

Research Services Landscape

13 May 2024

No bounce

The Performance of Services Index (PSI) failed to bounce in April. At 47.1, it was marginally lower than the 47.2 it had slumped to in March. We thought last month's drop reflected more than just the timing of Easter. Evidence of this is much stronger now with another poor PSI reading in April. It is disconcerting. Previously, the broad service sector had been holding up relatively well compared to other segments of the economy. That no longer looks to be the case.

Weakness prevalent

Within the broad sector some service industries have been weak or weakening for an extended period. Retail trade falls into that category and remains exceptionally depressed as household spending restraint continues. Wholesale trade hasn't been much better and has posted a firmly contractionary PSI reading of 43.4 in April. With weak retail and wholesale, it is no surprise to see the same in transport, with April's 46.1 that industry's fifth consecutive sub 50 outcome. Property and business, as well as communication, readings were also well below 50. Many PSI respondents cite weak demand as a major influence on their business.

Demand down

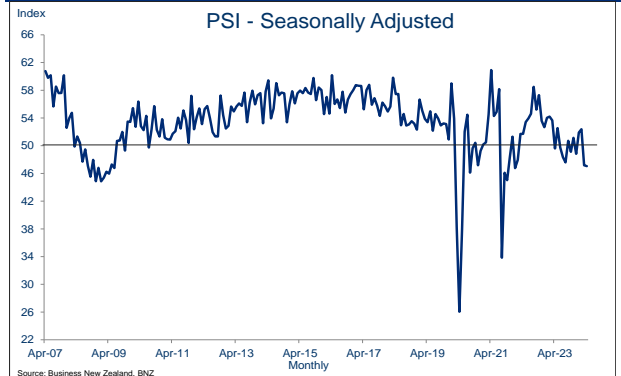
Weak demand was most obvious in April's PSI new orders index at 47.1. This is well below 50, a bit lower than March's already weak 47.9, and now 10 full percentage points below its long-term average. Current sales are weak too, with the PSI sales/activity index remaining well below 50, at 46.5.

Not good for GDP nor employment

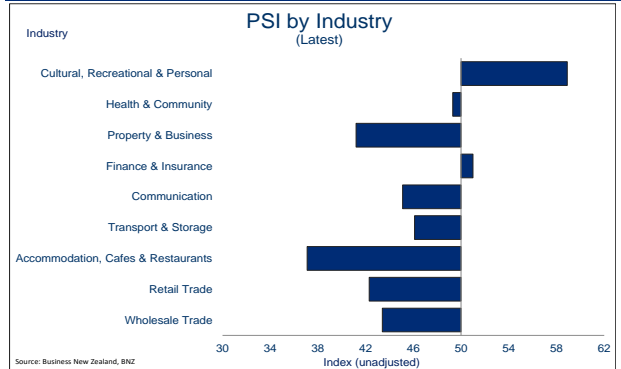
Combining today's weak PSI with last week's PMI yields a composite reading that would be consistent with GDP tracking below year earlier levels into the middle of this year. That is what we expect and, if anything, the combined index suggests some downside risk to our forecasts. Employment was also weak, with the combined index averaging 48.1 in April. This follows a clear downtrend in the likes of SEEK job ads. The combined PMI and PSI suggests no reprieve on the jobs front in Q2 after recent official figures revealed employment fell 0.2% in Q1. Today's numbers are consistent with our forecast that the unemployment rate rises further from the 4.3% it lifted to in the first quarter of this year.

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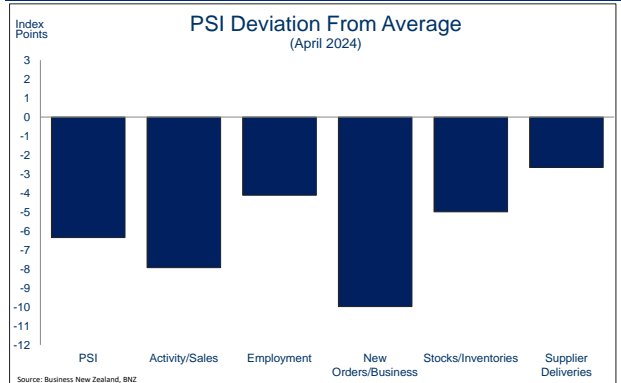
Retreat affirmed



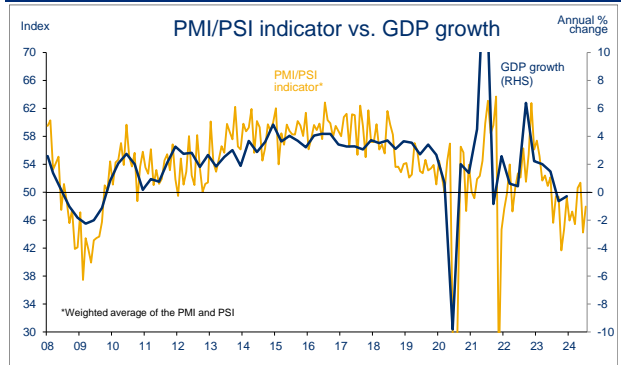
Majority in reverse



Demand most below average



Growth struggles



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