AUSTRALIAN

psi

PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

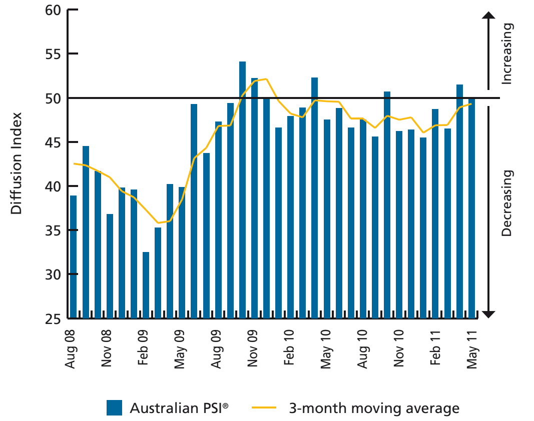
Commonwealth Bank

MAY 2011

SERVICES SECTOR ACTIVITY EASES IN MAY

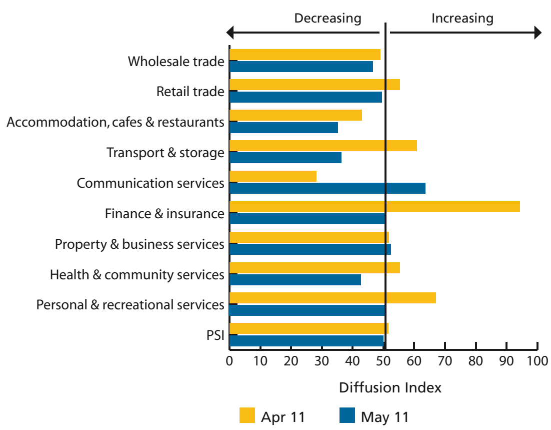
KEY FINDINGS

- Activity levels in the services sector eased slightly in May, following a solid increase in April.
- The latest seasonally adjusted Australian Industry Group/ Commonwealth Bank Australian Performance of Services Index **(Australian PSI®)** fell by 1.6 points to 49.9.
- A solid increase in sales in May was offset by declines in employment and stock levels.
- Respondents emphasised the influence of the multi-speed economy. A number of businesses reported that mining sector activity was boosting sales and employment, while other businesses cited the exchange rate and cautious household spending as hindering activity.
- Input price growth in May remained well above the average level recorded over 2010, while growth in average selling prices and wages eased back in the month.



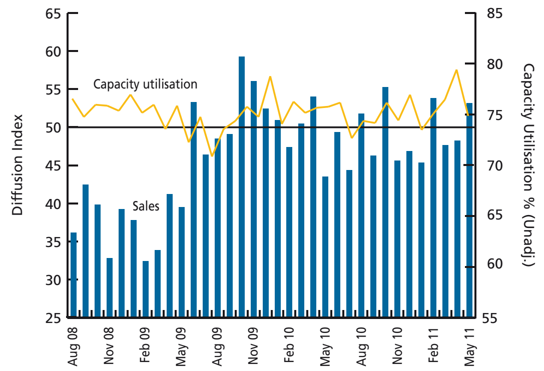
SECTORS

- Seasonally adjusted, four of the nine services sub-sectors reported that activity expanded in May, down from six in April.
- The communication services sub-sector was the only sector to record a tangible increase in its activity index in May.
- Activity levels in the professional service sub-sectors (which includes the finance & insurance, communication services and property & business services sub-sectors) increased during the month. This is a positive sign for business confidence and spending in the services sector.
- However, service sub-sectors exposed to household spending generally reported that activity contracted.
- On the other hand, conditions in the wholesale trade and communication services sub-sectors have been relatively soft.

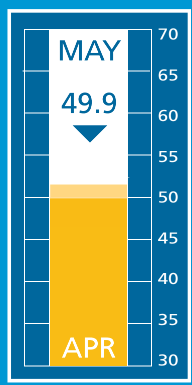


SALES AND CAPACITY

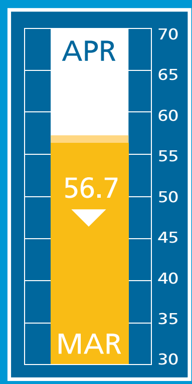
- The sales component of the **Australian PSI®** increased by 5.0 points to 53.2 in May.
- Retail sales fell solidly in the month, following three consecutive months of positive growth.
- Sales levels in the professional service sub-sectors increased in May, while service sub-sectors exposed to household spending generally reported that sales declined during the month.
- Capacity utilisation in the services sector (which is not seasonally adjusted) decreased to 74.8% in May, to be broadly in line with the average level recorded since the start of 2010.
- Since the start of the year, capacity utilisation has been highest in the retail trade, finance & insurance, and health & community services sub-sectors.
- On the other hand, capacity utilisation has been lowest in the wholesale trade, communication services and property & business services sub-sectors.



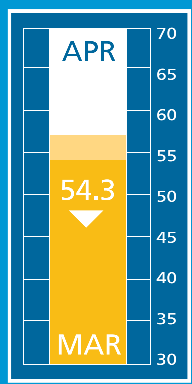
AUSTRALIAN PSI®



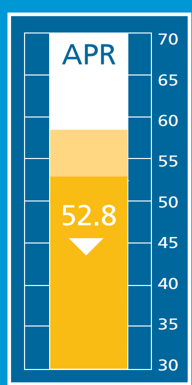
EUROZONE SERVICES INDEX



UK SERVICES INDEX

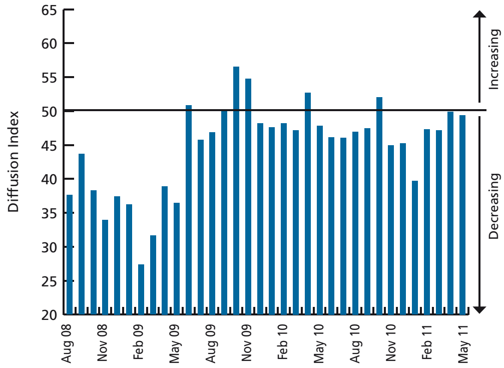


USA SERVICES INDEX



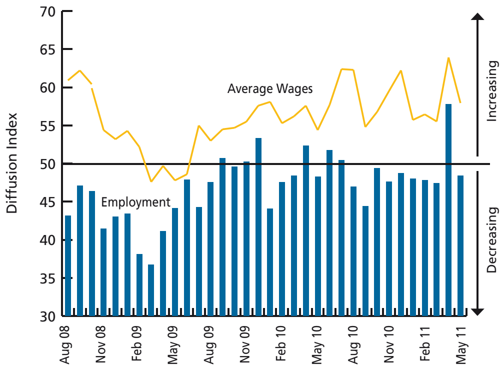
NEW ORDERS

- New order levels in the services sector were broadly unchanged in May.
- The new orders component of the **Australian PSI**® decreased by 0.5 points to 49.4.
- This is the seventh consecutive month that the new orders index has been below the critical 50 point level separating expansion from contraction.
- Growth in new order levels has been highest in the retail trade and property & business services sub-sectors since the start of the year.
- On the other hand, the finance & insurance and communication services sub-sectors have recorded the sharpest falls in new order levels over this period.



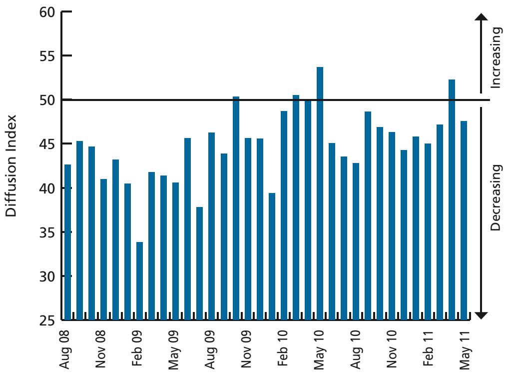
EMPLOYMENT AND WAGES

- Employment levels in the services sector declined in May, following a strong increase in April.
- The employment component of the **Australian PSI**® decreased by 9.4 points to 48.4 in May, to be slightly above the average levels recorded during the March quarter 2011.
- Employment levels in the professional service sub-sectors increased in May, while service sub-sectors exposed to household spending generally reported that employment levels declined during the month.
- The average wages sub-index fell by 6.0 points to 58.5 in May.
- Looking through the recent monthly volatility of the wages sub-index suggests that wages growth has been relatively stable over the past six months.
- Indeed, most service sub-sectors have reported relatively stable wages growth over this period.



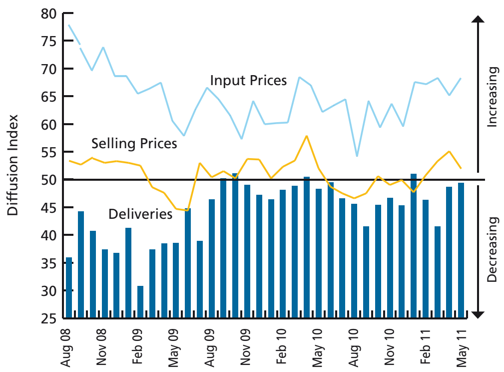
STOCKS

- Stock levels in the services sector declined in May, and have fallen in 11 of the past 12 months.
- The stocks component of the **Australian PSI**® decreased by 4.7 points in May to 47.6.
- The finance & insurance sub-sector was the only services sector to record an increase in stock levels in May.
- Stock levels fell particularly sharply in the hospitality, personal & recreational services and transport & storage sub-sectors during May.
- Since the start of the year, stock levels have declined at the fastest rate in the wholesale trade, retail trade and health & community sub-sectors.
- On the other hand, stock levels have recorded the strongest growth in the finance & insurance and communication services sub-sectors over this period.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries to the services sector fell further in May, though the rate of decline was smaller than that seen in April.
- The supplier deliveries component of the **Australian PSI**® increased by 0.7 points to 49.4.
- The input prices index increased by 3.1 points to 69.0 in May, and remains above the average level recorded over 2010.
- Input price growth was strongest in the transport & storage, wholesale trade and hospitality sub-sectors during May.
- The average selling prices index fell by 3.2 points to 51.9 in May.
- The recent increase in selling price growth in the services sector is likely to, in part, reflect the impact of natural disasters on fruit and vegetable crops.
- In particular, selling price growth has gradually increased in the wholesale trade sub-sector since the start of the year.



AUSTRALIAN PSI®*

	May 2011	April 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	49.9	51.5	-1.6	Contracting	From expanding	1
SALES	53.2	48.2	5.0	Expanding	From contracting	1
NEW ORDERS	49.4	49.9	-0.5	Contracting	Faster	7
EMPLOYMENT	48.4	57.8	-9.4	Contracting	From expanding	1
SUPPLIER DELIVERIES	49.4	48.7	0.7	Contracting	Slower	4
INVENTORIES	47.6	52.3	-4.7	Contracting	From expanding	1
INPUT PRICES	69.0	65.9	3.1	Expanding	Faster	100
SELLING PRICES	51.9	55.1	-3.2	Expanding	Slower	4
WAGES	58.5	64.5	-6.0	Expanding	Slower	23
CAPACITY UTILISATION (%)	74.8	79.3	-4.5	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.

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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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