



# PSI AUSTRALIAN

PERFORMANCE OF SERVICES INDEX®

Ai AUSTRALIAN INDUSTRY GROUP

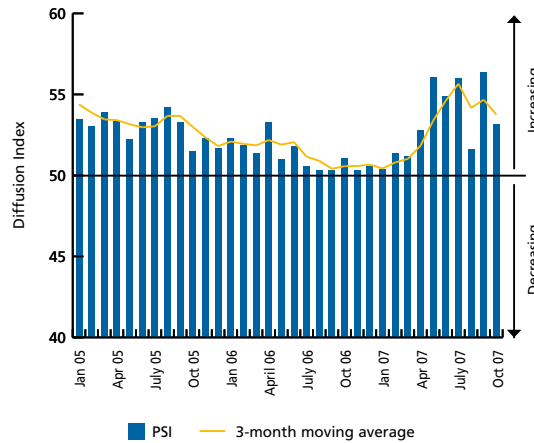
Commonwealth Bank

OCTOBER 2007

## GROWTH IN SERVICES ACTIVITY MODERATES

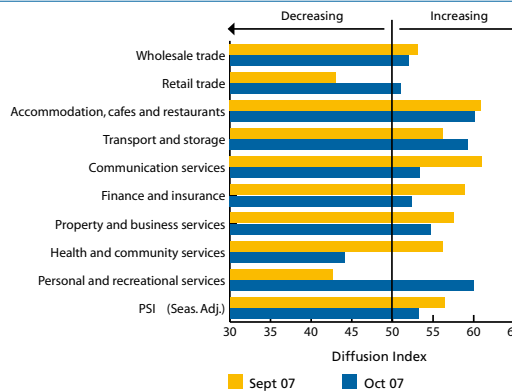
### KEY FINDINGS

- Services sector activity expanded at a slower pace in October, due to more moderate growth in sales. While new orders growth eased from a 3-year high, the solid rate of increase recorded in October suggests further expansion in the sector in the coming months.
- The seasonally adjusted Australian Industry Group-Commonwealth Bank Performance of Services Index (Australian PSI®) fell 3.2 points to 53.2, remaining above the key 50.0 level separating expansion from contraction.
- Despite a moderation in overall services growth, most sectors continued to expand in the month, with only health & community services recording a contraction.
- Employment growth slowed in October, while wages increased strongly. Supplier deliveries fell for the first time in six months.
- Despite some companies citing uncertainty over interest rates and the outcome of the upcoming election as factors influencing economic conditions, solid growth was reported in the personal & recreational services and accommodation, cafes & restaurants sectors.
- Three states registered growth in services in October: NSW; Victoria; and Tasmania. Services activity fell for a second consecutive month in SA and a third consecutive month in WA and also declined in Queensland.



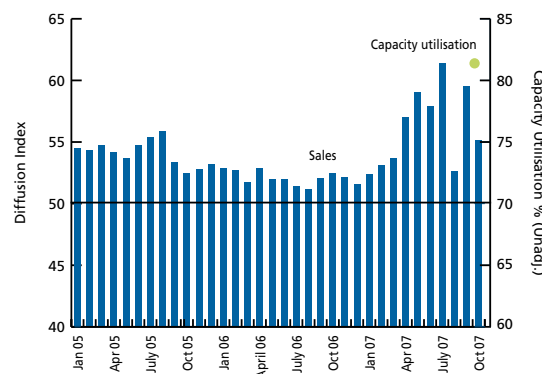
### SECTORS

- Seasonally adjusted, activity expanded in eight of the nine services sectors in October (up from seven in the previous month).
- Accommodation, cafes & restaurants; personal & recreational services; and transport & storage reported the strongest rates of growth in October, supported by impressive sales outcomes.
- Activity growth eased in the business-related sectors of property & business services; communication services; and finance & insurance.
- Elsewhere, activity expanded moderately in the wholesale trade sector and soft growth re-emerged in retail trade.
- Health & community services was the only sector to report a decline in October, following a solid rise in activity in the previous month.

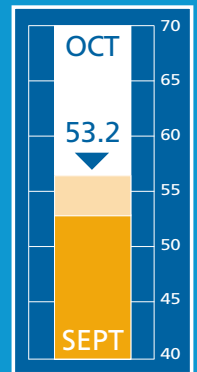


### SALES AND CAPACITY

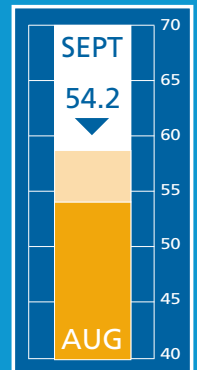
- In seasonally adjusted terms, sales fell 4.4 points in October to 55.1.
- On an unadjusted basis, sales increased in eight sectors (unchanged from the previous month), although the rate of growth fell in six.
- Accommodation, cafes & restaurants; personal & recreational services; and transport & storage reported the strongest increases in sales in October.
- Sales also grew solidly in property & business services; finance & insurance; and wholesale trade, although the rate of expansion eased in each sector. The communication services sector also reported a moderation in sales growth.
- In October, the first month capacity utilisation data was collected, firms indicated that 80.9% of capacity was in use.



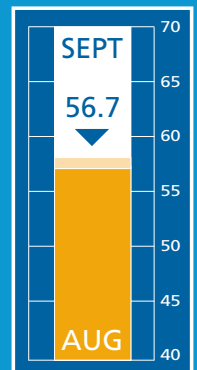
AUSTRALIAN PSI®



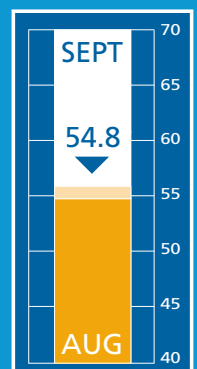
EUROZONE SERVICES INDEX



UK SERVICES INDEX



USA SERVICES INDEX





## NEW ORDERS

- New orders growth eased slightly in October, the new orders sub-index declining 3.0 points to 55.8.
- Unadjusted, new orders expanded in seven sectors (unchanged from the previous month), with communication services unchanged.
- The accommodation, cafes & restaurants and transport & storage sectors reported the strongest growth in new orders in October.
- New orders growth also strengthened in the property & business services; wholesale trade; and personal & recreational services sectors.
- The retail trade sector registered its first rise in new orders in three months, while the rate of increase slowed in finance & insurance.
- Health & community services was the only sector to record a decline in October, marking the second consecutive month without new orders growth.

## EMPLOYMENT

- Seasonally adjusted, the employment sub-index fell 4.3 points to 52.6 in October.
- In unadjusted terms, only four sectors reported growth in employment, down from five in the previous month, with finance & insurance unchanged.
- The strongest rates of employment growth were in the property & business services and wholesale trade sectors.
- Employment continued to expand solidly in transport & storage, while the retail trade sector also reported a strong rise.
- Personal & recreational services and accommodation, cafes & restaurants recorded the steepest declines in employment.
- Employment also contracted moderately in the communication services and health & community services sectors.
- In October, the first month wages data was collected, the wages sub-index stood at a strong 65.6.

## STOCKS

- Inventories of finished goods lifted slightly in October, with the seasonally adjusted stocks sub-index increasing 1.7 points to 50.9.
- Unadjusted, the number of sectors reporting stock increases was five, up from three in September, with the retail trade and finance & insurance sectors unchanged.
- Growth in inventories was strongest in accommodation, cafes & restaurants and communication services. Stocks also lifted strongly in personal & recreational services, following two consecutive months of decline.
- Inventories increased at a slower pace in the transport & storage sector and were mildly replenished in property & business services, following two consecutive falls.
- Health & community services and wholesale trade were the only sectors to run-down inventories in October.

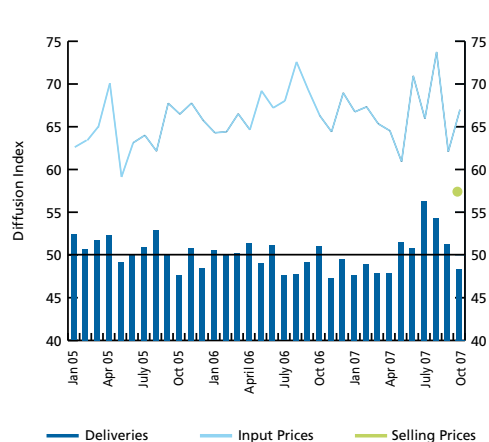
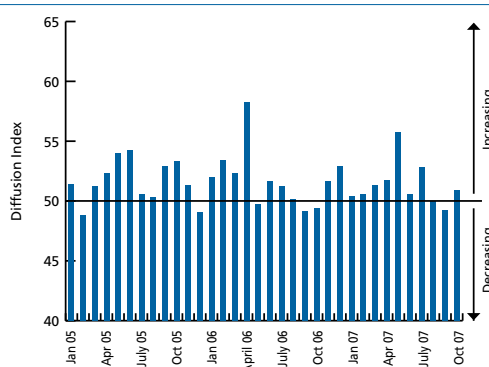
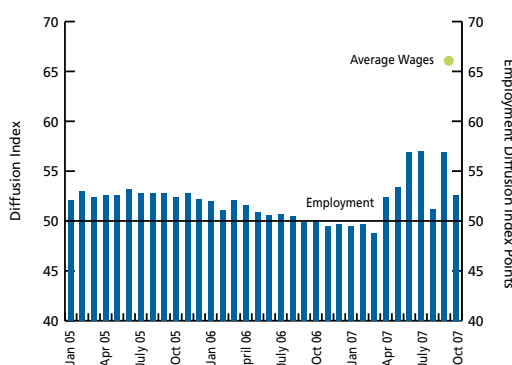
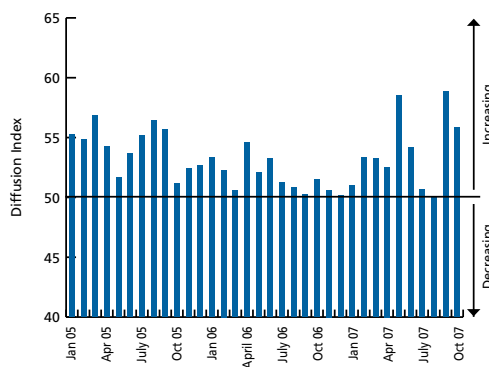
## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Supplier deliveries contracted in October, with the seasonally adjusted sub-index falling 2.9 points to 48.4.
- On an unadjusted basis, the number of sectors reporting increased deliveries was unchanged at five, with another three sectors recording no change.
- The largest rises in deliveries were recorded in the accommodation, cafes & restaurants and communication services sectors. More moderate growth was reported in wholesale trade; transport & storage; and property & business services.
- Health & community services was the only sector to report a fall in deliveries, the second consecutive month of decline.
- Input cost increases picked-up in October, the seasonally adjusted sub-index lifting 4.2 points to 67.7.
- Unadjusted, input cost increases accelerated in five sectors, up from one in September, with wholesale trade and personal & recreational services reporting the largest increases.
- The growth in input costs far outstripped the increase in selling prices in October, with the selling price index standing at 57.0.

## NATIONAL INDEXES

	Oct 07	Oct 06	Sep 07	Aug 07	Jul 07	Jun 07	May 07	Apr 07	Mar 07	Feb 07	Jan 07
<b>AUSTRALIAN PSI®</b>	53.2	51.1	56.4	51.6	56.0	54.9	56.1	52.8	51.2	51.4	50.4
<b>SALES</b>	55.1	52.4	59.5	52.6	61.4	57.9	59.1	57.0	53.6	53.1	52.4
<b>CAPACITY</b>	80.9	na	na	na	na	na	na	na	na	na	na
<b>NEW ORDERS</b>	55.8	51.5	58.8	50.1	50.6	54.2	58.5	52.5	53.3	53.4	51.0
<b>EMPLOYMENT</b>	52.6	50.0	56.9	51.2	57.0	56.9	53.4	52.4	48.8	49.6	49.5
<b>WAGES</b>	65.6	na	na	na	na	na	na	na	na	na	na
<b>INVENTORIES</b>	50.9	49.4	49.2	50.0	52.9	50.6	55.8	51.8	51.4	50.6	50.4
<b>DELIVERIES</b>	48.4	51.0	51.3	54.3	56.3	50.9	51.5	47.9	47.9	49.0	47.7
<b>INPUT PRICES</b>	67.7	67.1	63.5	73.5	66.8	71.1	62.5	65.6	66.3	68.0	67.5
<b>SELLING PRICES</b>	57.0	na	na	na	na	na	na	na	na	na	na

Results are based on a sample of around 200 companies. New monthly seasonal adjustment factors derived directly from an X-12 estimation process were introduced in April 2007. The capacity utilisation, wages and selling prices indexes are reported in unadjusted terms.



## WHAT IS THE AUSTRALIAN PSI®?

The Australian Performance of Services Index (Australian PSI®) is a seasonally adjusted national 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](http://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 service organisations and with the majority of the Australian economy being 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 Australian PSI®.



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