

# Research Services Landscape

19 August 2024

## Yeah, nah

The services sector remains under significant pressure. While the Performance of Services Index (PSI) rose to 44.6 in July, from June's 40.7, it's a half-hearted bounce and remains exceptionally weak. To get some perspective on how challenging the current environment is for service sector firms, it's notable the increase in the PSI does not even get the index back to the level it was during the depths of the GFC back in 2008/09. Smoothing through recent months shows rapid and significant service sector contraction. The PSI's three-month average to July hit 42.7, well below that seen during the GFC.

## Well below normal

There was no joy in the PSI details. It is true that in July some indicators were a bit less awful than in June, but that month was an incredibly low bar. Take activity/sales for example. While July's 39.1 was a bit higher than June's 36.2, those months are the worst two readings in the survey's history (aside from Covid lockdowns). These readings show exceptionally weak demand. Not that there were any signs of strength elsewhere, with all major components well below average in July.

## Widespread weakness

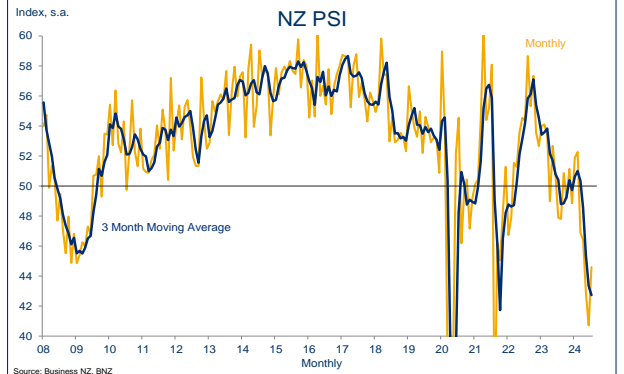
Service sector weakness was widespread. In fact, unadjusted PSI readings were sub 50 across all groupings whether it be by firm size, by region, or by industry. All industries below 50 in the same month has never occurred before outside of Covid lockdowns. It fits with demand restraint from all comers whether it be from business, government, tourists, new migrants, or households. While the degree of indicated contraction in the PSI varies across industries, retail trade continues to stand out on the downside. Not only was its unadjusted 31.8 in July the lowest among industries in the month, but it was that industry's worst July result since the PSI survey began – and by quite some margin. Accommodation, cafes, and restaurants also recorded its lowest ever July PSI, at 34.1.

## In reverse

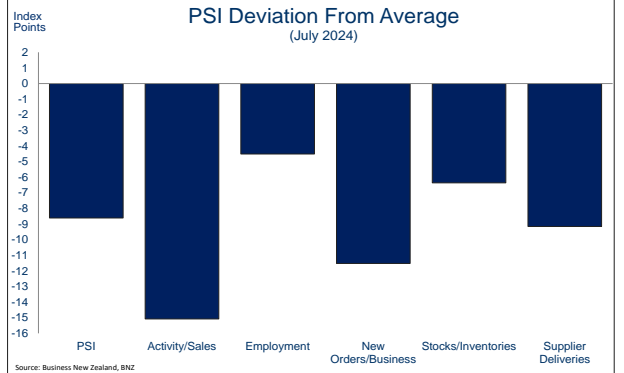
Joining the weak PSI with a similarly weak PMI reading from last week, gives a combined index (PCI) indicating ongoing economic contraction. Our forecasts already show near term GDP weakness. The limited bounce in both the PMI and PSI in July adds to the case. We, thus, tab down our Q3 GDP estimate to -0.3% from flat. Whatever the precise figure, which will also depend on how weak Q2 is, the main message of activity under pressure remains.

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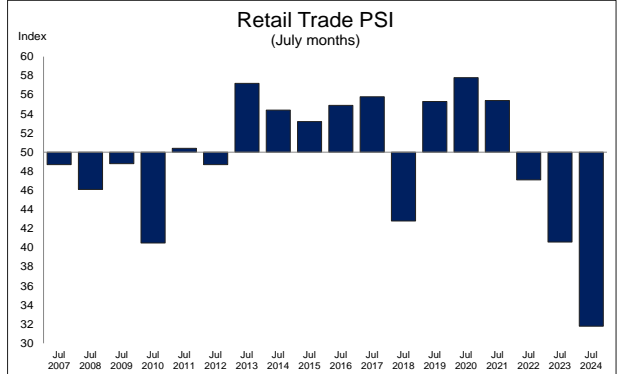
### Bouncing under water



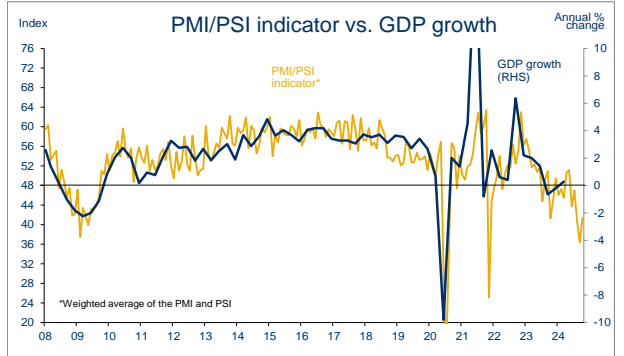
### All well below normal



### Very dry July



### Contraction



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