Research

# Services Landscape

16 December 2024

## Encouraging sign

The Performance of Services Index (PSI) jumped from 46.2 to 49.5 in November. While the PSI still indicates a slight contraction, it has recovered to its highest level since February and suggests service sector conditions are stabilising. This is another case of things getting less bad before they get good. The direction of change is encouraging, but it's important to remember the PSI remains well below its long-run average of 53.1.

## Labour market likely to lag

All the PSI sub-indices increased in November. The PSI stocks/inventories index and the PSI supplier deliveries index both lifted from 47.7 to 52.2. It is the first time any of the sub-indices have moved above 50 since February. This could suggest firms are stocking up on inventory ahead of an anticipated increase in domestic demand. In contrast, the PSI employment index is now the furthest in contraction, albeit nudging slightly higher from 46.4 to 46.8. We continue to expect the labour market to lag the broader economic recovery.

## NZ still underperforming

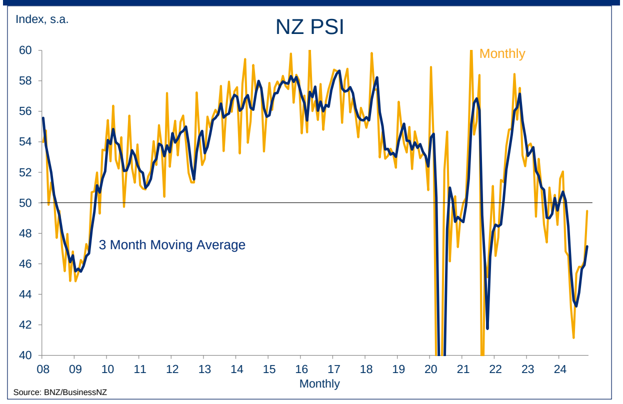
While it's another move in the right direction, NZ remains well below the Global PSI of 53.1. The gap between the measures sits at 3.6 points, but at least this has converged from 12 points back in June. US service sector outperformance continued in November, with the US Index lifting to 56.1. In contrast, economic conditions in Europe remain weak with the Eurozone Index at par with NZ.

## Not getting carried away

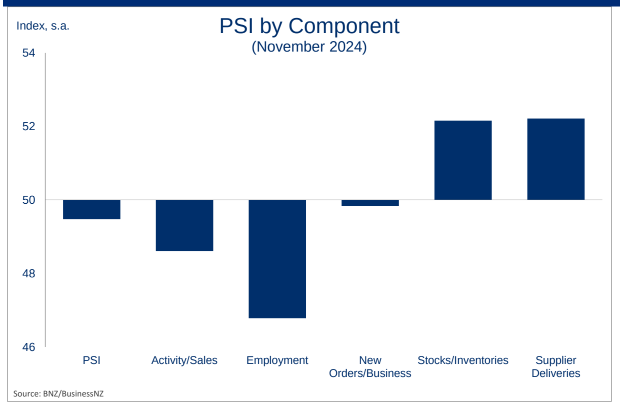
The Composite Index (PCI), which combines the PSI and the Performance of Manufacturing Index (PMI), suggests GDP is still tracking below year earlier levels. The lift in the PSI has been tempered by further contraction in the PMI. We anticipate this week's Q3 GDP figures to show a decrease of -0.4% for the quarter. Our economic forecasts are for growth to be broadly flat in Q4 before starting to improve in 2025. The impact of interest rate cuts to date is more one of stabilisation than elevation.

doug_steel@bnz.co.nz

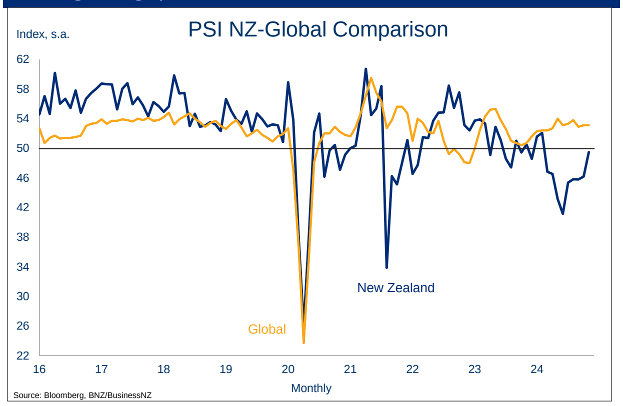
### Knocking on the door



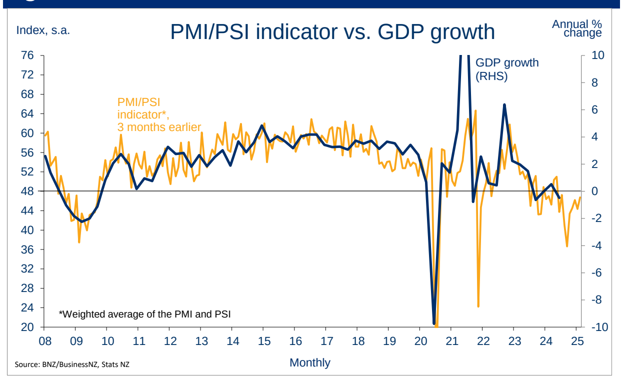

### Varied across components




### Closing the gap




### Light at the end of the tunnel?



# Contact Details

## BNZ Research

**Stephen Toplis**
Head of Research

**Doug Steel**
Senior Economist

**Matt Brunt**
Economist

**Jason Wong**
Senior Markets Strategist

**Stuart Ritson**
Senior Interest Rate Strategist

**Mike Jones**
BNZ Chief Economist

## Main Offices

**Wellington**
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

**Auckland**
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

**Christchurch**
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854