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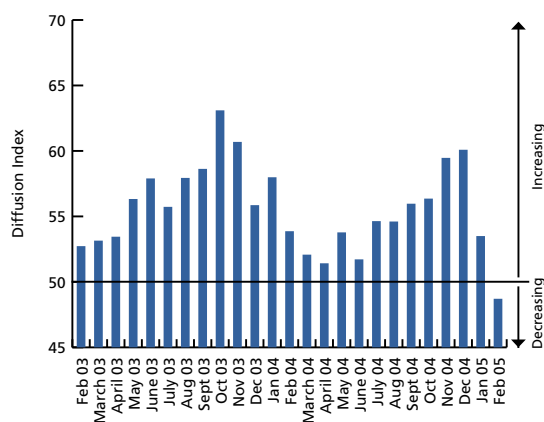
PERFORMANCE OF SERVICES INDEX®

FEBRUARY 2005

SERVICES SECTOR GROWTH STALLS IN EARLY 2005

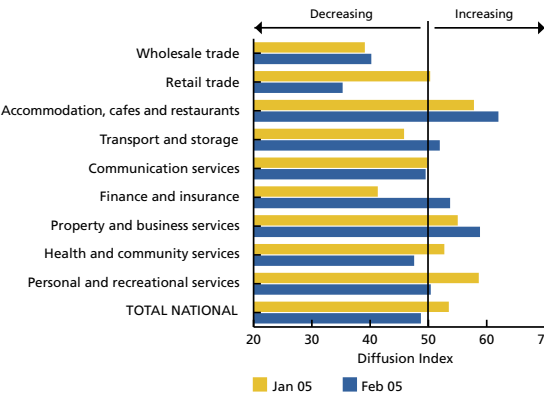
KEY FINDINGS

- After strengthening steadily over the final quarter of 2004, services sector growth appears to have stalled in early 2005. The seasonally adjusted Australian Industry Group – Commonwealth Bank Performance of Services Index (PSI®) fell 4.8 points in February to 48.7 (the lowest level yet recorded), and following a 6.6 point decline in January. A PSI® reading below 50.0 implies a contraction in services activity.
- The deterioration in activity was largely due to sharp contractions in both supplier deliveries and inventories, and which were centred in the retail and wholesale trade sectors. The sales sub-index also contracted slightly (the first such occurrence recorded).
- Furthermore, the rate of increase in both new orders and employment continued to slow, while the input price component eased to the lowest level since April 2004. Indeed, new orders barely expanded in February, foreshadowing continued weak sales growth over the next few months.



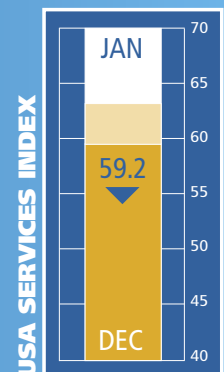
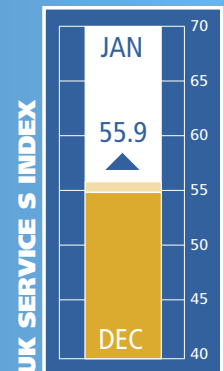
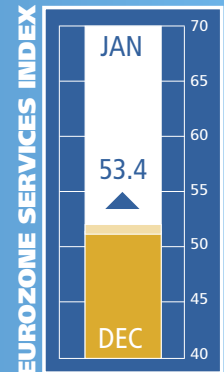
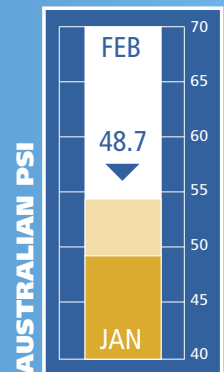
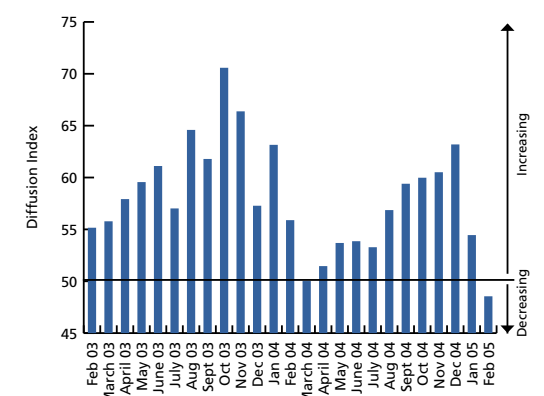
SECTORS

- Unadjusted, five sectors reported expanding activity in February. Of these, four sectors – accommodation & restaurants; transport & storage; finance & insurance; and property & business services – all enjoyed a strengthening in growth relative to January.
- To the extent that these sectors are sensitive to business demand, the strengthening in activity is most likely partly due to seasonal influences. By contrast, personal & recreational services reported a moderation in growth, but again likely due to seasonal factors.
- The four sectors to report contractions were wholesale trade; retail trade; communications and health & community services. The readings for retail trade and health & community services were the lowest yet recorded, while activity in both wholesale trade and communications has now fallen for two consecutive months.



SALES

- Seasonally adjusted, service sector sales contracted slightly in February. The sales sub-index fell 5.9 points to 48.6, the second consecutive easing and the first contraction in sales yet recorded.
- In unadjusted terms, only three sectors reported higher sales – accommodation & restaurants; property & business services and personal & recreational services. However, growth in personal & recreational services moderated from levels reported in January.
- Elsewhere, sales again fell sharply in wholesale trade, and declined also in retail trade. Sales were unchanged in four sectors - transport & storage; finance & insurance; communications and health & community services (and the second straight month of flat sales in communications and health & community services).



NEW ORDERS

- After seasonal adjustment, the new orders component fell 5.7 points to 50.2. The decline follows a similarly sharp decline in January, leaving the index at the lowest level yet reported.
- Unadjusted new orders grew in five sectors, up from four in January. Of the five, growth strengthened appreciably in finance & insurance and property & business services (and most likely reflecting seasonal factors). However, the rate of growth moderated in health & community; and personal & recreational services.
- New orders were unchanged in communications, but fell in wholesale and retail trade and in transport & storage. The rate of decline slowed in wholesale trade and communications, although deepening in retail trade.

EMPLOYMENT

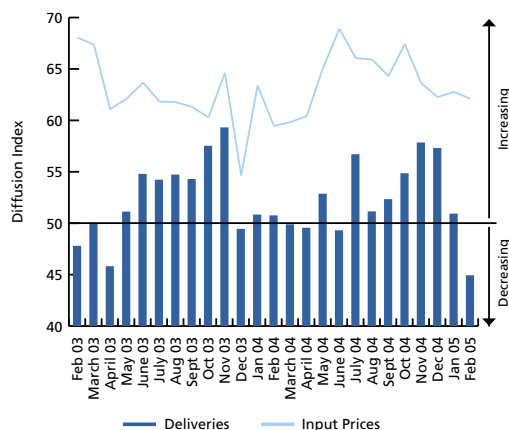
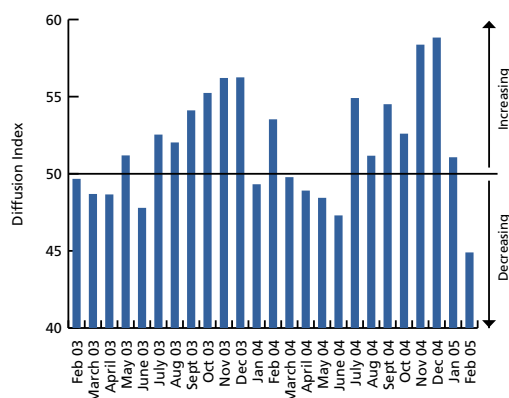
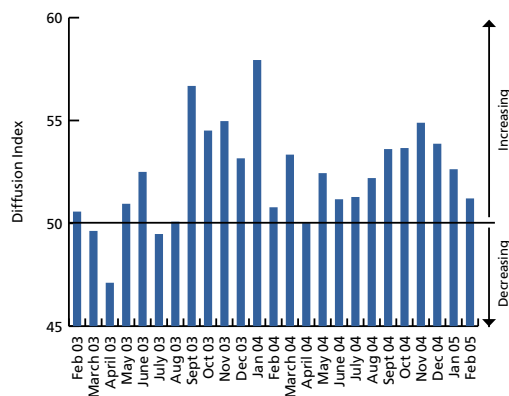
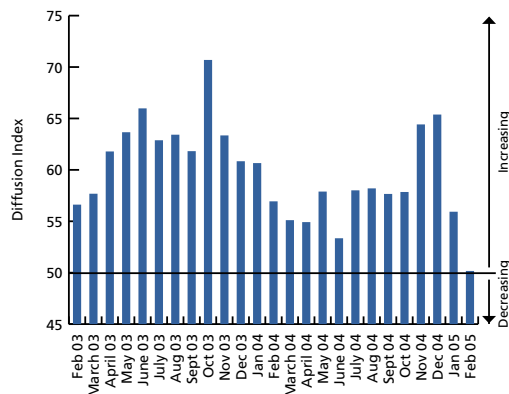
- In seasonally adjusted terms, the employment component eased 1.4 points to 51.2. It was the third consecutive month in which the index has moderated, and the lowest reading since June 2004.
- Employment expanded in just four sectors, unchanged from January. The four comprised accommodation & restaurants; transport & storage; finance & insurance; and property & business services, although the rate of growth strengthened in each sector.
- By contrast, employment contracted in the remaining five sectors. The rate of job shedding slowed slightly in wholesale trade and personal & recreational services, but deepened in health & community services.

STOCKS

- Service sector inventories were rundown sharply in February. The unadjusted sub-index fell 6.2 points to 44.9, again the lowest reading yet recorded. Moreover, the decline contrasts with a significant (unadjusted) jump in February 2004.
- The wholesale and retail trade sectors carry substantially higher levels of inventories than other service industries. Inventories were depleted significantly in both sectors in February, and also at an appreciably faster rate than in January.
- Inventories also fell in finance & insurance; health & community and personal & recreational services. Of the remaining four sectors, inventories rose in two and were unchanged also in two.

DELIVERIES AND INPUT COSTS

- Consistent with the rundown in inventories, supplier deliveries also contracted significantly in February. The seasonally adjusted sub-index fell 6.0 points to 44.9, the third consecutive month of moderating growth and again the lowest reading recorded.
- The seasonally adjusted input price sub-index eased 0.7 points to 62.1, more than reversing an earlier rise in January. Costs increased in all nine sectors, but at a slower rate in wholesale trade, retail trade and communications services.



NATIONAL INDEXES

	Feb 05	Feb 04	Jan 05	Dec 04	Nov 04	Oct 04	Sept 04	Aug 04	July 04	June 04	May 04
AUSTRALIAN PSI®	48.7	53.9	53.5	60.1	59.5	56.4	56.0	54.6	54.6	51.7	53.8
SALES	48.6	55.9	54.5	63.2	60.5	60.0	59.4	56.9	53.3	53.9	53.7
NEW ORDERS	50.2	56.9	55.9	65.4	64.4	57.9	57.7	58.2	58.0	53.4	57.9
EMPLOYMENT	51.2	50.8	52.6	53.9	54.9	53.7	53.6	52.2	51.3	51.2	52.4
INVENTORIES	44.9	53.5	51.1	58.8	58.4	52.6	54.5	51.2	54.9	47.3	48.4
DELIVERIES	44.9	50.8	50.9	57.3	57.9	54.9	52.3	51.2	56.7	49.3	52.9
INPUT PRICES	62.1	59.5	62.8	62.3	63.6	67.4	64.3	65.9	66.1	68.9	65.1

Results are based on a sample of over 200 companies. For further information please contact Heather Ridout, Chief Executive, Ai Group on 02 9466 5504.

WHAT IS THE PSI?

The Australian Performance of Services Index (PSI®) is a composite index based on the diffusion indexes for sales, new orders, employment, inventories and deliveries all with varying weights.

An Australian PSI® reading above 50 points indicates that the service industry is generally expanding, below 50 that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.

More information can be obtained from the Ai Group web site www.aigroup.asn.au

SPONSOR STATEMENT

Commonwealth Bank is delighted to be the sponsor of the Australian PSI® and is pleased to be able to provide the expertise of our Chief Economist Michael Blythe as the key spokesperson for the Performance of Services Index. The Commonwealth Bank is one of Australia's premier services organisation and with the majority of the Australian economy services based we believe this important piece of research will add real value to the industry. It will provide insights and information that have not previously been available. We look forward to continuing to work with the Australian Industry Group to enhance and develop the PSI®.

Commonwealth Bank

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