

Research Services Landscape

16 September 2024

Still not good

The Performance of Services Index (PSI) lifted marginally from 45.2 to 45.5 in August. Those are better than June's truly awful 41.0 but continues to reflect extremely challenging conditions for the services sector. Smoothing through monthly volatility, the PSI's 3-month average remains deep in contractionary territory at 43.9. The PSI has been in contraction for 6 consecutive months which is the longest continuous period of decline since the GFC.

Bouncing below 50

Movements in the PSI sub-indices were mixed in August, but all of them remain in contraction. The PSI activity/sales index recovered the most from 41.2 to 43.9. While not indicating expansion, it is considerably less pessimistic than June's 36.6. The PSI employment index increased from 47.0 to 49.2 and is the series closest to its historical average. The PSI new orders/business index decreased slightly to 46.6 but along with July's 47.0 it has become considerably less negative than the combination of 42.6 and 39.5 in May and June respectively.

Retail trade struggling

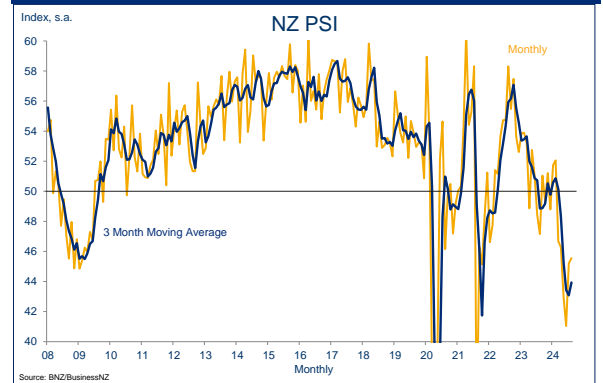
The PSI retail trade index increased from 31.8 to 36.8 in August but remains the weakest PSI industry. Official figures show that retail sales volumes have decreased in 9 out of the last 10 quarters through to Q2 this year. Our economic forecasts are for retail sales volumes to be flat in Q3, remembering that the current starting point remains very weak. The outlook is a contest between the likes of income tax relief and interest rate reduction on the positive side and a deteriorating labour market and subdued housing market on the negative. Lower fuel prices will also provide some support to the purchasing power of household disposable income.

Slower contraction

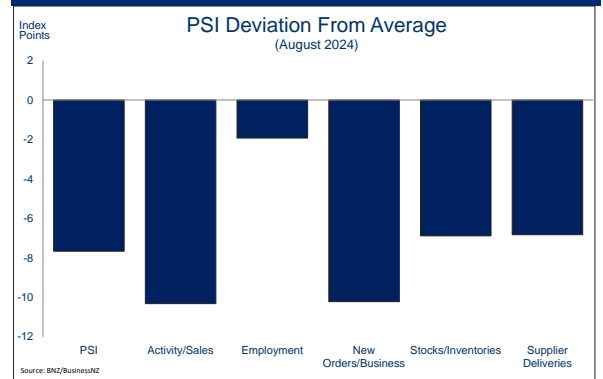
Joining together the PMI and PSI, the combined index (PCI) implies ongoing economic weakness. We anticipate next week's Q2 GDP figures to show a contraction of -0.4% for the quarter. Consistent with our economic forecasts, the weakness for the PCI in August suggests that contraction is likely to continue into Q3. More encouragingly, while still well below 50, the PMI and PSI activity components add to a host of economic indicators that have become at least less negative over the past month or so.

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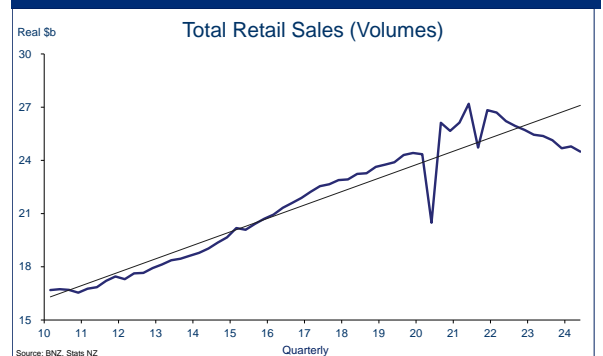
Headwinds persist



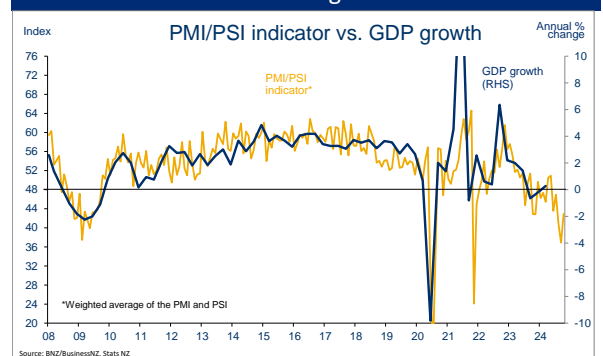
Weakness broad-based



Retail retreat



Growth negative



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