

RESEARCH

Services Landscape

13 August 2018



Boing

The Performance of Services Index (PSI) has bounced firmly in July, from a sharp lurch lower in June. This is good to see, especially in the context of a further weakening last week in its sister survey for the manufacturing sector (PMI). That said, July's PSI lift to 55.1 from June's 52.7 has only recovered just over half the previous month's drop. The trend is still slowing. The three month average has slipped to 54.9 which is the lowest it has been this year and lower than last year's average of 56.9. It suggests services GDP growth has slowed from the 3.3% annual pace it recorded in the year to March (from the latest national accounts), toward the mid-2% mark now. Combined with last week's softer PMI, the composite indicator is suggesting overall annual GDP growth is around 2% heading into the second half of the year – somewhat lower than most are forecasting.

Glass Half Full

Despite the signs of slowing growth above, it is important to recognise that the PSI is not outright weak. Indeed, at 55.1 it sits above its long term average of 54.5. There is still a decent economic pulse in the service sector. Moreover, there is some encouragement in the details too with activity/sales rising 3 points in July to 57.9, pushing back above its long term average of 56.0 in the process. Likewise, new orders rose in July to a very healthy and above average 60.1. It all suggests that the services sector continues to tick along at a reasonable pace, if a bit slower than we have seen over the recent past.

Industries Mixed

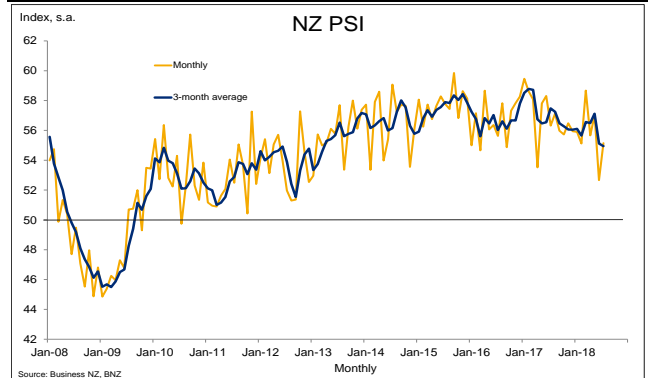
PSI industry performance was mixed in July, albeit with more positives than negatives. There was ongoing strength in accommodation, cafes, and restaurants that ties in with the persistent growth in tourist numbers we have witnessed as well as a good start to the ski season. Tourism remains an important source of growth. The PSI also shows strong growth occurring in those industries closely associated with population growth like health and community as well as the cultural, recreational, and personal service industries. Wholesale trade is buoyant. Conversely, retail stood out for its weakness in July. This might simply reflect some payback from a very strong June. In any case, it is another spending indicator for July that shows no sign of boost from the fiscal stimulus package. Perhaps that boost is being offset by the likes of a slower housing market or higher fuel prices. The latter might also help explain weakness in the PSI transport indicator over recent months along with general activity.

Employment flat

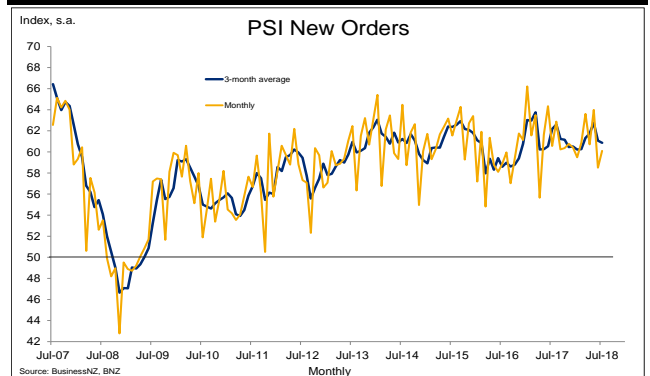
Employment was one genuinely softer spot in the PSI, coming in at 49.9 essentially unchanged from June's 50.0. With sales and orders firm, this looks to be at least as much an issue with finding staff as any slowdown in labour demand.

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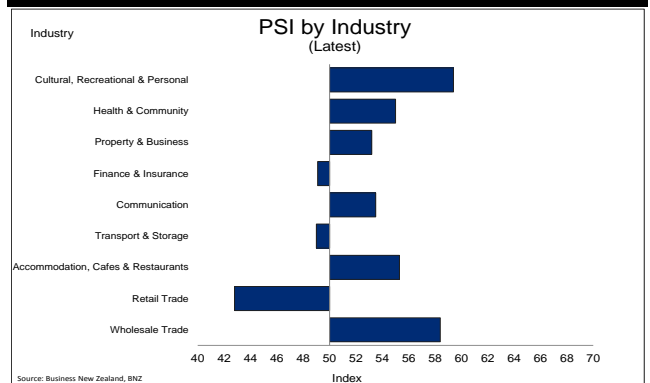
Partial Recovery



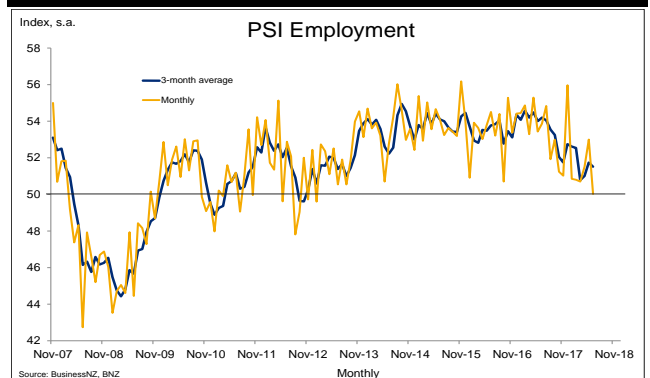
Firm Orders



More Positive Than Negative



Employment Flat



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