Services Landscape

17 December 2018

Settling Slower

After pushing back above average in October, the Performance of Services Index (PSI) slipped back in November. In numbers, October's 55.4 and November's 53.5 oscillated around the series' long term average of 54.5. Overall, it adds to the evidence that growth in the service sector has settled at a slower pace over the past six months compared to what prevailed previously.

Details

Slower activity/sales stood out on the softer side in November, with this sub index easing to 53.6 from 57.6 in October. Supplier deliveries were also weak, dipping below the 50 mark that delineates expansion from contraction. It is difficult to know what to make of this. Could it be that restricted supplies are constraining sales? It is not that slower sales have resulted in an excessive inventory build with the inventory index easing to 50.7, its slowest rate in more than 18 months. Nor does demand look particularly weak with the new orders index at 57.3, although this is a touch under its long term average of 58.6. Whatever the case, the balance of demand and supply will be important to watch over coming months.

GDP implications

When they were released a few months ago, Q2 GDP figures revealed 1.0% growth in the quarter. The much more timely PSI (and PMI) indicators have long been suggesting that growth in the second half of the year has continued albeit slowed from Q2's pace. This Thursday's Q3 GDP figures are expected to provide some confirmation of this, including in the services sector.

Employment Bastion

One PSI component showing undeniable strength in November was employment. This lifted to 54.7 adding to its previous strong gain to 53.7 in October, indicating a clear pick up in service sector employment growth has occurred early in the final quarter of the year. Employment strength is notable for a few reasons. First, the PSI employment component doesn't often get much stronger than this. Second, it is occurring while current sales indicators look a bit sluggish suggesting, perhaps, firms expect sales to improve and are hiring accordingly. And third, it is encouraging that firms have managed to find suitable staff in what many indicators show is a tight labour market. It all suggests the labour market remains in rude health, even if many think the drop in the unemployment rate to 3.9% in Q3 overstated the trend.

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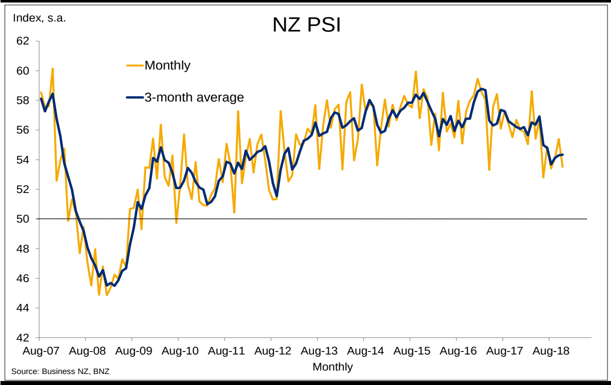
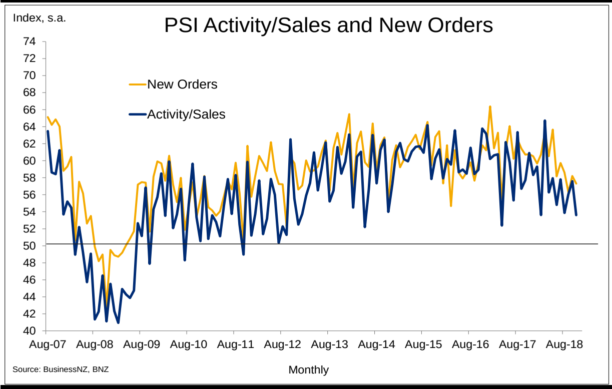
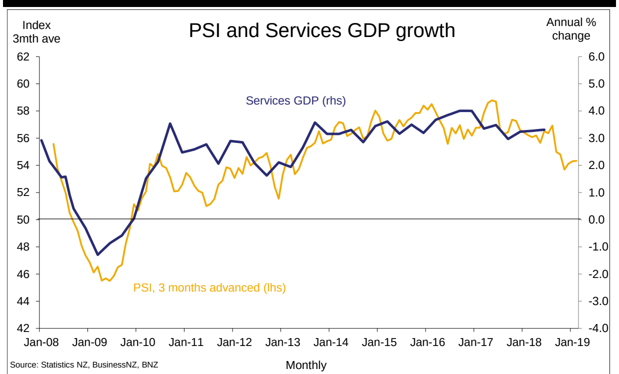
Slower Over Past Six Months



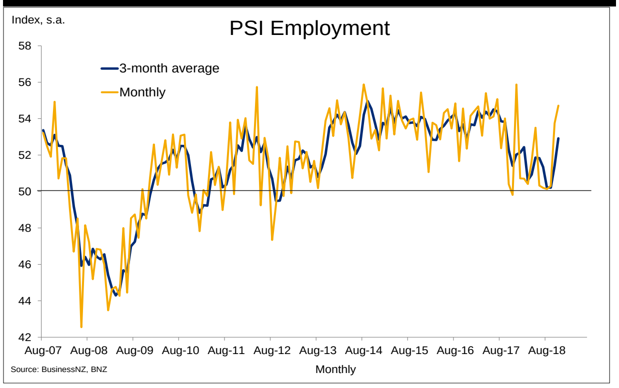
Sales Soft, Orders Resilient



GDP To Confirm Slower Growth?



Strength Here



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