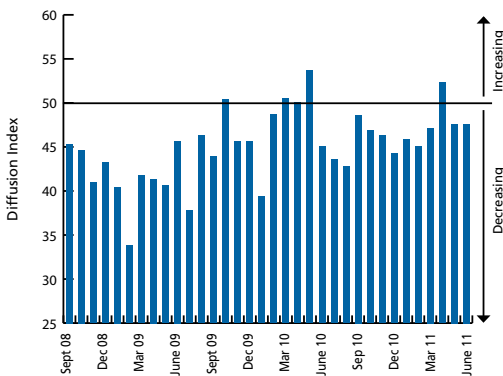
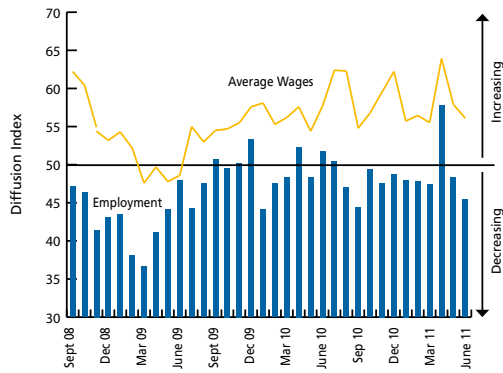
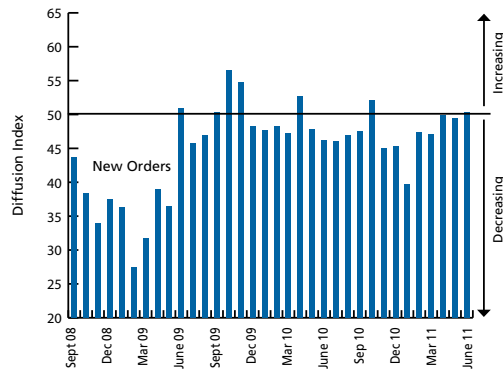
- The employment component of the Australian PSI® fell by 3.0 points to 45.4 in June, and has remained below the critical 50 point level separating expansion from contraction for 10 of the past 12 months.
- The wholesale trade and finance & insurance sub-sectors were the only two service industries to report that employment levels increased in June.
- Employment levels declined most noticeably in the property & business services and health & community services sub-sectors.
- The average wages sub-index eased back to 56.7 in June.
- Looking through the recent monthly volatility of the wages sub-index suggests that services sector wages growth has increased modestly over the past six months.
- This partly reflects rising wages growth in the wholesale trade and health & community services sub-sectors.

STOCKS

- Inventory levels in the services sector fell further in June.
- The stocks component of the Australian PSI® remained unchanged at 47.6 in June, and has remained below the critical 50 point level separating expansion from contraction for 11 of the past 12 months.
- This highlights the scale of the de-stocking that has taken place in the services sector over the past year.
- The transport & storage and retail trade sub-sectors have seen the sharpest falls in stock levels over recent months.
- On the other hand, stock levels have increased solidly in the communication services and finance & insurance sub-sectors over this period.

DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries to the services sector fell further in June.
- The supplier deliveries component of the Australian PSI® fell by 3.0 points to 46.4 in June, 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 5.7 points to 63.3 and has eased back towards the average level recorded over 2010.
- The average selling prices index decreased by 4.7 points to 47.2 in June.
- This is the first month the index has been below the critical 50 point level separating expansion from contraction since January 2011.
- The recent decline in the average selling prices index largely reflects a fall in retail price inflation following the strong growth seen earlier in the year.



AUSTRALIAN PSI®*

| | June 2011 | May 2011 | Monthly Change | Direction | Rate of Change | Trend** (Months) |
|---------------------------------|-----------|----------|----------------|-------------|------------------|------------------|
| AUSTRALIAN PSI® | 48.5 | 49.9 | -1.4 | Contracting | Faster | 2 |
| SALES | 51.6 | 53.2 | -1.6 | Expanding | Slower | 2 |
| NEW ORDERS | 50.3 | 49.4 | 0.9 | Expanding | From contracting | 1 |
| EMPLOYMENT | 45.4 | 48.4 | -3.0 | Contracting | Faster | 2 |
| SUPPLIER DELIVERIES | 46.4 | 49.4 | -3.0 | Contracting | Faster | 5 |
| INVENTORIES | 47.6 | 47.6 | 0.0 | Contracting | Faster | 2 |
| INPUT PRICES | 63.3 | 69.0 | -5.7 | Expanding | Slower | 101 |
| SELLING PRICES | 47.2 | 51.9 | -4.7 | Contracting | From expanding | 1 |
| WAGES | 56.7 | 58.5 | -1.9 | Expanding | Slower | 24 |
| CAPACITY UTILISATION (%) | 74.4 | 74.8 | | Decrease | | 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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