Research

Services Landscape

17 March 2025

Slip back below 50

In February, the Performance of Services Index (PSI) eased to 49.1 and back below the breakeven 50 mark. The latest outturn unwinds some of the jump up from 48.1 to 50.4 in January. It is a timely reminder that although the economy is turning, recovery is unlikely to be uniform nor occur in a straight line. While one might have hoped that the PSI would move higher again, we know that economic turning points can be messy. The brief foray above 50 in January remains the only month in the last year the PSI hasn't been in contraction.

New orders lagging

Looking at the PSI sub-indices, the weakness in February was broad-based. All five sub-indices are in contraction and well below their respective long-term averages. The PSI new orders/business index (49.4) remains the furthest below its historical average (56.6). This was also observed in the details of the Performance of Manufacturing Index (PMI) last week. The relatively weak order book remains a key area to watch. Demand looks like it needs to lift from current levels for any economic recovery to be sustained.

Not all one-way traffic

The RBNZ watches high frequency indicators closely in assessing the economy. Indeed, we know the PMI and PSI are included in this suite of activity indicators. Over the past month or so we've seen broadening evidence of improvement in economic activity (including in the PMI). However, the latest PSI is a reminder that the recovery is not all one-way traffic. The last time the PSI (49.1) was this far below the PMI (53.9) was January 2022.

Recovery expected

Combining the PMI and PSI together, the Composite Index (PCI) continues to suggest an economic recovery this year. While there is variation in its components, the PCI activity indicator is broadly consistent with our forecasts for economic growth in 2025. Looking back to the end of last year, we anticipate this week's Q4 GDP figures to show a small increase in activity for the quarter. The pace of any recovery needs to be monitored carefully as it will have some bearing on how low the RBNZ thinks it may ultimately need to take its cash rate. Further lowering of the cash rate is likely, albeit at a slower pace than has recently been the case.

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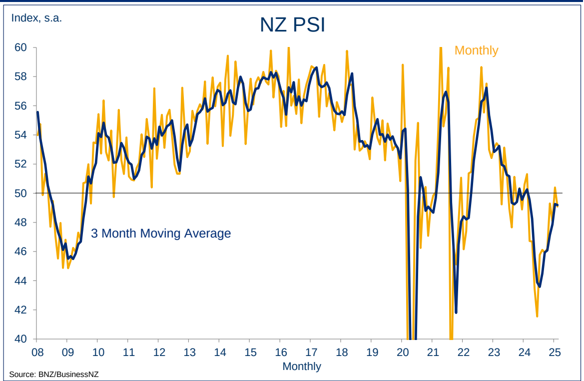
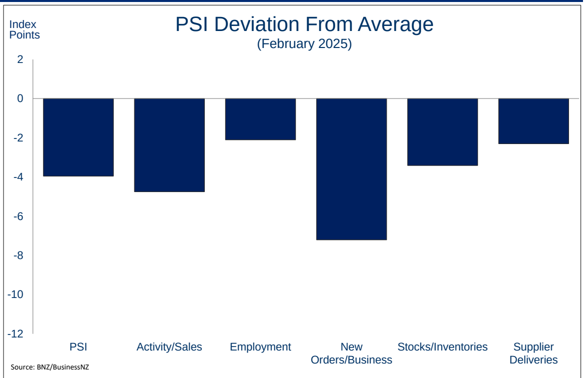
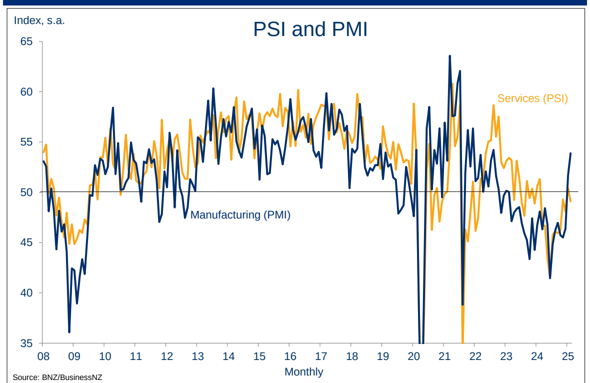
Bouncing around breakeven



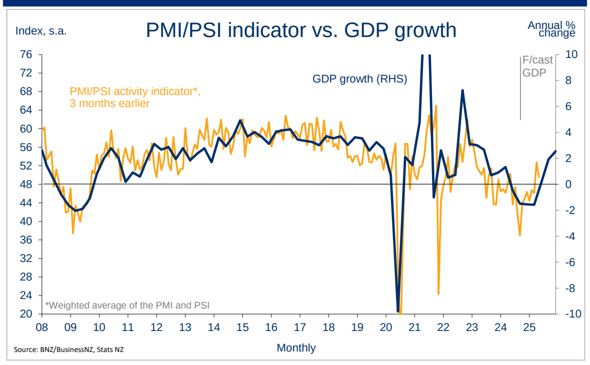
Still below average



Diverging



Broadly consistent



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