

Service sector remains solid

The Australian Industry Group – Commonwealth Bank Performance of Services Index (**PSI™**) remained steady at 54.6 in August on a seasonally-adjusted basis.

The solid **PSI™** result was underpinned by sales and new orders increasing to the highest levels since January and employment at its strongest point since May.

By contrast, the inventory, supplier delivery and input price indexes all eased slightly in August (the slippage in input prices follows five consecutive monthly increases).

In unadjusted terms, activity expanded in six out of nine sectors (down from seven in July). Growth was strongest in accommodation, cafes & restaurants, picking up further from the healthy levels also recorded in July.

Another four sectors - wholesale trade; finance & insurance; property & business services; and personal & recreational services – reported both positive growth and higher readings than the previous month.

Commonwealth Bank Chief Economist, Michael Blythe, said that the latest PSI readings showed that the Australian economy had got off to a good start in the second half of 2004.

“The services sector, the dominant part of the Australian economy, is expanding at a comfortable pace.

“The correlations between the **PSI™** and the broader economy suggest that the benefits of a robust services sector are being transmitted through to the labour market, to business capital spending, and to business profits. These trends will help prolong the current expansion,” Mr Blythe said.

Australian Industry Group Chief Executive, Heather Ridout, said the August **PSI™** reflected continuing confidence across a wide range of service industries.

“If anything, after slowing earlier in the year, service activity appears to have strengthened in the past quarter, reflected in the fact that the **PSI™** has averaged higher in the three months to August, compared with the three months to May.

“Despite higher energy costs and cooling house prices, the combined impact of tax cuts, buoyant construction spending, and solid growth in household and business incomes is feeding in to confidence across most sectors. The continuing strength in new orders also augurs well for overall activity in the months ahead,” Mrs Ridout said.

The key indicators:

Sectors

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Sales

The seasonally-adjusted sales index rose 3.6 points to 56.9, the second consecutive increase and the highest reading since January 2004. Seasonal influences (and energy costs) appear to account for much of the easing in retail trade; transport & storage; and communications services.

Orders

Seasonally adjusted, new orders edged up 0.2 of a percentage point to 58.2. Similar to sales, the new orders index is at the highest level since January 2004, although well down on the corresponding month of 2003.

Jobs

After seasonal adjustment, the employment index also rose for the second consecutive month, adding 0.9 of a percentage point to 52.2. The index was at the highest level since May and is also higher than in August 2003.

Stocks

Unadjusted service sector inventories trended 3.8 points lower in August to 51.7, suggesting a moderation in the pace of stock building.

Supplier deliveries and input prices

Seasonally adjusted, supplier deliveries fell 5.6 points to 51.2. However, the easing follows a sharp rise in July and is consistent with the renewed need to replenish inventories. Prices increased in all sectors in August including the first rise in communications services since December 2003.

Further Comment:

Tony Pensabene – Chief Economist Ai Group
(03) 9867 0258 or 0417 012 863

Michael Workman – Senior Economist Commonwealth Bank of Australia
02 9312 0197 or 0414 870 394

Media Inquiries:

Tony Melville – Ai Group 02 6233 0716 or 0419 190 347
Steve Cookson- Commonwealth Bank of Australia 02 9378 2504

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.
