

Research Services Landscape

19 May 2025

Stuck below 50

The Performance of Services Index (PSI) eased slightly from 48.9 to 48.5 in April. Unlike the Performance of Manufacturing Index (PMI), the PSI is yet to make a sustained move back above the breakeven 50 mark. For all the commentary around the economic recovery, the PSI is a good reminder that current conditions are extremely challenging. New Zealand's PSI remains weaker than all our key trading partners. At 48.5, it's consistent with a service sector still moving backwards.

Weakness broad-based

Looking at the PSI sub-indices, they are all well below their long-run averages. The new orders index at 50.9 is positive, but a far cry from its average of 56.5. Of some concern, the trend towards the 50 mark for the overall PSI appears to have stalled. Lower interest rates have helped eased the extent of the damage, but the sector is a long way from being back to full health. While this may be partly related to uncertainty stemming from offshore, the stalling in the PSI began well before US President Trump's 'Liberation Day' and the major and many tariff changes.

Retail trade under pressure

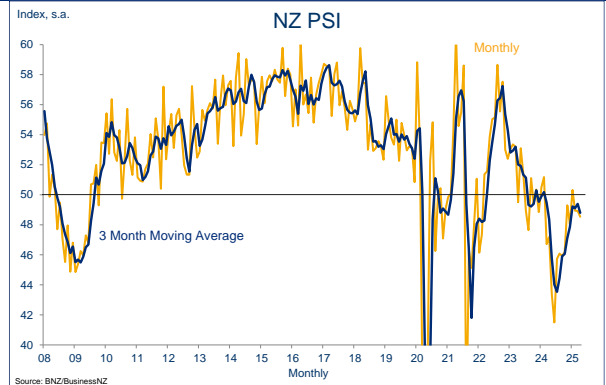
Across industries, the PSI retail trade index has consistently been the weakest over the last year. Official figures show that retail sales volumes have declined in 9 of the last 12 quarters. We anticipate this week's Q1 retail trade data to show close to zero growth on both a quarterly and annual basis. Recent electronic card transactions suggest weak spending has persisted into Q2. Consumer confidence is still subdued, but its slowly moving in the right direction. It will need to continue to lift to be consistent with our forecasts for household spending.

Economy struggling for momentum

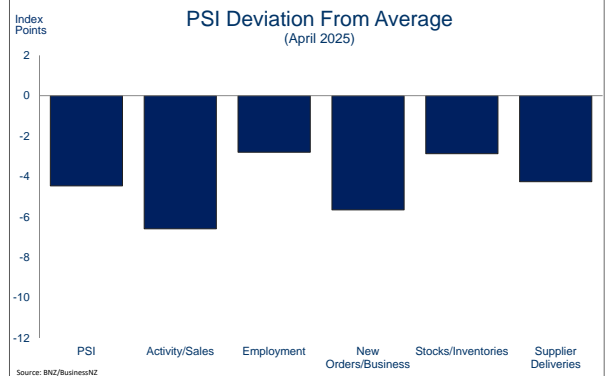
Combining together the PMI and PSI, the Composite Index (PCI) suggests the economy is struggling for momentum. There is an increasing risk that our forecasts for GDP growth of around 2% this year are not met. The PCI activity indicator would need to lift to around 54 in the coming months to be consistent with this sort of growth. That is still a long way from its current level of about 50. A lack of decent PCI improvement ahead risks downward adjustments to economic growth forecasts, including those from the Reserve Bank. That would bring associated downward pressure on the outlook for inflation and interest rates.

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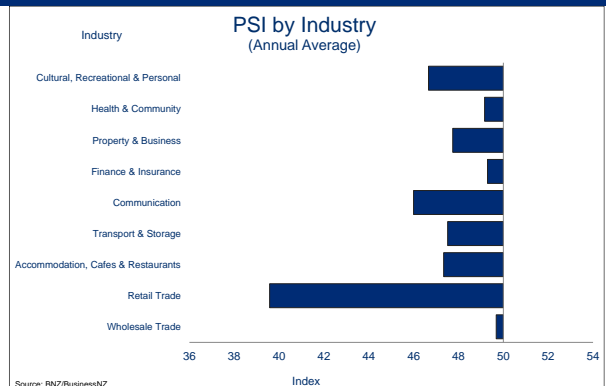
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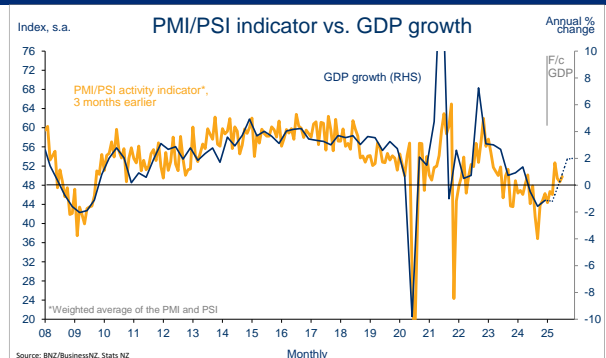
All below average



Retail retreat



Not surging away



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