

Research Services Landscape

18 December 2023

Bumping Along, Not Bumper

The Performance of Services Index lifted to 51.2 in November from October's 49.2. It is a step to the positive. A (small) bit of pre-Christmas cheer, even for this seasonally adjusted measure. But we wouldn't overstate the case. The PSI is hardly strong. And November's push back into positive territory continues the pattern of the index oscillating around the breakeven 50 mark over recent months. It still looks more like bumping along the bottom rather than looking anything like a bumper Christmas. Despite November's lift, the PSI remains below its long-term norm of 53.5. And the combination of contracting activity/sales and rising inventories raises questions about the sustainability of the nudge higher.

Some Improvements, But Demand Below Average

That is not to dismiss some glimpses of improvement. After all, November's PSI is the highest reading since May. And looking through the recent monthly oscillations, there is a hint of underlying stability. The 3-month moving average has inched back to just over the 50-line for the first time since July. Meanwhile, the employment index improved to 51.0, after the previous month's dip, and the new orders component was close to steady, at a modestly expansionary 52.3. But the key demand indicators remain well below average. Overall, the PSI suggests that services GDP growth will remain sub-trend in Q4 (services GDP grew 0.4% in Q3 according to last week's official figures).

North v South

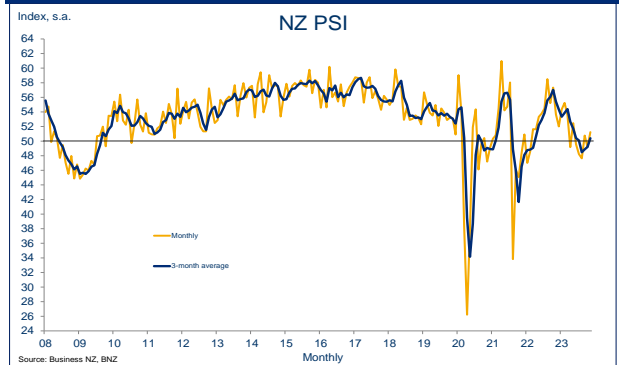
By region, Northern underperformed in November. On an unadjusted basis, Northern's PSI of 50.8, was a bit behind Central's at 53.7, and well back from Canterbury/Westland on 58.8 and Otago/Southland's 59.6. Some of this difference could be seasonal, but Northern's underperformance is a continuation of a theme over the past year. Similarly, Otago/Southland has also tended to outperform over the past year. The latter perhaps reflecting more leverage to a recovering tourism industry. Strong tourism export receipts was one of the very few bright spots in last week's Q3 GDP figures.

Growth Struggles Continue

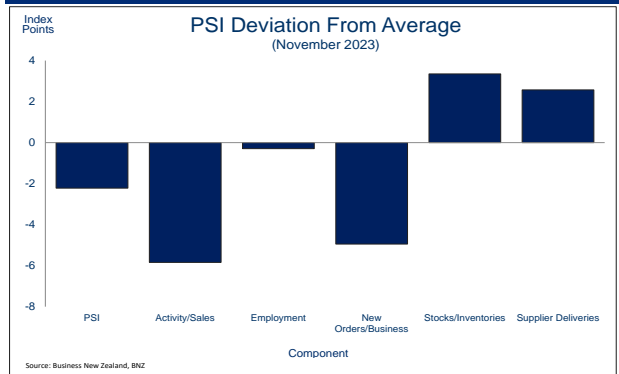
Combining the PSI with the better, but still very weak, PMI from last week yields a composite index (PCI) that suggests the economy has continued to struggle in Q4. It shouldn't be ignored given that the PCI counselled caution for Q3 months in advance of last week's soft GDP figures.

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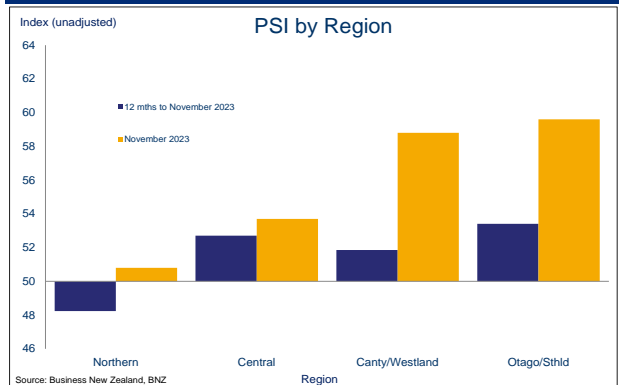
Oscillating Breakeven



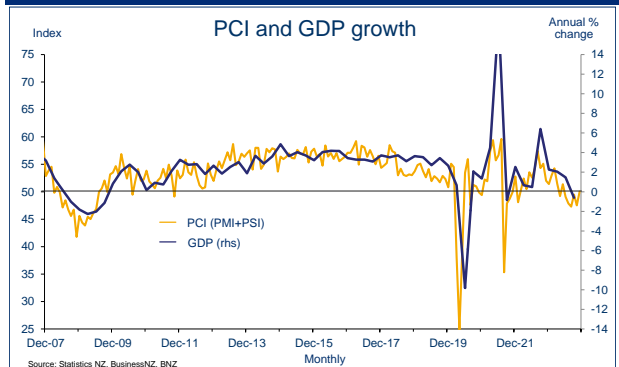
Demand Indicators Remain Well Below Average



Regionally Dispersed



Combined Struggle



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