

Research Services Landscape

16 February 2024

A plus sign

Signs of life appeared in the Performance of Services Index (PSI) in January. We were heartened to see it push back above the magical 50 mark, to 52.1, driven by a pickup in activity/sales and new orders. The PSI remains below its long-term average of 53.4, so we don't want to overstate the lift. But it is notable that the index has posted its best reading since May last year after oscillating around the breakeven 50 level over recent months.

Better than going backwards

Today's PSI follows its sister survey for the manufacturing sector (PMI) released last week, which was still struggling but less so than before. The combined PMI and PSI activity indicator (PCI) suggests that annual GDP growth will soon turn positive. That is great news for an economy that has been under pressure. But it still has to go a lot further before we return to growth rates that would prevent the spare capacity in the economy growing. The combined indicator portends GDP growth a smidgen above zero. This certainly does not provide any suggestion that a further tightening in monetary conditions is warranted.

But unemployment set to rise

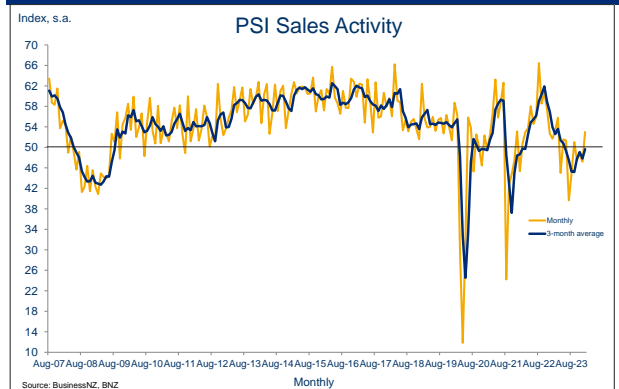
A lengthy period of struggling economic growth has been broadly in line with our prior forecasts. We have also long expected some improvement in activity to occur later this year. The PCI activity indicator's push into positive territory is helpful to support this view, but we would need to see the indicators improve further over the coming year to be more consistent with our growth forecasts. An economy growing below its potential rate is usually accompanied by a lift in the unemployment rate. The latter has already pushed up to 4%, en route to what we think will be over 5% in the year ahead. PCI employment remains below 50, where it has spent most of its time since the middle of last year. This suggests employment growth has continued to struggle into the New Year.

Tourism growth slowing post rebound

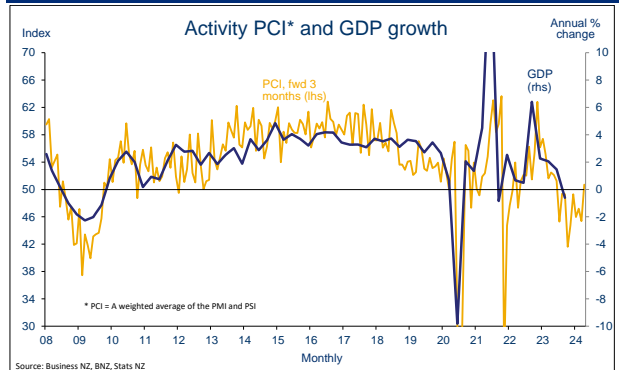
Strong tourism growth post Covid restrictions has been a support to services activity, but it is slowing. Short term visitor numbers in December were up 14.8% on the prior year's low base. However, over recent months there has been a clear levelling off, even a hint of a downtrend, in visitor numbers when compared to pre-covid norms. Indeed, December visitor numbers were 79.3% of the pre-covid equivalent month, a 7-month low on this metric.

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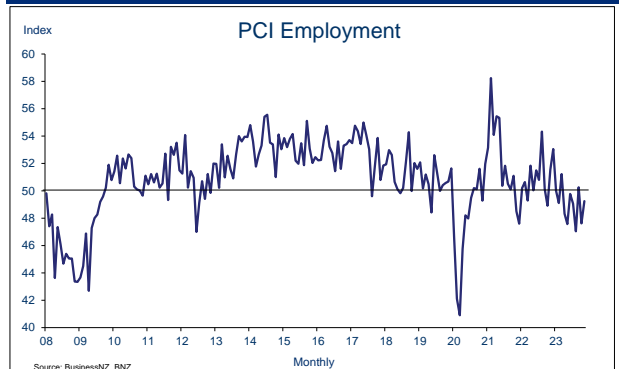
Above The Surface



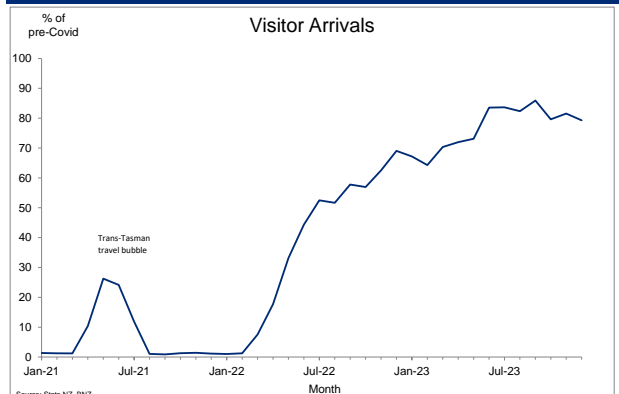
Helpful



Still Weak



Levelling Off



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