

Australian Performance of Services Index™ : Further easing in Services activity

Services activity continued to soften in February with the Australian Industry Group – Commonwealth Bank Performance of Services Index™ (PSI) falling 2.2 points to 53.9. The February fall marks the third easing in the services index in the past four months.

Commonwealth Bank Chief Economist, Michael Blythe, said that the slowing of the services sector shows that the direction of the Australian economy is not a one-way bet this year.

“The services sector seems to be slowing from the exceptional highs recorded in the second half of 2003. It looks like higher interest rates, the ever rising Aussie and some natural loss of momentum is taking a toll on services sector activity.

“On the positive side, the February PSI™ shows that while growth is slowing, the services sector is still expanding. All components remain above the 50 reading that separates expansion from contraction,” Mr Blythe said.

Australian Industry Group Chief Executive, Heather Ridout, said that even though today’s national accounts will most likely show the economy performed strongly in the final quarter of 2003, the PSI confirms other data which is suggesting growth may already be slowing.

“The easing of the PSI™ reflects an unwinding of the surge in sentiment and activity during the second half of 2003.

“This earlier strength was driven by the release of pent up demand and thus was clearly unsustainable in the long term.

“But despite the steady decline, the PSI™ remains more than a full point above February 2003 and appears consistent with service sector growth returning to around trend.

“All this adds weight to arguments against increasing interest rates,” Mrs Ridout said.

Summary of Key Points:

- The Australian Industry Group – Commonwealth Bank Performance of Services Index™ (PSI) fell 2.2 points to 53.9.
 - Seasonally-adjusted sales, new orders and employment all continued to ease during February. By contrast, stocks and order backlogs both rose over the past month.
 - The strength of the property market and an upturn in international visitors were cited as factors favourable for sales in February. Seasonal factors (including the end of the school holiday period) also had a positive net impact on sales.
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- In raw terms, six of the nine industries recorded increases last month. The only sectors to suffer declines were communications, transport & storage, and retail trade. Seasonal influences account for much of the change.
- Of the six sectors to record increases, four – accommodation, cafes & restaurants, finance & insurance, health & community, and personal & recreation – were stronger than the corresponding month of 2003.
- Among the three sectors declining in February, only one – transport & storage – was higher than in February 2003.

Further Comment:

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Background

The **Australian Performance of Services Index (PSI)TM** is a national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. An **Australian PSITM** 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. Results are based on a sample of over 210 companies.

A new seasonal adjustment process has been adopted in compiling the PSITM, drawing on factors estimated for the UK services PMI by NTC Research. While this allows for calendar day effects, further adjustments have been made for the different timing of public holidays. As is standard international practice, only the major components (rather than industries) are seasonally adjusted.
