

Services activity eases

The latest Australian Industry Group – Commonwealth Bank *Australian Performance of Services Index*TM points to a slight easing in services activity since the pre-Christmas interest rate increases.

After making some allowance for the usual post Christmas slowdown, the January Australian PSITM was estimated to be 59.8 - 0.7 lower than in December and 2.7 points below the October peak prior to the interest rate increases.

The Australian PSITM and the key component indexes for sales, stocks, employment and orders nevertheless remained comfortably above the 50-point benchmark that indicates growth.

Although easing since the November and December interest rate increases, orders were still relatively strong – indicating that services activity is likely to remain firm in the near term.

The Commonwealth Bank's Chief Economist, Michael Blythe, said the economic impact of higher interest rates was likely to increase over the coming months.

"While big seasonal swings mean we should be cautious interpreting the latest figures, it does look like last year's rate rises are starting to bite on service sector activity," he said. "The impact is limited to date, but some of the steam could be coming out of the domestic economy."

Ai Group Deputy Chief Executive, Heather Ridout, said while the continued growth in orders is encouraging, the services performance needs to be closely monitored.

"The services sector is a key domestic market for manufacturers – and as the Performance of Manufacturing IndexTM showed earlier this week domestic demand is currently the main driver of industry growth," Mrs Ridout said.

"Any further easing in services activity would have significant implications for many sectors of manufacturing and the broader economy."

The key indicators:

Sectors

The strongest services performers in January were transport & storage, property & business services and communication services. Activity eased in the retail trade and accommodation, cafes & restaurants sectors.

Sales

The seasonally adjusted sales index eased by 2.3 points to 61.3. Sales were strongest in the transport & storage, communication services, wholesale trade and personal & recreational services sectors. The weakest trends were in the accommodation, cafes & restaurants sector.

Orders

Orders eased by 2.5 points to 63.0 on a seasonally adjusted basis. The strongest order books were in the transport & storage, finance & insurance and property & business services sectors. Orders were weakest in the retail trade and personal & recreational services sectors.

Jobs

The seasonally adjusted employment index rose slightly to 60.6, with the strongest trends in the property & business services and health & community services sectors.

Job trends were weakest in the retail trade and accommodation, cafes & restaurants sectors, both of which experienced mainly seasonally declines.

Stocks

The seasonally adjusted stocks index was 55.0. Stocks rose the most in the communication services, property & business services and retail trade sectors.

Stocks contracted in five sectors - finance & insurance, transport & storage, personal & recreational services, accommodation, cafes & restaurants and wholesale trade.

The full Australian Industry Group – Commonwealth Bank *Australian Performance of Services IndexTM* can be downloaded from 9.30 am 4 February 2004 from www.aigroup.asn.au

Further Comment:

Heather Ridout - Ai Group - 02 9466 5504; 0419 257 361

Michael Blythe - Commonwealth Bank of Australia - 02 9312 4135, 0414 886 027

Media Inquiries:

Tony Melville - Australian Industry Group - 0419 190 347

Stephen Cookson – Commonwealth Bank - 02 9378 2504
