

# Research Services Landscape

16 June 2025

## Uh oh!

The combined services and manufacturing data look nothing short of disastrous. Sure, Q1 GDP growth looks set to be strong but there are clear warnings that the New Zealand economy has hit a brick wall in Q2, and this is despite the substantial revenue growth flowing from the agriculture sector. If there was ever an argument for the provision of further stimulus from the central bank, then this is it.

## Service with a slump

The Performance of Services Index (PSI) dropped grimly from 48.1 to 44.0 in May. It is now at a level seldom seen and consistent with a rapidly shrinking services sector. The fall in the PSI follows the sharp decline in the Performance of Manufacturing Index (PMI) from 53.3 to 47.5. Together they are consistent with the economy returning to recession. We're a long way from forecasting this, but the data are a reminder of just how vulnerable the economy currently is.

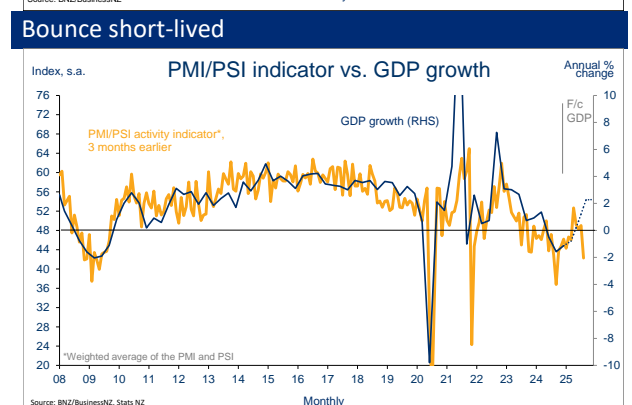
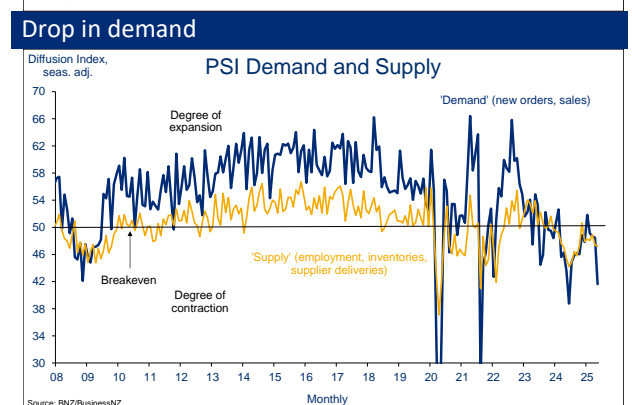
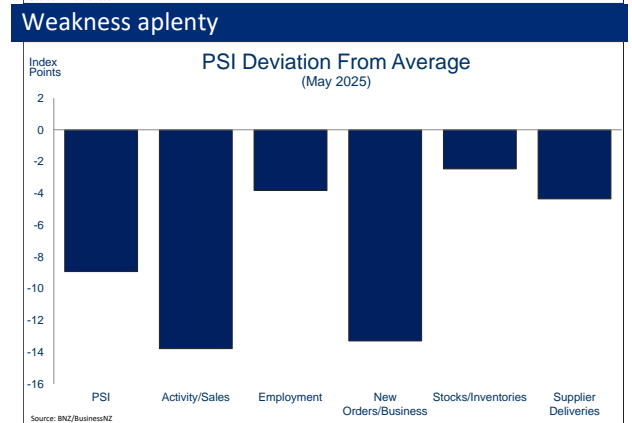
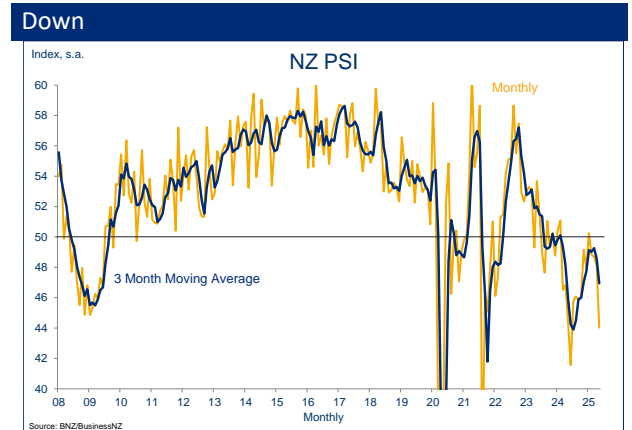
## Demand subdued

Weakness is widespread with all the PSI sub-indexes below the breakeven 50 mark in May. The activity/sales index (40.1) and new orders/business index (43.2) both sit a staggering 13 to 14 index points below their long-run averages. This suggests most of the current service sector weakness can be attributed to subdued demand. Indeed, feedback from PSI respondents is dominated by demand-side concerns, although some supply-side pressures remain.

## Growth conundrum

Ironically, we anticipate this week's Q1 GDP figures to show an increase of 0.7% for the quarter (data due on Thursday). Our economic forecasts are then for a modest recovery over the rest of the year. A key driver of this expectation was the recent strength in the combined PMI and PSI. The big question now is whether the suggested softening in activity will outweigh the starting point optimism.

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