

## Service sector activity bounces back in July

The Australian Industry Group – Commonwealth Bank **Performance of Services Index (PSI™)** jumped 5.2 points in July to 54.6 on a seasonally-adjusted basis.

The improvement reflected gains in all five components, including a rise in new orders to the highest level since January 2004.

In unadjusted terms, activity expanded in seven of the nine sectors (up from five in June). Sectors sensitive to business demand contributed especially to the strength in July, including property & business services, finance & insurance, transport & storage and accommodation, cafes & restaurants.

The briskest growth was in health & community services, with activity rising to the highest level since the series began in February 2003. Other sectors to report growth were wholesale trade and communications services.

At the same time, with a weaker dollar and higher crude oil prices, input costs have now increased for five consecutive months. The net balance of firms reporting increased raw material costs was the highest since March 2003

Commonwealth Bank Chief Economist, Michael Blythe, said the lift in the leading components of the latest PSI™, notably new orders and employment, highlighted the resilience of the Australian economy.

“The economy continues to travel quite nicely. And why wouldn’t it given the impressive array of positive economic fundamentals? Consumer confidence is high, incomes are rising, businesses are expanding capacity, the global economy is supportive, and the long-anticipated housing slowdown has surprised with its mildness,” Mr Blythe said.

Australian Industry Group Chief Executive, Heather Ridout, said the June PSI™ reflected continued strength in business profitability and, to a lesser extent, the recent gains in consumer sentiment.

“The strong recovery in new orders and inventories may also have contributed to the rise in this month’s Australian Performance of Manufacturing Index PMI™, and suggests confidence remains firm across most parts of the economy.

“Along with the easing in fiscal policy, the broad-based gains in the PSI™ point to continuing strength in service sector activity over coming months,” Mrs Ridout said.

### The key indicators:

#### Sectors

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## Sales

The sales component rose 2.0 points to 53.3 in July (sa), reversing most of the decline in June. Abstracting from recent volatility, the sales index averaged 52.7 in the three months to July, a little stronger than the 52.5 recorded in the three months to April.

## Orders

New orders (sa) jumped 7.2 points to 58.0 in July, the highest level since January 2004. In unadjusted terms, only personal & recreational services reported a decline in forward bookings last month, while orders were flat in retail trade.

## Jobs

The employment index rose 2.7 points to 51.4 (sa). While lower than the most recent cyclical highs (in late 2003), the index remains above July 2003.

## Stocks

Service sector inventories surged 7.6 points to 54.9 (nsa). It was the largest monthly increase in the history of the series and the highest level since December 2003. No sector reported declining inventories last month.

## Supplier deliveries and input prices

Corresponding with the large increase in inventories, supplier inventories (sa) rose 8.4 points to 56.7. Input costs also rose 1.0 point to 66.1, the fifth consecutive increase. All sectors other than communications services reported increases.

### 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 190 companies.

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