

3 June 2005

## **Australian PSI®: Retail trade sector takes a hit as consumers scale back spending**

Service sector activity remains subdued, with the **Australian Industry Group – Commonwealth Bank Performance of Services Index (Australian PSI®)** slipping below the critical 50.0 level in May, falling by 2.6 points to 48.8.

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

The **Australian PSI®** has been hovering around the 50 point mark for most of 2005. Recent weakness has been concentrated in the retail sector, which continues to suffer from the effects of sluggish consumer spending. Australian Bureau of Statistics results published this week showed an unexpected fall in retail turnover in April. The **Australian PSI®** readings suggest that this weakness persisted into May.

It seems that there have been notable adverse effects on sales from a combination of the earlier increase in interest rates, a general slowing in demand growth, and the unseasonably warm Autumn weather.

Overall, sales fell in May for the third time in the past four months, with new orders and supplier deliveries also declining. Inventories subsequently increased in the month, which along with the contractions in new orders suggests continuing weakness in service sector activity in the short-term.

Activity expanded in just four of nine sectors in May, and was essentially unchanged in health & community services. Growth was strongest in communication services, followed by wholesale trade; personal & recreational services; and property & business services.

On a positive note, services sector employment continued to grow, although at a somewhat weaker pace than in recent months.

Commonwealth Bank Chief Economist, Michael Blythe, said the sluggishness in service sector activity was an important factor restraining the overall economy.

“From a broader perspective, however, the key fundamental drivers remain supportive of decent growth. Rising employment and rising real wages are boosting incomes. Tax cuts are boosting disposable incomes. Low unemployment is supporting confidence.

“A combination of physical need and financial incentive are promoting business capex. High levels of underlying demand for new dwellings are limiting the downside to residential construction. Strong global growth is finally having some impact on resource exports,” Mr Blythe said.

Ai Group Chief Executive, Heather Ridout, said the weakening of both service sector and manufacturing indicators in May suggested consumer demand and growth in the Australian economy would continue to moderate.

“The weak performance of the services sector seen in the May **Australian PSI®** is further evidence that the Australian economy has hit a flat spot.

---

“What is going to kick start the Australian economy again remains problematic. Exports continue to be slow in recovering, consumers are nervous, and the ongoing drought will be a drag on spending,” Mrs Ridout said.

## **The key indicators:**

### **Sectors**

Unadjusted, activity expanded in just four of nine sectors during May, with activity in health & community services broadly unchanged. The four sectors to report contractions in May were retail trade; accommodation, cafes & restaurants; transport & storage; and finance & insurance. Growth was strongest in communications services, and gathered momentum in wholesale trade and personal & recreational services.

### **Sales**

Seasonally adjusted, the sales sub-index fell 2.4 points to 48.2. Unadjusted, sales expanded in just four sectors. Sales growth was strongest in personal & recreational services and property & business services, picking up also in communications services. Growth moderated in health & community services. Sales were unchanged in wholesale trade, but contracted in each of the retail trade; accommodation, cafes & restaurants; transport & storage; and finance & insurance sectors.

### **Orders**

Seasonally adjusted, new orders fell 3.5 points to 48.5. Unadjusted, only three sectors reported increases in new orders during May: wholesale trade; communications services; and property & business services. New orders were flat in transport & storage and health & community services. Orders fell in four sectors - retail trade; accommodation, cafes & restaurants; finance & insurance; and personal & recreational services.

### **Jobs**

Seasonally adjusted, the employment sub-index edged down 1.1 points to 50.9. Unadjusted, employment expanded in six sectors - strongest in the transport & storage sector, with growth also strengthening in wholesale trade; communications services; and personal & recreational services. Growth slowed in finance & insurance and health & community services and fell in retail trade; accommodation, cafes & restaurants; and property & business services.

### **Stocks**

Unadjusted, the stocks sub-index jumped 5.1 points in May to 52.3. Among the five sectors to report increases in inventories, however, three (accommodation, cafes & restaurants; finance & insurance; and personal & recreational services) suffered declines in sales. Wholesale trade recorded unchanged sales, with only communications services citing increases in both sales and inventories. Stock levels fell in retail trade; property & business services; health & community services; and transport & storage.

### **Supplier deliveries and input prices**

Seasonally adjusted, the supplier delivery sub-index declined 8.8 points to 44.6 (the lowest level yet recorded). Unadjusted, personal & recreational services was the only sector to report an increase in deliveries. The rate of increase in raw material costs slowed sharply in the month, the seasonally adjusted input cost index declining 8.8 points to 59.5. All nine sectors reported increases in prices of purchased supplies in the month. However, the rate of increase moderated across the full range of sectors.

### **Further Comment:**

Heather Ridout - Australian Industry Group

(02) 9466 5504 or 0419 257 361

Michael Blythe - Commonwealth Bank of Australia

(02) 9312 4135 or 0414 886 027

### **Media Inquiries:**

Tony Melville – Australian Industry Group

(02) 6233 0716 or 0419 190 347

Steve Cookson - Commonwealth Bank of Australia

(02) 9378 2504

### **Background**

The **Australian Performance of Services Index (Australian PSI<sup>®</sup>)** is a leading indicator of Services activity in the Australian economy. The **Australian PSI<sup>®</sup>** 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<sup>®</sup>** 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 200 companies.

---