

19 July 2021



The PSI

In the space of three months, the Performance of Services Index (PSI) has gone from indicating scant growth to rapid expansion. In printing at 58.6 in June, the PSI established a June quarter average of 58.7. This compares to the average over the March quarter of 50.2. Only once before has the 3-month average been stronger than it is now, and that was way back in the June quarter of 2007. Leading the way in June 2021 continued to be New Orders/Business, with 66.1, while Activity/Sales, at 62.5, was next most above its historical norm. Looking at the more supply-side focussed indices, however, and Stocks/Inventory (50.9) remained so-so while Supplier Deliveries (46.2) stayed outright weak.

Employment plus

Certainly, much of the negatively headed feedback to the PSI survey in June related to ongoing problems with supplies, including increased lead times. Complaints also resonated regarding the scarcity of staff, with the closed borders partly to blame. At the same time, the PSI indicates that hiring has been rampant over recent months. Indeed, its employment index, at 56.5 in June, was about 5 points north of its norm. This signals the potential for a strong June quarter gain in “official” employment, as per the Household Labour Force Survey (due 4 August). With this is the scope for the unemployment rate to drop quite a bit, from the 4.7% level it had already eased to in Q1 2021.

Industry features

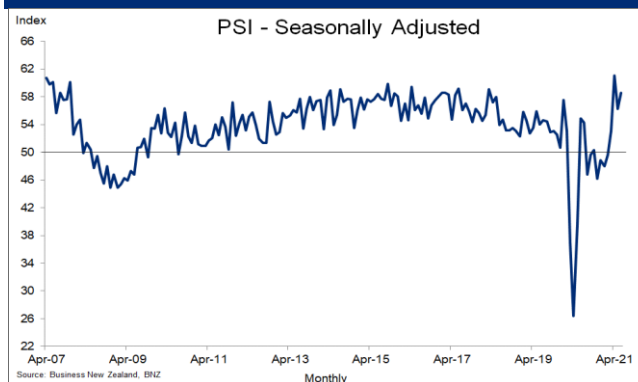
While the PSI is riding high overall, there is still interesting variability in its detail. Two of the strongest industries in June, for instance, were Property & Business (57.3) and Finance & Insurance (55.0). This accords with the still-strong data emanating from the housing market in June, despite government policies from March designed to take some heat out. Retail Trade (45.4) and Accommodation, Cafes & Restaurants (45.8) meanwhile were weak – yet electronic card transactions were expanding exceptionally fast over recent months.

GDP inferences

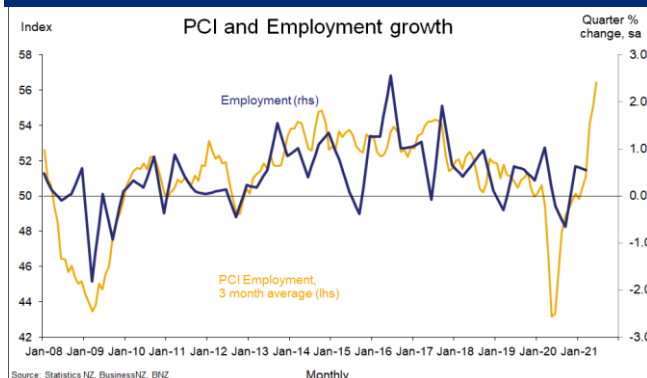
But, really, it's the now very strong force of the PSI, overall, that's the important thing to note. Even stronger in June, of course, was the Performance of Manufacturing Index (PMI), which hit 60.7. Combined, the PSI and PMI signal a hefty rate of growth in economic activity – in the realm of a 4% annual rate of growth in GDP. At one level, this is very encouraging. At another, it suggests the economy is running headlong into even-worse capacity constraint, and, with it, serious inflation pressure.

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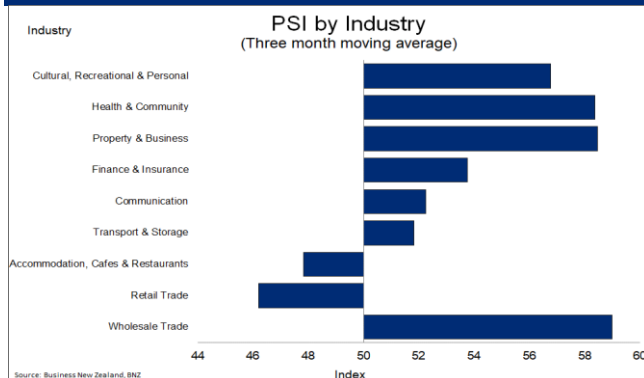
Cemented Acceleration



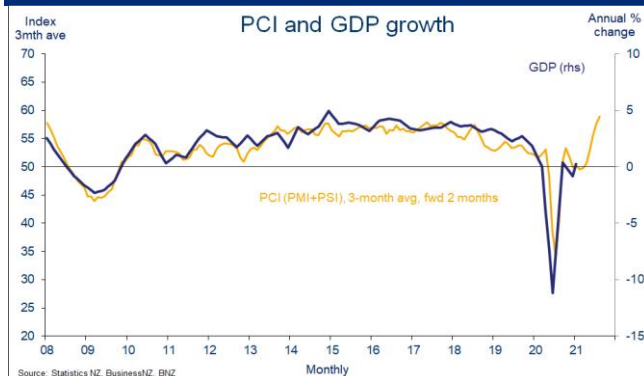
Indications of a Hiring Binge



Still Some Variety



(Impossibly?) Strong



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