Research

Services Landscape

21 January 2025

Return to reality

The Performance of Services Index (PSI) eased from 49.1 to 47.9 in December. The latest outturn is a reality check after its near-50 reading in November, and a reminder of soft activity underfoot. The monthly decrease was mostly driven by the supply side, as the PSI supplier deliveries index (47.7) and PSI stocks/inventories index (48.8) both fell back below 50. Providing some hope, the three-month moving average for the PSI has been steadily moving towards breakeven over the last five months.

Labour market deteriorating at a slower pace

The PSI employment index nudged up from 46.7 to 47.4 and was the only sub-index to improve in December. It remains well below 50, but the direction of change is encouraging. In the latest NZIER Quarterly Survey of Business Opinion (QSBO), a net 3% of services sector firms say they are looking to hire staff. Be that as it may, the labour market still looks extremely soft. Our economic forecasts are for the labour market to lag, such that the unemployment rate pushes a bit higher before peaking.

NZ economy still underperforming

Comparing across our key trading partners, New Zealand has the only PSI in contraction. Our neighbour Australia is the closest comparison, but their equivalent PSI is sitting more comfortably at 50.8. Of note, the US economy continues to outperform its peers. Contrasting economic fortunes between the US and NZ economy were a key driver of another hefty fall in the New Zealand dollar in December. Results well below 50 in NZ for both the PSI and the Performance of Manufacturing Index (PMI) continue to highlight broad-based weak demand.

Not getting carried away

Combining the PSI and the PMI, the Composite Index (PCI) suggests some downside risk to our near-term growth forecasts. Historical revisions show GDP was slightly better over 2023 and early 2024 than previously assumed. However, they also show a faster deterioration in Q2 and Q3 2024 than expected. The updated data better matches the weakness observed in our PCI indicator across the middle of 2024. Economic turning points are messy. While some indicators (e.g. business confidence) are suggesting a turnaround, others like the PCI suggest that it could take some time for it to feel like a recovery.

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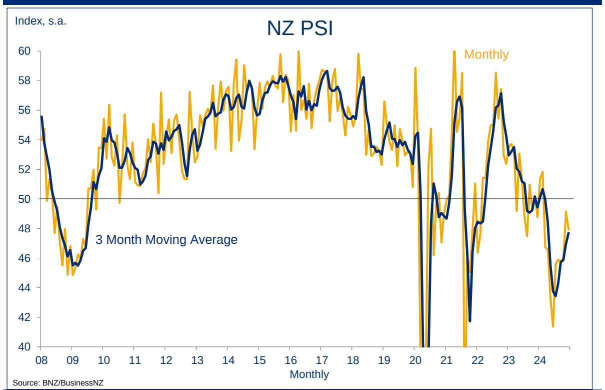
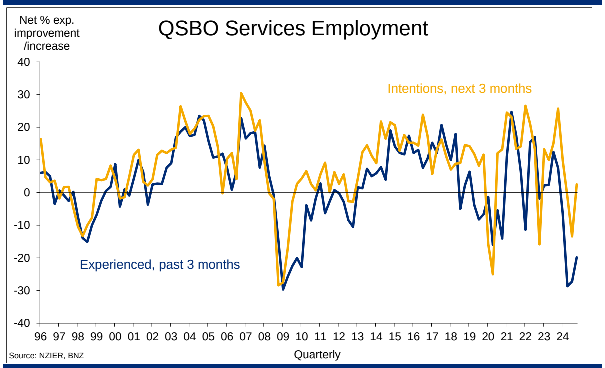
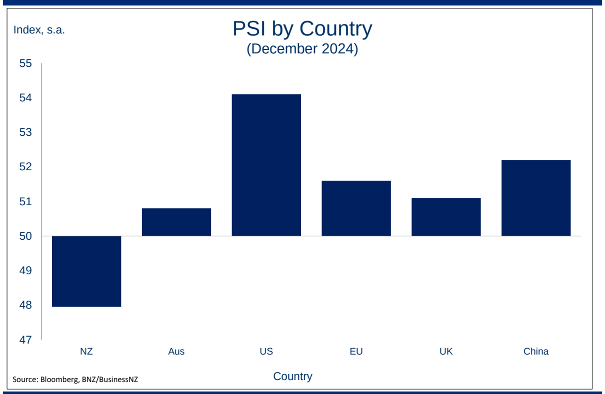
Not there yet



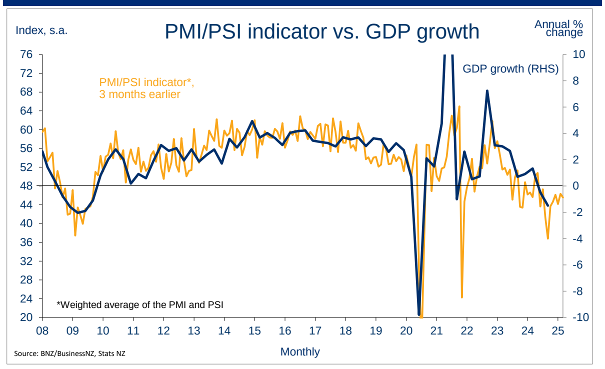
Intentions and experienced diverging



US economic outperformance



Struggling for traction



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