

Research Services Landscape

17 February 2025

Back above 50 (just)

The Performance of Services Index (PSI) jumped up from 48.1 to 50.4 in January. After 10 consecutive months in contraction, it has finally nudged back above the breakeven 50 mark. The PSI is consistent with stabilisation rather than elevation, but its latest move upwards is encouraging. Some consolidation is welcome news for the services sector, after extremely challenging conditions throughout 2024. We briefly outline what its improvement suggests for our growth, labour market and interest rate forecasts below. In short, it is consistent with our forecasts.

Growth

Like the PSI, the Performance of Manufacturing Index (PMI) also lifted back above 50 in January. Combining the PSI and PMI, the Composite Index (PCI) suggests an economic recovery later this year. Our forecasts are for GDP growth of around 2.6% through 2025. But economic turning points are messy, and it can be difficult to determine the exact timing of the recovery. The recovery is unlikely to be in a straight line and indicators choppy.

Labour market

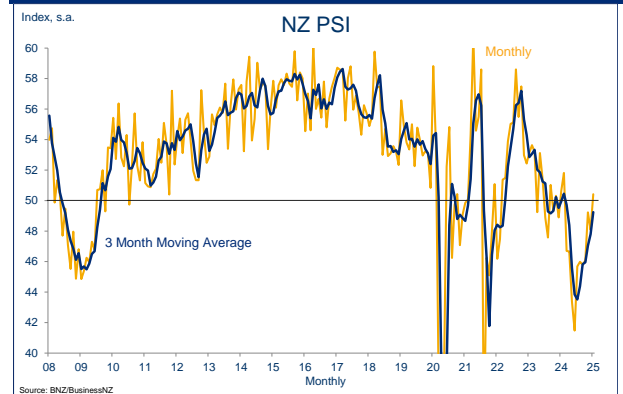
The PSI employment index (47.1) was the only sub-index to decline in January and remains the furthest below 50. It continues to suggest further contraction in service sector employment. This adds to a range of indicators showing New Zealand's labour market is still deteriorating. The unemployment rate rose to 5.1% in the December 2024 quarter from 4.8% a quarter earlier. Our economic forecasts are for the labour market to lag a pick-up in activity, such that the unemployment rate pushes a bit higher before peaking around 5.5%.

Interest rates

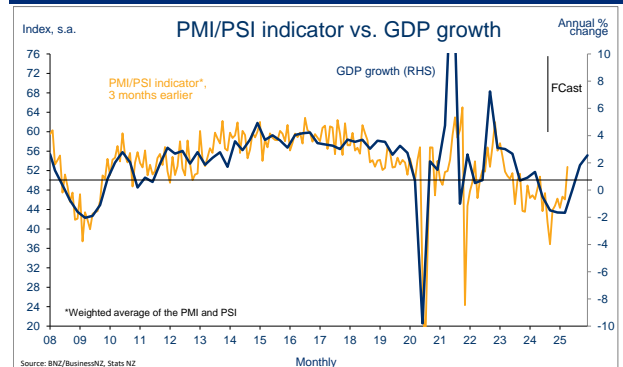
The latest PSI outturn is reassuring that New Zealand's economy may be at a turning point. This is consistent with our forecasts so doesn't materially change our view of the world. Many PSI respondents in January noted uncertainty and the economic downturn as ongoing headwinds. The economy still has plenty of spare capacity and there is nothing to stand in the way of further interest rate cuts. We are forecasting a 50-basis point cut at the RBNZ meeting on Wednesday (19 February), with 25 point moves at consecutive meetings thereafter towards an eventual low around 2.75%.

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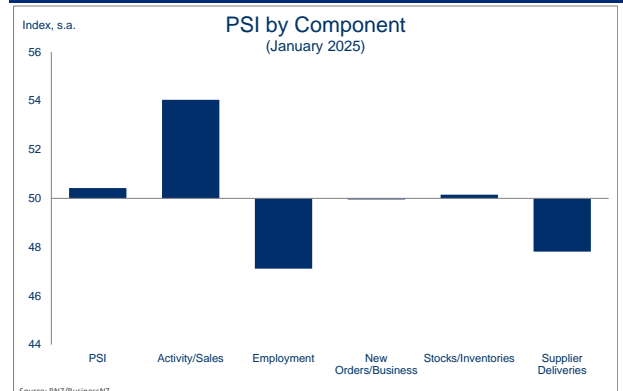
Return to breakeven



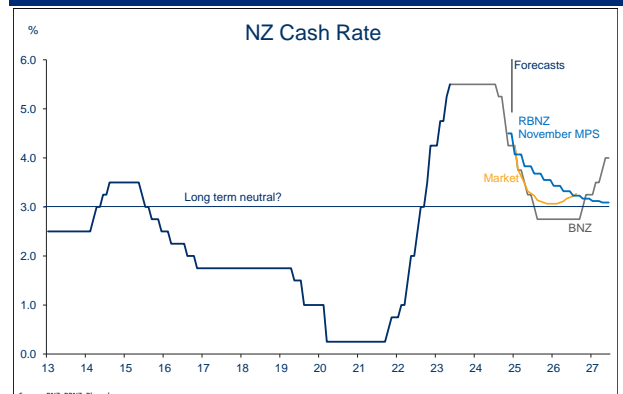
Recovery expected



Employment lagging



More cuts ahead



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