Research

Services Landscape

14 August 2023

Demand Drops

Service sector activity took a clear hit in July. The Performance of Services Index (PSI) fell to 47.8 from 49.6 in June. That is concerning enough given it has pushed below the breakeven 50 mark indicating contraction for a significant share of the economy. But it is the details that reveal the real slump. The PSI activity/sales indicator sank to 39.6 in July from 50.9 in June. Outside of lockdown periods, this is the worst sales reading since the survey started in 2007 (including through the GFC). Adding to concerns, the new orders/business indicator also dropped heavily (to 43.8 from 50.4). It all points to a sharp drop in demand in July, significantly accelerating the slowing trend that had been evident for many months. Supplier deliveries and inventories rose, while employment, at 49.0, posted its second consecutive month below 50.

Not Enough Positives

It wasn't all bad. Cultural, Recreational & Personal stood out among industries with a very positive unadjusted 63.1 reading. Accommodation, Cafes & Restaurants was also better than most, albeit only marginally positive at 50.5. It is difficult to know how much the FIFA Women's World Cup supported activity among these industries. But to the extent that it has, the underlying PSI is that much softer. Retail trade was particularly weak, even for a July. It's 40.6 unadjusted PSI was only a tick above the softest ever July reading of 40.5 back in 2010. That fits with weak consumer confidence and poor spending indicators like electronic card transactions in the month.

Not A Good Combo

The PSI follows the release of a soft PMI last week. This puts the average composite (PCI) measure meaningfully under 50, at 47.5. That is not a good look for GDP heading into the second half of the year. We think GDP managed some growth in Q2 but see that as the economy bumping along the bottom. We had long expected GDP to struggle this year and the PCI adds to that belief. The composite measure of employment has also softened. This suggests that the recent migration-enabled employment growth might be slowing. Our forecasts already expect this to be the case over coming quarters as labour demand is satisfied. We also expect the unemployment rate to rise. The PCI indicator supports this view and even raises the possibility that employment falls rather than merely slows. The PCI does not match every move in official employment figures, but its downside risk signal is intensifying.

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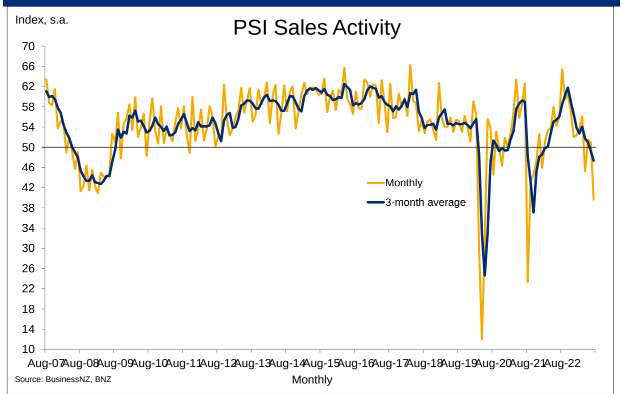
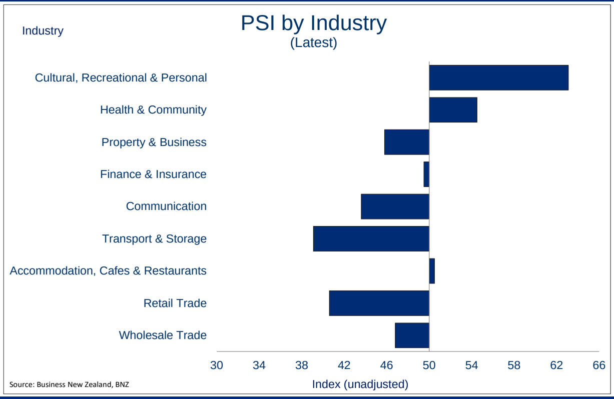
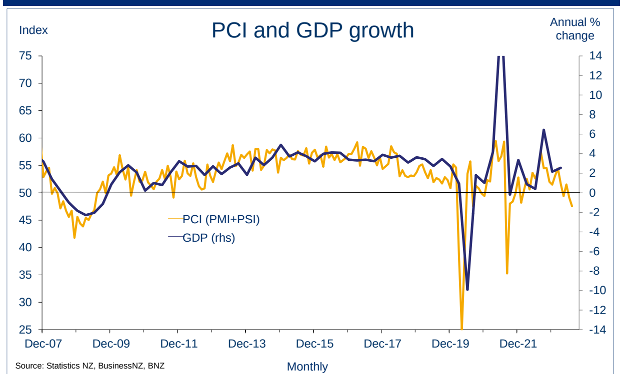
Sales Slump



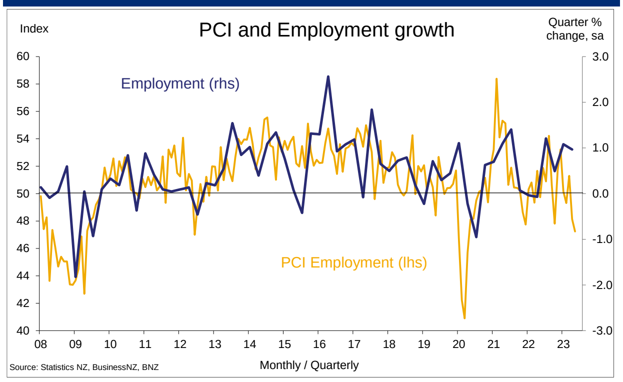
Positives Few And Far Between



Growth Signal Poor



Downside Risk To Employment



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