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## Australian PSI™: Services sector ends year strongly

The Australian Industry Group Commonwealth Bank **Australian Performance of Services Index (PSI™)** rose by 0.1 points to 60.5 in December with overall activity remaining at solid levels.

The performance of companies across the services sector was diverse. Strong gains, particularly in communication services, occurred alongside slower growth in other sectors and a contraction in personal and recreational services.

Other sectors where expansion accelerated were finance and insurance (which recovered from its sharp fall in November); accommodation, cafes and restaurants; transport and storage; and wholesale trade.

Commonwealth Bank Senior Economist, John Peters, said that the rise in the “forward looking” new orders component was a good sign for the start of 2004.

“The rise in new orders by 2.7 points to a healthy 65.5 foreshadows very solid services sector activity in early 2004.

“However, there are some early signs that rising interest rates (actual and expected) may be starting to have some impact. Activity and sales in the interest rate sensitive sectors of retail trade and property and business services moderated in December, although they remained at relatively high levels,” Mr Peters said.

Ai Group Deputy Chief Executive, Heather Ridout, said the good performance of services reflects the strength of the domestic economy.

“The **Australian PSI™** result for December highlights how the underlying strength of the domestic economy flows back into the performance of the services sector.

“The relatively healthy levels of growth, even in such interest rate sensitive areas as retail trade and property and business services, is a real achievement,” Mrs Ridout said.

### Key Findings

- **Australian PSI™** shows that Australia's services industries retained their overall strength in December.
  - Some industries showed clear strength while others displayed signs of weakness.
  - Sales growth slowed for the second consecutive month with the sales index slipping from 67.0 to 63.6.
  - Slower growth may reflect a continued rebalancing of activity in the face of recent increases in interest rates.
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- Growth in the interest rate sensitive sectors of retail trade and property and business services eased during the month, although both remain at relatively healthy levels.
- The only sector to fall below the neutral 50-point mark was personal and recreational services. This index dropped sharply to 48.1 in December.

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**Background** The **Australian Performance of Services Index (PSI)<sup>TM</sup>** is a national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. Results are based on a sample of over 210 companies. An **Australian PSI<sup>TM</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.

The PSI report can also be downloaded from the [www.aigroup.asn.au](http://www.aigroup.asn.au) or [www.commbank.com.au](http://www.commbank.com.au)

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