

## **Australian PSI®: Growth returns to the services sector, though demand remains patchy**

The services sector edged back into positive territory in June, underpinned by increases in sales and new orders. The **Australian Industry Group – Commonwealth Bank Performance of Services Index (Australian PSI®)** lifted 3.3 points to 52.1.

The return to growth follows a slight contraction in activity in the previous month, when the **Australian PSI®** dropped below the critical 50.0 mark (a reading below 50 points indicating a decline in activity).

Supplier deliveries steadied in June, after falling sharply in May, and the employment sub-index showed stronger growth, both contributing to the overall upturn in activity.

Growth in inventories moderated, however, and the services sector experienced greater input cost pressure in June after cost increases abated slightly in May.

Activity expanded in five sectors, primarily those linked to business demand. Growth was strongest in transport & storage and strengthened in property & business services and health & community services.

By contrast, activity continued to contract in several sectors particularly sensitive to consumer spending. Activity contracted in retail trade again in June, the fourth fall in five months, and in wholesale trade, the fifth decline in six months.

Growth also contracted in the accommodation, cafes & restaurants and finance & insurance sectors, with respondents in the finance & insurance sector increasingly citing the effects of slower lending growth.

Commonwealth Bank Chief Economist, Michael Blythe, said that while recent PSI readings are still subdued, services sector activity does appear to have stabilised.

“The pick up in the sales, orders and employment components of the overall PSI does suggest that the recent improvement in services sector activity will continue.

“Rising real wages, tax cuts, and low unemployment should see some of the weakness in consumer spending related sectors ease from here,” Mr Blythe said.

Ai Group Chief Executive, Heather Ridout, said that overall activity in the services sector has moderately improved but activity in key sectors, particularly those related to consumer activity, remains choppy.

“Consumers are clearly uncertain about the future direction of house prices, interest rates and energy costs, resulting in a very hesitant approach towards spending in the past quarter.

“But the continuing strength in sectors related to business demand, such as property & business services and communications services along with reasonable growth in disposable incomes, should at least place a floor under service sector activity going forward,” Mrs Ridout said.

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## **The key indicators:**

### **Sectors**

Unadjusted, activity expanded in five sectors. Growth was strongest in transport & storage, and strengthened also in property & business services and health & community services. Growth eased slightly in communication services and in personal & recreational services. Activity contracted in retail trade; wholesale trade; accommodation, cafes & restaurants; and finance & insurance. The continuing contraction in wholesale and retail trade, and in accommodation, cafes & restaurants, partly reflects seasonal factors.

### **Sales**

Seasonally adjusted, sales jumped 4.6 points in June to 52.8, the highest reading since January 2005. Unadjusted, five sectors reported increases in sales (up from four in May). Sales growth was strongest in transport & storage, and also picked up considerably in health & community services. Growth eased slightly in property & business and communications services (although remaining relatively strong in both sectors). Sales were unchanged in personal & recreational services, and fell in retail trade; accommodation, cafes & restaurants; and finance & insurance.

### **Orders**

Seasonally adjusted, new orders also jumped 4.6 points in June to 53.1. Unadjusted, five sectors again reported increases in new orders, and again up from four the previous month. Reflecting the pattern of sales growth, the strongest increase in new orders was in transport & storage, with health & community and personal & recreational services also reporting stronger growth. Orders contracted in retail trade; accommodation, cafes & restaurants; and finance & insurance.

### **Jobs**

After adjustment for seasonal factors, employment rose 0.8 points in June to 51.7. Unadjusted, employment increased in just three sectors - finance & insurance; property & business services; and health & community services. By comparison, employment rose in six sectors in May. Employment was unchanged in transport & storage, and contracted in the remaining five sectors. Employment has now fallen for three consecutive months in the retail trade sector.

### **Stocks**

Unadjusted, stocks increased at a slightly slower pace in June, the inventories sub-index slipping 0.3 points to 52.0. Stocks have been rundown for three consecutive months in retail trade, reflecting the persistent declines in sales and new orders, while wholesale trade inventories have increased for four successive months. Communications; health & community and personal & recreational services all reported increases. Inventory levels were unchanged in accommodation, cafes & restaurants and property & business services, and fell in transport & storage and finance & insurance.

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

After declining sharply the previous month, supplier deliveries steadied in June (the seasonally adjusted supplier delivery sub-index increasing 5.4 points to 50.0). Unadjusted, supplier deliveries increased in four sectors (up from just one in May), and contracted in the remaining five. Input cost increases accelerated sharply in June, rising 7.2 points to 66.7 (seasonally adjusted). Unadjusted, the rate of increase strengthened in all nine sectors, after abating in every sector the previous month.

### **Further Comment:**

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### **Background**

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

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