RESEARCH

Services Landscape

20 June 2022

PSI heads higher

After a somewhat disappointing April result in the context of easing COVID restrictions during that month (Red to Orange), the Performance of Services Index (PSI) made a more strident step forward in May. It rose to 55.2 from 52.2. While the improvement was far from universal across components, reflecting many ongoing challenges across segments of the service sector, the overall outcome was the first above average result since the outbreak of Delta in August last year. It is a step in the right direction.

Demand indicators firm

Demand components led the charge in May. New orders/business rose to an outright strong 62.0 from a so-so reading of 55.2 in April. Activity/sales also rose strongly to 59.6, to be well above its long-term average of 54.8. We sense that at least some of these gains reflect a degree of bounce back from Omicron's initial hit as well as increased demand associated with the reopening of the border. The accommodation, cafes, and restaurants PSI strengthened further to an unadjusted 61.9 – its highest reading for a May month since the survey started back in 2007. It is a far cry from February's lowest ever reading of 11.2.

Headway or Headfake?

It remains to be seen how durable the bounce in the PSI turns out to be. But along with last week's solid PMI reading, a lift in the combined index (PCI) adds weight to our long-held view that GDP will bounce strongly in Q2 following its weakness in Q1. Beyond a near term bounce, we remain of the view that economic growth will struggle heading into and through next year as accumulating headwinds from such things as slower global growth, rising costs, tighter policy, and lower asset prices take their toll.

Supply issues remain, although more mixed

Supplier deliveries remain an issue, with this component still languishing below the 50 mark as it has done since shortly after the pandemic started. The best we can say is that May's 45.0 is less bad than April's 40.7. The PSI's stocks/inventories component was positive, with May's 54.6 following April's 55.0, suggesting the extreme squeeze on inventory levels has relaxed somewhat over recent months. Regards employment, the PSI index eased to 48.5 in May from 51.0 in April. Respondent comments suggest this still mainly reflects heightened labour turnover and a broad difficulty finding staff among service sector firms rather than a softening in labour demand. That fits with the idea of limited employment growth and a low unemployment rate persisting. The balance of demand and supply indicators suggest ongoing upward price pressure.

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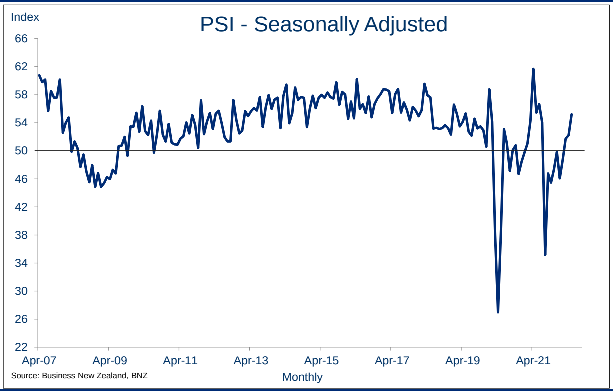
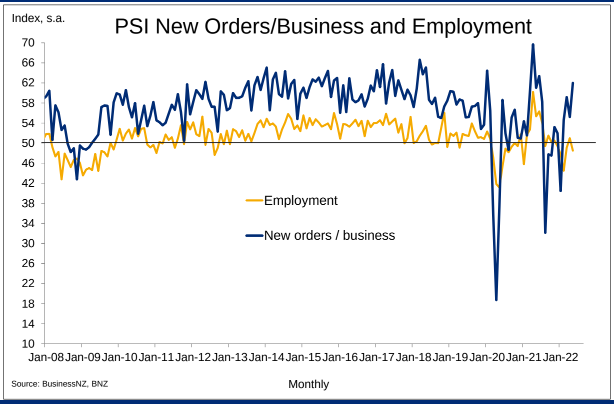
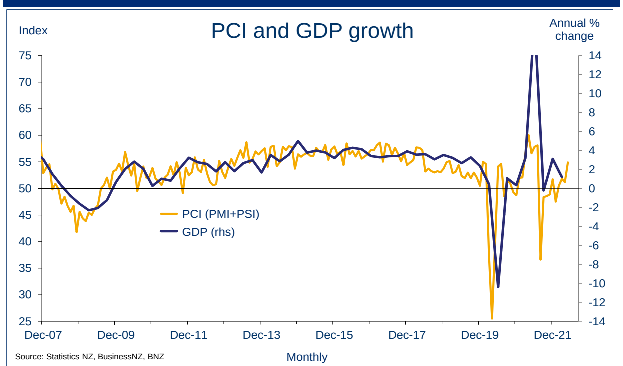
Clear Lift



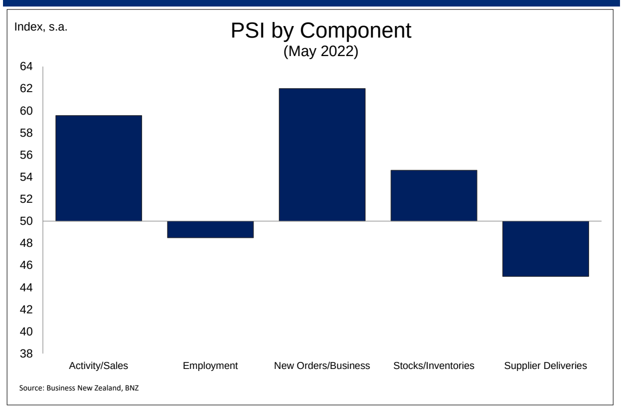
Big New Orders; Limited Staff



Q2 GDP To Rebound From Q1 Dip



Deliveries Still Problematic



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