

Research Services Landscape

10 July 2024

Retail recession

The Performance of Services Index has been well below average for more than a year. Moreover, the weakness appears to be accelerating. This reflects multiple drivers. We take a brief look at four areas here: retail sales, tourism, housing, and government. Retail trade stands out. Official figures show sales volumes declined in 8 out of the 9 quarters through to the first quarter of this year. Timely indicators suggest another decline likely occurred in the just completed second quarter. That would see retail sales volumes down around 9% from their peak in 2021. Retail weakness has funnelled back through distribution and logistics channels. Recent GDP figures included material annual contractions in retail and wholesale trade as well as in the transport, postal, and warehousing industries.

Tourism lift flattening

International visitor arrivals drive segments of service sector activity. Growth has slowed sharply. Prior extremely rapid growth off a very low base, following the reopening of the country's borders, has ended. Monthly arrival figures this year have been distorted by the likes of the leap day and the timing of Easter. But the uptrend has slowed. Through the monthly humps and bumps, visitor arrival numbers have averaged around 83% of pre-covid levels over the first five months of this year, roughly matching the average in the second half of last year. In outright numbers, the circa 3.2m visitors in the year to May 2024 was 83% of the near 3.9m in 2019.

Housing

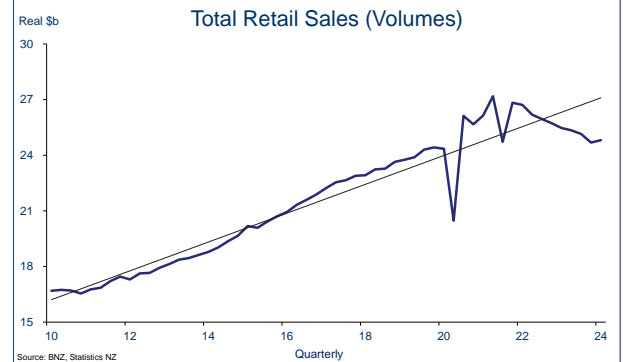
Housing market activity has significant influence across various parts of the service sector. While more listings have enabled some activity, transaction numbers have been generally subdued. Elevated interest rates have been in play here. It is true that the number of house sales are well above their low levels of late 2022. But the level of activity over the past year has been well below historical averages (and all the more so on a per-capita basis). That's been a weight on service sector business.

Architects

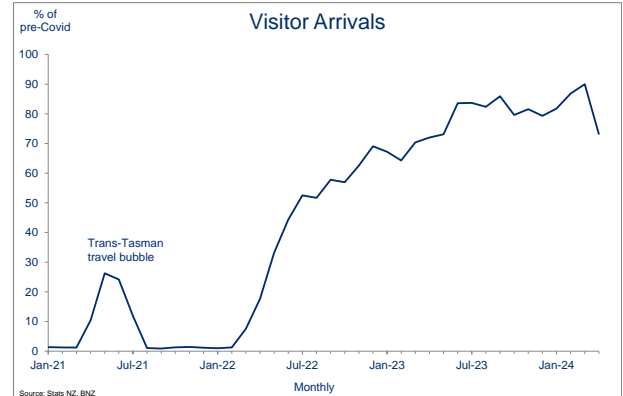
Architect responses to the QSBO have long reflected a softer outlook for residential and commercial building activity. More recently, there has been a precipitous drop in architects' 1-year (and 1-to-2-year) ahead view of their government-related work, to a level not seen since the early 1990s. That is a clear area of weakness. However, it is hardly a full picture of government influence on the service sector with a significant reallocation of funds occurring.

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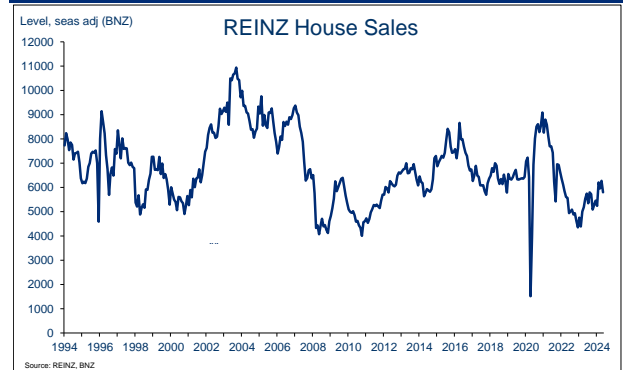
Retail retreat



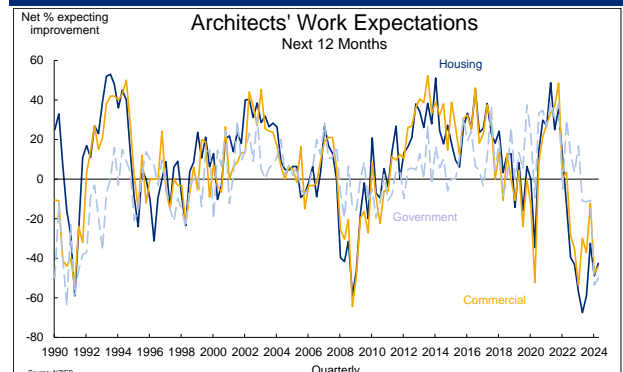
Tourism growth slowing



Housing subdued



Ask the architects



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