

Research Services Landscape

18 August 2025

Do we dare to believe?

As July's economic indicators trickle in, we are starting to wonder if the tide in the economy is turning. That is our forecast. However, it is good to start seeing some evidence. The Performance of Services Index (PSI) lifted from 47.6 to 48.9 in July. Yes, the PSI is still below the breakeven 50 mark, but it has nudged higher again and is well off its recent low of 44.3 in May. Combined with recent improvement in the Performance of Manufacturing Index (PMI), electronic card transactions and ANZ's Truckometer, there are accumulating early signs of life in the economy.

Further lift needed

To be consistent with the sort of economic growth we are forecasting, which is similar to the RBNZ's expectations, the combined PMI/PSI activity indicator needs to lift to around 53. July's 49.8 is a lot closer to that than was May's 42.5. The RBNZ is widely expected to cut the Official Cash Rate (OCR) by 25 basis points to 3.0% at its decision on Wednesday. If the PMI/PSI activity indicator fails to move higher in the months ahead, it will increase the likelihood of more than one OCR cut.

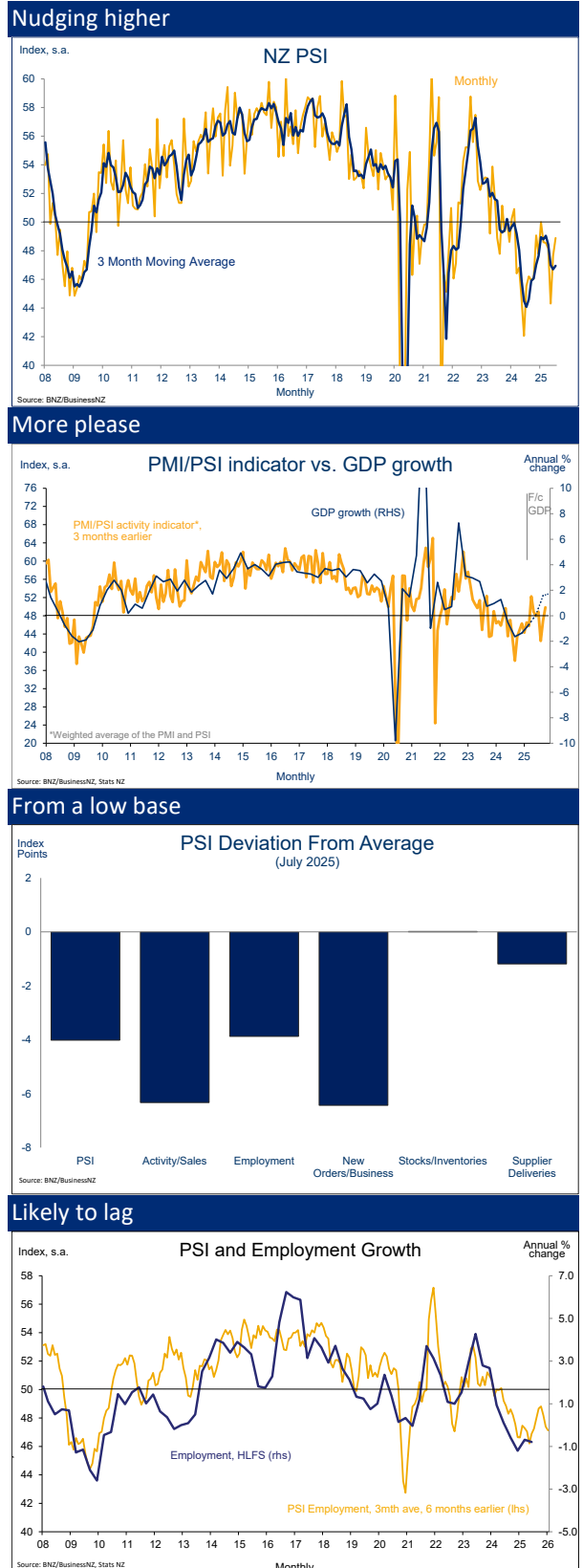
Contracting at a slower pace

Economic turning points are inherently difficult to forecast. In absolute terms, service sector conditions remain extremely challenging. The PSI (48.9) is still well below its long run average (52.9). However, four of the five PSI sub-indices moved in the right direction in July. Becoming less negative is often the first step to being outright positive. This dynamic may be what is happening with the PSI.

Labour market soft

The PSI employment index (47.1) was the only sub-index to fall in July. It has now been below the breakeven mark for a record 20 consecutive months, longer than the global financial crisis. As New Zealand's largest employer, the service sector has a major bearing on the broader labour market. Official statistics continue to show weak labour demand, with Q2 employment down 0.9% on year earlier levels. Our forecasts incorporate a gradual turn in the labour market, but for any improvement to lag the broader economic recovery.

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