Research

Services Landscape

18 January 2024

Services outperform

The New Zealand economy would have looked so much worse over the last year or so had it not been for the strength of the services sector. And with tourist numbers still growing, the impacted components of the services sector are still managing to do their bit to support the wider economy. Also sectors such as health tend to be less volatile in nature and continue to grow irrespective of the state of the economic cycle.

But PSI turns down

However, it's impossible for services to do all the heavy lifting if the remainder of the economy is struggling. Moreover, the recent past growth in tourism can't be sustained given tourist numbers from many countries have already risen from near zero to similar levels to where they were pre-COVID. With all this in mind, it is perhaps no surprise that the PSI has again sunk below the magical 50 mark which, in theory, separates growth from contraction.

Tourism a saviour

The ongoing role of tourism is, nonetheless, still there for all to see with accommodation, cafes and restaurants, and transport and storage, still outperforming other sectors. Similarly, it is no surprise that Otago/Southland (read Queenstown) is the strongest performing region in the country. All that said, neither the tourism industry nor the tourism region is anywhere near as strong as they were this time last year. In contrast, the domestic demand driven retail sector is performing relatively badly.

Composite index portends recession

The softening in the PSI, alongside the weakness in the PMI, is bad news for both near term growth and employment in New Zealand. The composite index that we derive by combining the two performance indictors is consistent with the economy reaching a maximum annual contraction of around 2.0%. We are not nearly that pessimistic but can envisage a trough approaching -1.0% by mid-2024. Against this backdrop, it should come as no surprise that the composite employment indicator indicates a net reduction in numbers employed. Statistics New Zealand has already reported 6,000 jobs were lost in the September quarter. We don't think this cycle will result in the substantial layoffs that we saw, for example, during the GFC but we do believe the unemployment rate will rise sharply as businesses fail to absorb the increased supply of labour currently flooding across our borders.

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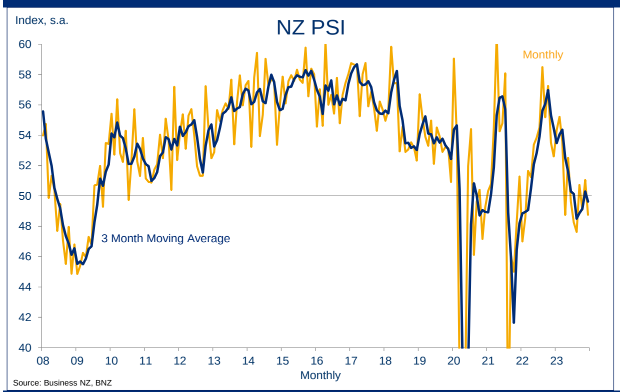
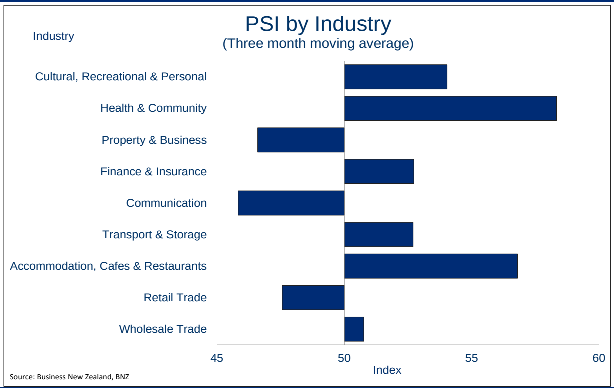
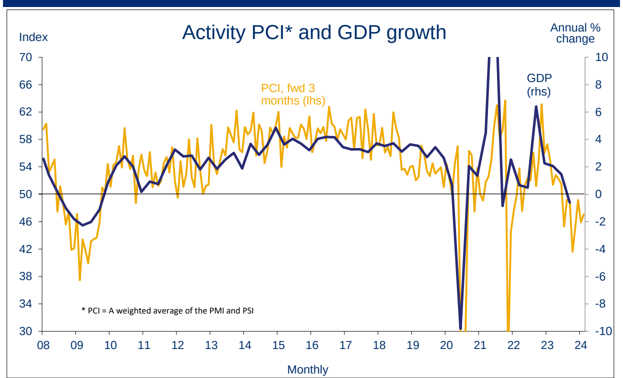
PSI sub-50



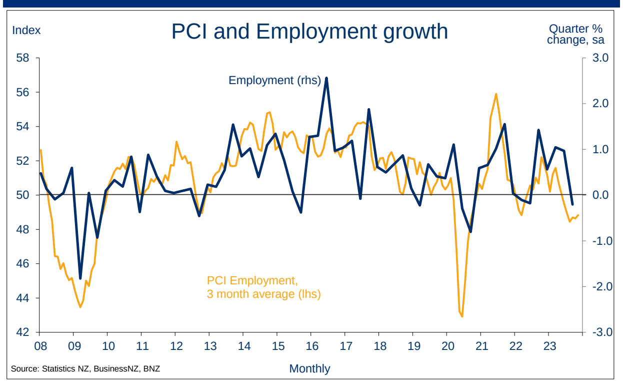
Tourism provides support



Deeper into recession



Demand for labour softens



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