

Research Services Landscape

14 July 2025

Bouncing below 50

Another month of soggy PSI (47.3) and PMI (48.8) readings played a major part in the decision to revise down our economic forecasts for the June quarter. We previously expected employment and GDP to be flat but are now forecasting a small decline for both. While the headline PSI measure did lift from 44.1 to 47.3, every month it remains below 50 suggests service sector conditions are getting worse not better. The timeline for New Zealand's long-awaited economic recovery just keeps getting pushed further and further out.

Labour market still weakening

The PSI employment index at 47.4 has now been below the breakeven mark for 19 consecutive months. This is tied with the global financial crisis as its longest ever continual period of net labour shedding. Consistent with this, the latest Quarterly Survey of Business Opinion (QSBO) revealed a net 16% of services firms reduced numbers employed in the last three months. Offering some hope, a net 7% are now intending to increase employment in the next three months. We will wait to see if this eventuates or if some hiring plans are put on hold.

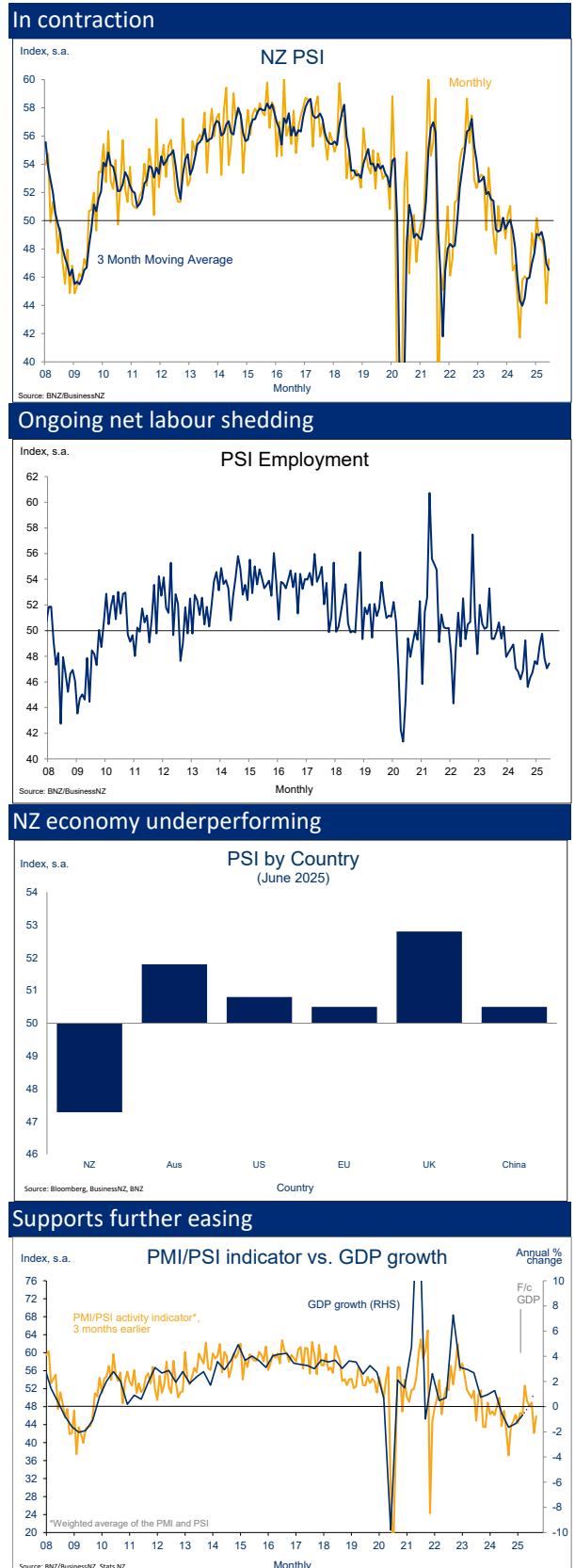
PSI well below our peers

Looking across our key trading partners, New Zealand's services sector continues to underperform. We remain the only country with a PSI below the breakeven 50 mark. Meanwhile across the ditch, the PSI in Australia lifted to its highest level in over a year at 51.8. While many of our trading partners will be equally as concerned about the impact of geopolitical conflict and trade tensions, at least they are starting on stable ground.

RBNZ easing bias confirmed

Last week, the Reserve Bank of New Zealand (RBNZ) held the Official Cash Rate (OCR) unchanged at 3.25%. The accompanying record of meeting signalled a further reduction in the OCR if the economy progresses as expected. This month's combined PSI and PMI is supportive of further easing and our expectation for OCR cuts in August and October to an eventual low of 2.75%.

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