Research

Services Landscape

14 October 2024

Struggling for traction

The Performance of Services Index (PSI) was unchanged at 45.7 in September. The PSI has improved since June's awful result of 41.0 but service sector conditions are still extremely challenging. The PSI remains in contraction and well below its long-run average of 53.1. Movements in the PSI sub-indices were mixed in September, but all of them have been below 50 for seven consecutive months. While falling interest rates will be supportive in time, the sector continues to face significant headwinds at present.

NZ economy underperforming

Comparing across our key trading partners, New Zealand has the only PSI in contraction. It is also the only country where the PSI is weaker than its equivalent Performance of Manufacturing Index (PMI). September results well below 50 in NZ for both the PSI and PMI highlight broad-based weak demand. This is consistent with the NZIER September Quarterly Survey of Opinion (QSBO) where orders/sales remain the biggest factor limiting output in the services sector, manufacturing, and economy wide.

Not good for employment

The PSI employment index decreased from 49.4 to 45.7 in September, adding to a host of indicators suggesting a rapidly deteriorating labour market. In the QSBO, a net 30% of service firms responding to the survey reported that they had laid off staff in the last quarter. This is the worst reading since 1991. Consistent with our economic forecasts, the Reserve Bank of New Zealand noted in their October OCR decision that 'labour market conditions are expected to ease further, with filled jobs and advertised vacancy rates continuing to decline.'

Nor for GDP

Combining the PMI and PSI, the Composite Index (PCI) implies ongoing economic weakness. Following the 0.5% decrease in annual GDP for Q2, our economic forecasts show subsequent contraction in Q3. The PCI activity indicator points to Q3 GDP falling by more than many might care to believe and tracking below year earlier levels into the end of this year. While this suggests some downside risk to our forecasts, the main message of activity under pressure remains. This supports the case for further significant monetary policy easing.

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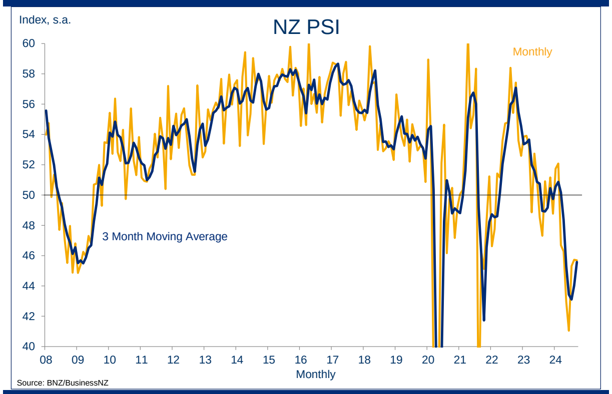
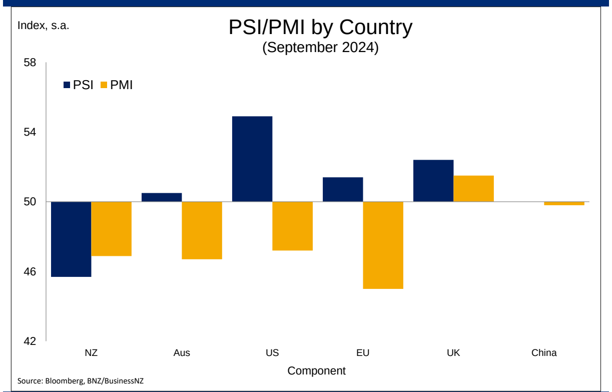
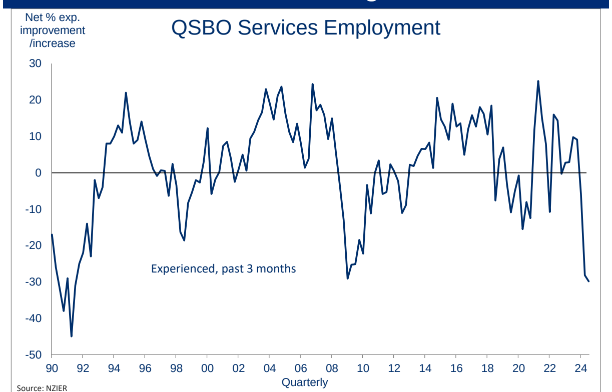
Stuck in the mud



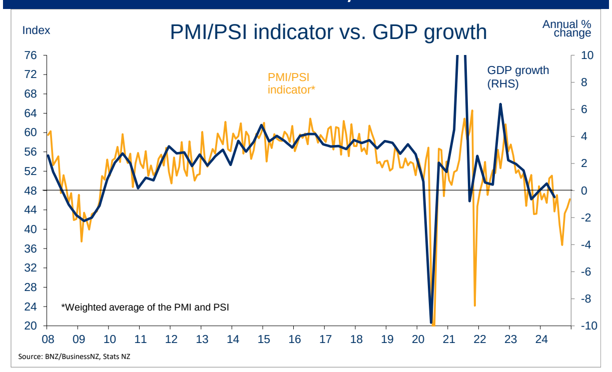
Outlier for the PSI



Deteriorating



Not there yet



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