

Australian PSI®: Services sector activity slows after strong six months

Growth in services sector activity eased in January for the first time since mid-2004, with the seasonally adjusted **Australian Industry Group – Commonwealth Bank Performance of Services Index (PSI®)** down 6.6 points to 53.5.

An Australian **PSI®** reading above 50 points indicates services activity is expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline.

So while services activity is still expanding, the January result provides some early evidence that growth rates across the services sector may have peaked, following a steady strengthening during the second half of 2004.

The input price component of the **PSI®** recorded a small increase in the month, but the other five sub-indexes all moderated significantly. Although largely reflecting seasonal influences, (unadjusted) growth in activity also slowed across all nine sectors.

Personal & recreational services reported the strongest expansion in activity, along with accommodation, and cafes & restaurants. By contrast, wholesale trade, finance & insurance, transport & storage and communications services all experienced contractions in activity.

Commonwealth Bank Chief Economist, Michael Blythe, said the January **PSI®** reading on service sector activity stepped down from the elevated levels recorded at the end of 2004, but the sector is still expanding.

“The economy seems to have come out of the starting blocks at a reasonable pace at the start of 2005. The still respectable readings on new orders and employment intentions are encouraging signs that this momentum will be maintained,” Mr Blythe said.

Ai Group Chief Executive, Heather Ridout, said there are signs service sector activity may be shifting to more sustainable levels.

“The January **PSI®** result is early evidence that the broad-based strengthening in growth we have seen since mid-2004 is leveling out. Growth in new orders, despite being down from 2004 highs, still points to reasonably firm activity through early 2005.

“With the rate of input price increases also remaining more moderate compared to much of 2004, there are also some indications of an easing in upstream supply constraints and industry bottlenecks, which is good news for the inflation outlook,” Mrs Ridout said.

It should be noted that the annual seasonal re-analysis has resulted in revisions to the PSI® series covering the past two years and a slightly smoother profile of growth over that period.

The key indicators:

Sectors

In unadjusted terms, growth moderated in all nine sectors last month. The largest declines were in wholesale trade; transport & storage; and personal & recreational services (but despite this slowdown, personal & recreational services again reported the strongest expansion in activity during January).

Sales

The seasonally-adjusted sales sub-index fell to 54.5, from a revised 63.2 in December (an 8.7 point decline). In unadjusted terms, sales growth slowed in all nine sectors. The sharpest falls were in personal & recreation, wholesale trade and property & business services.

Orders

Seasonally-adjusted new orders fell to 55.9, from a revised 65.4 in the previous month (a decline of 9.5 points). Unadjusted, new orders growth moderated in all sectors other than accommodation, cafes & restaurants. The sharpest slowdowns were in wholesale trade; transport & storage; and finance & insurance.

Jobs

The seasonally-adjusted employment index declined to 52.6, from a revised 53.9 in December (a fall of 1.3 points). Growth eased in all sectors other than accommodation, cafes & restaurants and in communications services (unadjusted).

Stocks

After seasonal adjustment, the pace of stock building slowed sharply in January. The inventory sub-index fell to just 51.1, from a revised 58.8 previously. Unadjusted, the rate of inventory accumulation slowed in all sectors other than property & business services.

Supplier deliveries and input prices

Seasonally adjusted, the deliveries index fell to 50.9, from a revised 57.3 (a fall of 6.4 points and the lowest level recorded since June 2004). Growth slowed in all nine sectors (unadjusted), with deliveries contracting in five sectors and remaining steady in one.

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 approximately 190 companies.
