

Research Services Landscape

18 March 2024

More signs of life

When we wrote up the Performance of Manufacturing Index last week, we noted there were an increasing number of indicators suggesting hope for the economy. The PMI added to that list and, today, so too does the Performance of Services Index. Sure, the increase in the index from 52.2 to 53.0 is hardly earth shattering but it is, nonetheless, the second consecutive month above 50 and the highest reading since March 2023. To cap things off, new orders rose to a solid 56.0 the highest since December 2022. However, while the activity indicators looked relatively robust, employment, at 49.1, was still in “negative” territory.

Retailers downtrodden

Sectoral data are always difficult to interpret but it comes as no surprise that one of the weakest sectors was retail trade. Retail sales have now fallen for eight consecutive quarters. This has happened only once before in 2008 and 2009 as the Global Financial Crisis clobbered spending. Weakness in transport and storage is probably related to soft spending too. At the other end of the scale, health and community is booming. To the extent this reflects an ailing population it is not necessarily cause for celebration. The combined employment indicator stands at 49.1. This would be consistent with a contraction in employment and a relatively sharp rise in the unemployment rate. We are not convinced of the former but do believe the unemployment rate will climb towards 6.0%.

Worse before better

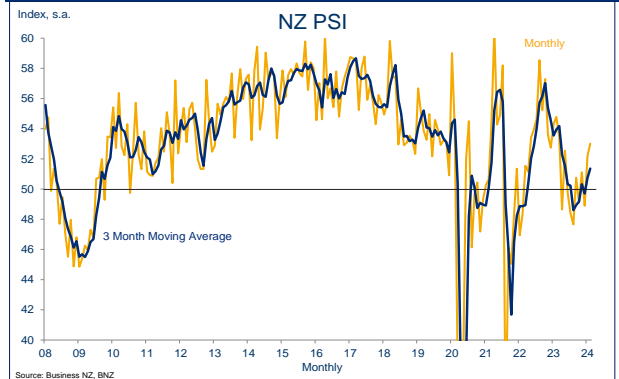
When we combine the PMI and PSI together to get an indicator of activity, there is a strong suggestion of growth returning later this year. The turnaround occurs a little stronger and earlier than we are forecasting but, whatever the case, it is a heartening sign. That said the path of the series still suggests things get worse before they get better.

Services continue to outperform

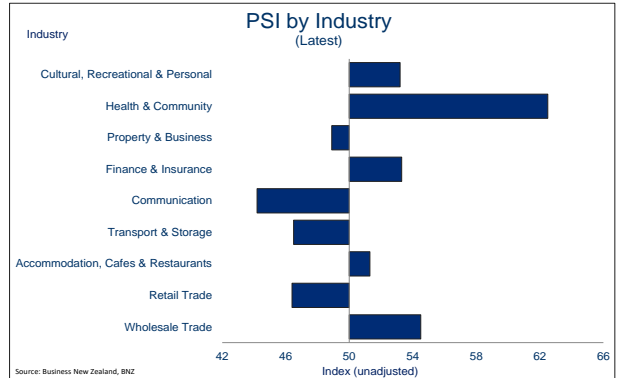
Globally, services have been outperforming the manufacturing sector for some time. While many countries continue to see manufacturing wallowing in recession territory the same cannot be said for services. In being above 50 New Zealand’s PSI was amongst company. Even moribund Europe delivered a services reading that was in the black. Manufacturing is starting to close the gap with services but we think there is little chance of a crossover in strength while monetary conditions remain so tight.

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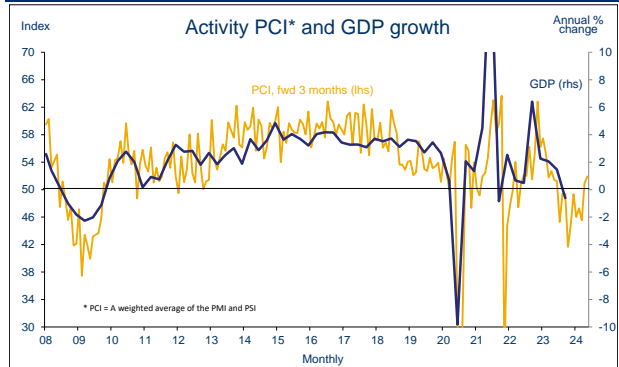
Services expanding



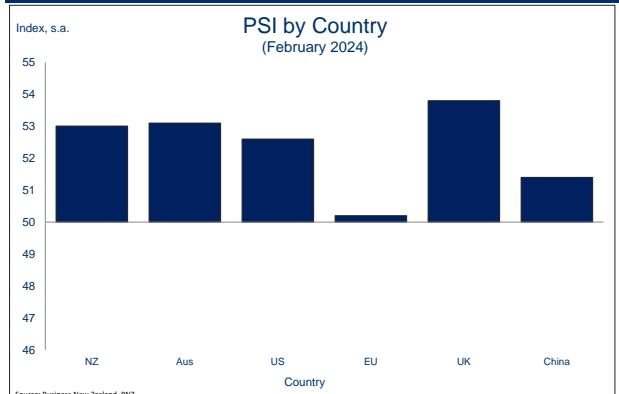
Household spending unhealthy



A turning point?



Relative PSI strength global



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