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Australian PSI™:

Stronger retail adds to property and tourism gains but not reflected in jobs growth

Stronger retail and continued gains in property and tourism-related sectors boosted services activity in October, according to the latest Australian Industry Group Commonwealth Bank **Australian Performance of Services Index™ (PSI)**.

The **Australian PSI™** rose from 59.1 points to 62.4 in October (a reading above 50 points indicates that services is generally expanding; below 50, that it is contracting).

The strongest sectors at present are accommodation, cafes and restaurants; property and business services; and communication services, which all strengthened further. The biggest gains in activity in the month were in the retail trade and transport and storage sectors.

The lowest sector readings (below 60 points) were in the health and community services; personal and recreational services; and wholesale trade sectors (where activity was weakest). All sectors, however, remained above the critical 50-point mark separating growth from decline, reflecting the broad nature of strength in the service industry.

In terms of the **Australian PSI™** component series, the overall lift was reflected in stronger growth in sales, new orders, stocks and deliveries. Contrasting this however was a slowing in the employment sub-component.

Commonwealth Bank Chief Economist, Michael Blythe, said that the results show the economy is on track to make a good recovery from its low point in the middle of this year.

“With tourism recovering and retail spending strengthening further, the final element needed to ensure sustained growth is a recovery in our export performance. Last week’s trade data and more recent rises in commodity prices suggest that the worst may be behind us on the export front. The strength in property-related areas does highlight one of the downside risks facing the economy, however.

Ai Group Deputy Chief Executive, Heather Ridout said while the figures reflected the underlying strength of the economy there was some caution in hiring levels.

“Despite the lift in activity in the month, employment growth actually slowed in October. Particularly significant were declines in jobs in finance and insurance, retail trade and wholesale trade. This is an indication that despite the lift in services activity evident since the middle of the year, this is yet to be reflected in additional jobs, suggesting firms may be looking to drive growth through productivity gains,” Mrs Ridout said.

Key Findings

- The **Australian PSI™** was 62.4 in the month up from 59.1 in September.
- The 3.3 point rise in the index mainly reflected a pick up in the retail trade sector (which in part reflects seasonal demand) as well as continued gains in property and business services and the tourism-related sectors of accommodation, cafes and restaurants; and transport and storage.
- The communication services; and finance and insurance sectors also recorded higher activity readings.
- While remaining at solid levels, activity in the health and community services; and personal and recreational services sectors eased. The weakest sector in October was wholesale trade, where activity eased significantly.
- Growth in sales, new orders, stocks and deliveries strengthened in the month, while employment growth slowed.

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Background

The **Australian Performance of Services Index (PSI)™** is a national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. Results are based on a sample of over 210 companies. An **Australian PSI™** reading above 50 points indicates that services is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.

The PSI report can also be downloaded from the www.aigroup.asn.au or www.commbank.com.au
