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Services activity moderates further

The slowdown in services sector activity continued in April. The Australian Industry Group – Commonwealth Bank **Performance of Services Index (PSI™)** eased a further 0.7 points to 51.4 on a seasonally-adjusted basis.

The fall in April was concentrated in the employment sub component (which fell by 3.3 points to 50.0, indicating that the forces for expansion and contraction were close to balance in the month). There was also a further moderation in new orders, stocks and supplier deliveries.

Commonwealth Bank Chief Economist, Michael Blythe, said services sector activity had clearly slowed from the very rapid pace achieved last year.

“The pace of decline, however, is easing. Sales activity picked up in the month and the downturn in orders eased. Greater stability would ultimately flow through to service sector employment as well,” Mr Blythe said.

Australian Industry Group Chief Executive, Heather Ridout, said that the April fall was the fourth consecutive monthly decline in the PSI™.

“The PSI™ has now recorded falls in five of the past six months albeit from exceptionally strong levels in late 2003.

“The result is consistent with economic growth slowing in the first half of 2004 partly in response to the rate increases of 2003,” Mrs Ridout said.

The key indicators:

Sectors

A holiday-related pause in service sector activity saw (not-seasonally-adjusted) PSI™ readings deteriorate in five of the nine sectors (wholesale trade; accommodation; finance & insurance; communications; and property & business services). Activity contracted in wholesale trade with a reading of 44.7. Activity also contracted in retail trade (47.8) and personal & recreational services (49.8), but at a somewhat slower pace than in March.

Sales

The (seasonally-adjusted) sales index rebounded 1.5 points to 51.5. The rise was the first since October 2003, and follows a March reading consistent with negligible service sector sales growth in the month.

Orders

Seasonally-adjusted new orders edged down 0.2 points to 54.9. Although the fourth consecutive decline, overall growth in new orders remained at relatively sound levels.

Jobs

The seasonally-adjusted employment index fell 3.3 points to 50.0, more than reversing the rise in the previous month. The outcome is consistent with the forces for job creation and job destruction balancing each other out in April.

Stocks

Service-sector inventories were depleted for the second consecutive month (unadjusted for seasonal influences), with the index falling a further 0.9 points in April to 48.9. Inventory levels were unchanged (i.e. index readings of 50.0) in both accommodation and transport & storage, with only the finance & insurance and health sectors building stock levels during the month.

Further Comment:

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Background

The **Australian Performance of Services Index (PSI™)** is a leading indicator of Services activity in the Australian economy. The 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 that 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. Results are based on a sample of over 210 companies.
