Research

Services Landscape

18 November 2024

Still moving backwards

The Performance of Services Index (PSI) nudged up from 45.7 to 46.0 in October. The small movement doesn't materially change the message of a services sector firmly in reverse. Although it is contracting at a much slower pace than it was in June (when the PSI was 41.1), the PSI has been hovering between 45 and 46 over the last four months. The activity outlook for the sector has improved in recent business surveys, but the here and now remains extremely challenging.

Crawling in the right direction

While all the sub-indices remain in contraction, four of the five series moved slightly closer to breakeven. The PSI new orders index inched up to 48.1 from 46.8 and is the closest of the sub-indices to 50. This was also observed in the Performance of Manufacturing Index (PMI), where new orders are still falling, but now only slightly. The PSI activity/sales index was the only series to fall in October, declining from 45.6 to 44.3. International visitor arrivals tend to drive segments of service sector activity, but these remain subdued at around 87% of pre-covid levels.

Improving from a weak base

The PSI retail trade index improved to 50.3 on an unadjusted basis but remains well below its historical average of 54.0 for October. While retail activity tends to increase in the lead-up to summer and Christmas, it is important to remember that any improvement is coming off a very weak base. Recent data for electronic card transactions are also consistent with a gradual recovery in retail trade, albeit transaction values are still trailing year earlier levels. Our economic forecasts are for retail sales volumes to be broadly flat in Q3 and then lift slightly in Q4.

Struggling for traction

Combining the PMI and PSI, the Composite Index (PCI) suggests GDP is still tracking below year earlier levels. Our economic forecasts are for GDP to contract again in Q3 before starting to gradually recover. The PCI suggests some downside risk to our forecasts, which are broadly consistent with the RBNZ's projections in the August MPS. Lower interest rates will be supportive, but the PMI and PSI both stuck in contraction supports the case for further monetary policy easing.

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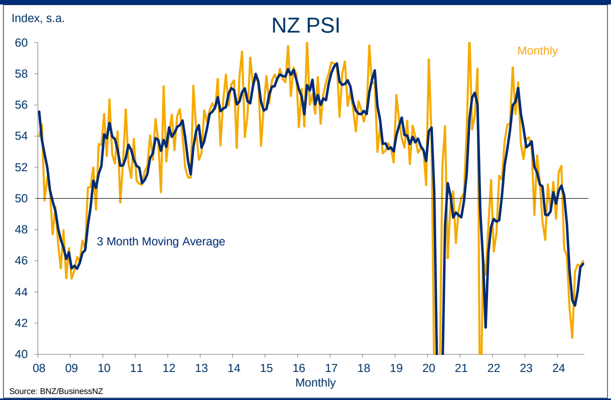
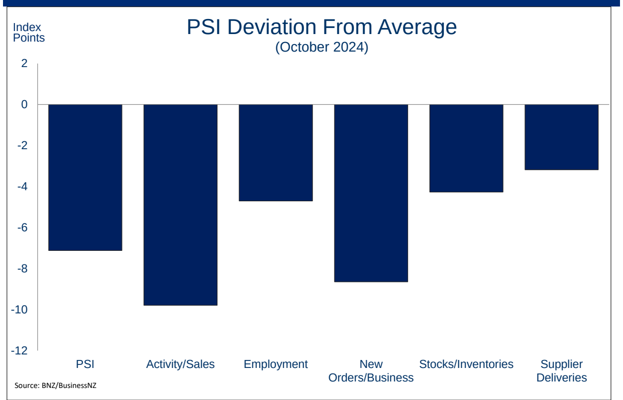
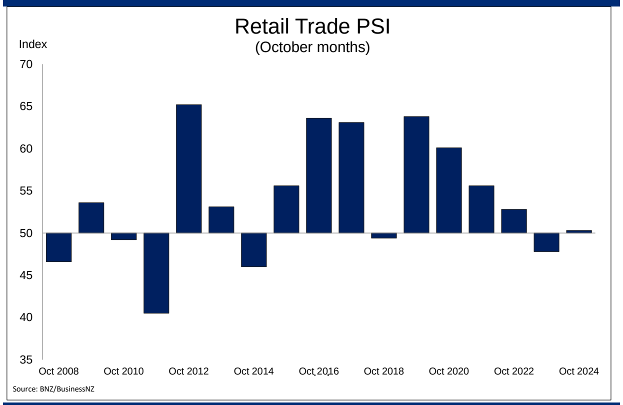
Contraction continues



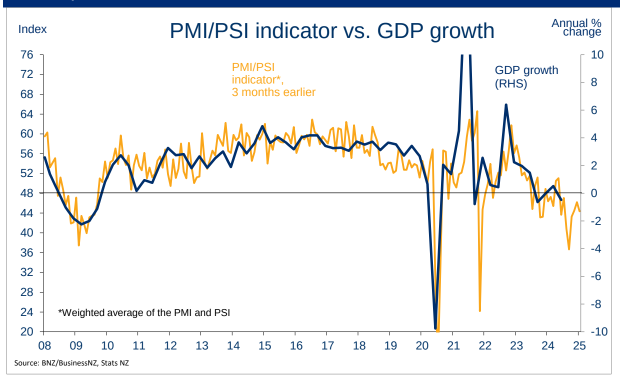
Well below average



Retail starting to recover?



Reality check



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