psi AUSTRALIAN

PERFORMANCE OF SERVICES INDEX®

AUSTRALIAN INDUSTRY GROUP

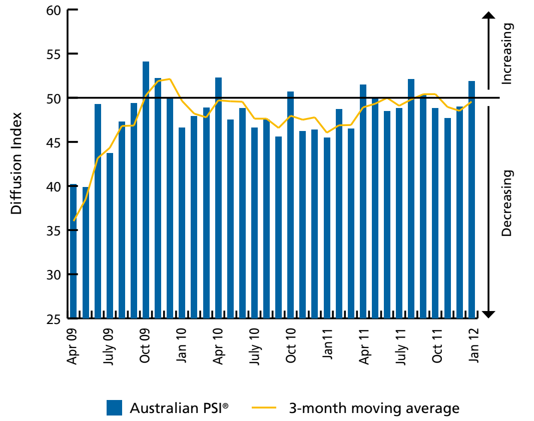
Commonwealth Bank

JANUARY 2012

SERVICES SECTOR LIFTS IN JANUARY

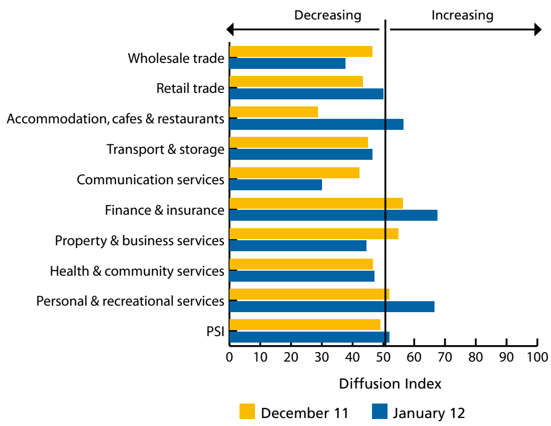
KEY FINDINGS

- The services sector lifted in January following three consecutive months of decline, with the latest seasonally adjusted Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (**Australian PSI®**) increasing 2.9 points to 51.9.
- The **Australian PSI®** was supported by solid growth in activity in the hospitality, finance & insurance, personal & recreational services sub-sectors.
- Conditions in the sector remain patchy however, with activity expanding in only three of the nine services sub-sectors in January, unchanged from December, and significant declines in activity (on a seasonally adjusted basis) reported in the wholesale trade, property & business and communication services sub-sectors.
- In six of the nine sub-sectors a majority of businesses reported deeper discounting of selling prices compared to a year ago.



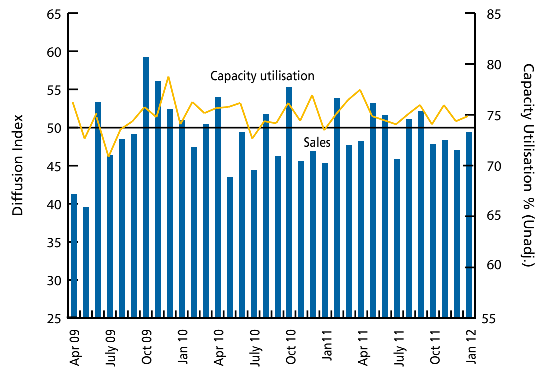
SECTORS

- Sub-sectors directly exposed to household spending generally reported positive trading conditions in January.
- In particular, activity in the hospitality and personal & recreational services sub-sectors grew solidly, while the activity index of the retail trade sub-sector also picked up in January to be broadly in line with the critical 50 point level separating expansion from contraction.
- On the other hand, activity declined solidly in the wholesale trade, property & business and communication services sub-sectors.
- Abstracting from seasonal factors affecting activity in January, respondents noted that uncertainty and low levels of consumer confidence continue to weigh on sales throughout the sector.

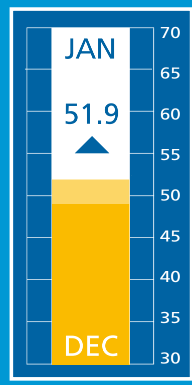


SALES AND CAPACITY

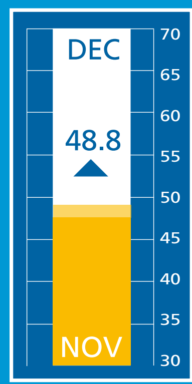
- On a seasonally adjusted basis, sales levels in the services sector were broadly unchanged in January, following three consecutive months of decline.
- The sales component of the **Australian PSI®** increased by 2.4 points to 49.4.
- Sub-sectors directly exposed to household spending reported stronger sales growth in January than that seen last year.
- On the other hand, sales declines in the wholesale trade and communication services sub-sectors were larger than those reported last January.
- Capacity utilisation in the services sector (which is not seasonally adjusted) picked up to 74.8% in January, and is in line with the average level recorded since the start of 2010.



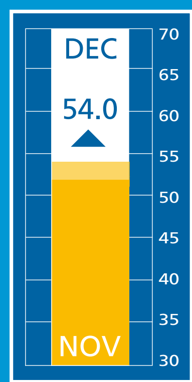
AUSTRALIAN PSI®



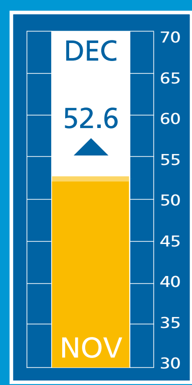
EUROZONE SERVICES INDEX



UK SERVICES INDEX



USA SERVICES INDEX



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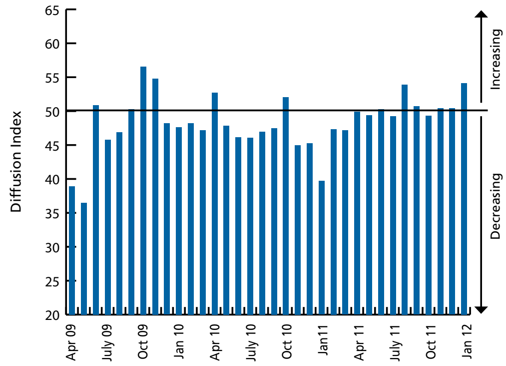
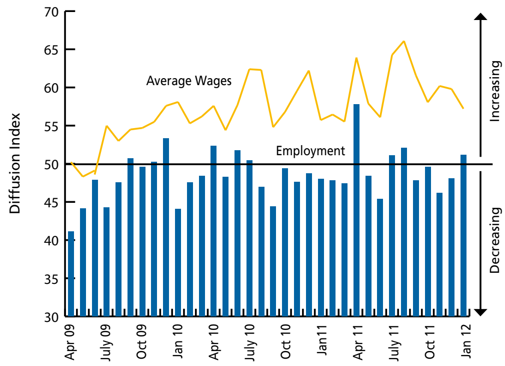
NEW ORDERS

- On a seasonally adjusted basis, new order levels increased solidly in January.
- The new orders component of the **Australian PSI®** increased by 3.7 points to 54.1.
- The new orders sub-index has been at or above the critical 50 point level for 10 consecutive months.
- This suggests that new orders in the services sector have stabilised in recent months following a prolonged period of decline.
- Sub-sectors directly exposed to household spending reported stronger growth in new orders than that seen last January.



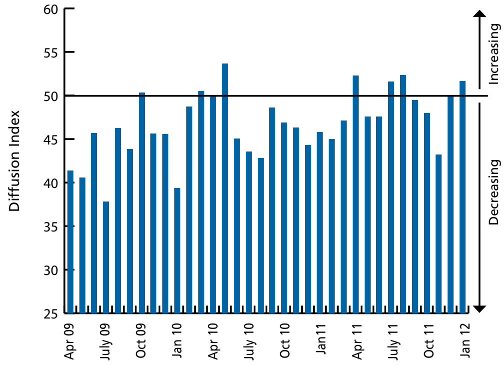
EMPLOYMENT AND WAGES

- On a seasonally adjusted basis, employment expanded in the services sector in January, following four consecutive months of decline.
- The employment component of the **Australian PSI®** increased by 3.1 points in January to 51.2.
- On a non-seasonally adjusted basis, the average wages index decreased by 2.6 points to 57.8 in January.
- The hospitality, transport & storage and communication services sub-sectors have reported the strongest wages growth in recent months.
- On the other hand, wages growth has been relatively subdued in the health & community and wholesale trade sub-sectors.



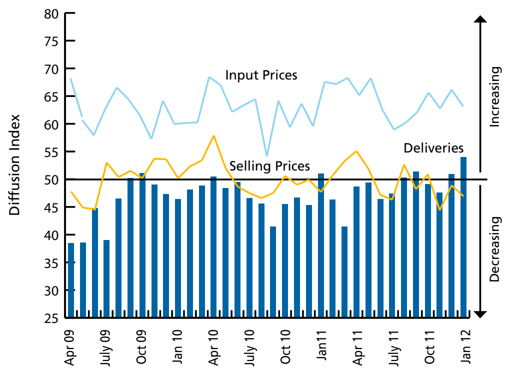
STOCKS

- On a seasonally adjusted basis, stock levels increased in January following four consecutive months of decline.
- The stocks component of the **Australian PSI®** increased 1.8 points to 51.7.
- Stock levels grew strongly in the hospitality and finance & insurance sub-sectors compared to this time last year.
- On the other hand, stock levels fell solidly in the retail trade and the health & community services sub-sector compared to last January.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- On a seasonally adjusted basis, deliveries to the services sector increased solidly in January.
- The supplier deliveries component of the **Australian PSI®** increased by 3.1 points to 54.0.
- On a non-seasonally adjusted basis, the input prices index declined by 3.0 points to 63.9 in January, and remains slightly above the average level seen since the start of 2009.
- On a non-seasonally adjusted basis, the average selling prices index decreased by 2.0 points to 46.9.
- In six of the nine sub-sectors a majority of businesses reported deeper discounting of selling prices compared to a year ago.
- The heaviest discounting was reported in the retail and hospitality sub-sectors.



AUSTRALIAN PSI®*

	January 2012	December 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	51.9	49.0	2.9	Expanding	From contracting	1
SALES	49.4	47.0	2.4	Contracting	Slower	4
NEW ORDERS	54.1	50.4	3.7	Expanding	Faster	3
EMPLOYMENT	51.2	48.1	3.1	Expanding	From contracting	1
SUPPLIER DELIVERIES	54.0	50.9	3.1	Expanding	Faster	2
INVENTORIES	51.7	49.9	1.8	Expanding	From contracting	1
INPUT PRICES	63.9	66.9	-3.0	Expanding	Slower	108
SELLING PRICES	46.9	48.9	-2.0	Contracting	Faster	3
WAGES	57.8	60.4	-2.6	Expanding	Slower	31
CAPACITY UTILISATION (%)	74.8	74.3	0.4	Increase		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®.

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