Services Landscape

13 July 2026

Services sector lags

Services constrain growth . . .

Alas, there's not as much optimism in New Zealand's services sector as there is amongst manufacturers. In some ways this should be of no surprise: services is less export focussed, it will probably get less benefit from falling energy prices and contains the struggling hospitality and retail sectors. That said, the direction of travel is positive and the uplift, when combined with the surge in the Performance of Manufacturing Index, is enough to suggest economic growth should soon climb to around 2.0%. This is hardly a spectacular number but further confirmation that the trend in growth prior to the oil shock is resuming.

At 50.6 the headline PSI reading is one of the strongest we have seen over the last three years but it is only just over the breakeven line and still well shy of the 52.7 average for this series since its inception.

Employment weakness disconcerting . . .

All components lifted in the month but three remain below that magical 50 mark. Worryingly, the employment indicator has now been below 50 for 31 consecutive months. Services is a much bigger employer than the manufacturing sector so this represents a substantial headwind to growth in total employment and, unfortunately, remains consistent with our view that the unemployment rate will continue to rise.

Employment typically lags economic activity so with activity/sales still sub 50, at 49.3, it may still be a while before the indicator becomes sustainably positive. That said, some hope was provided with the new orders index jumping to 53.0 from 48.2. The new orders indicator is a tad volatile but this reading was the highest since February 2024, and the series does seem to be trending higher.

Household spending recovery lacking . . .

From an industry perspective it is perhaps not surprising that the sector that is doing best is the one that is most exposed to the strength in the rural sector, namely transport and storage, with a headline PSI of 57.2. This sector will also have benefitted most from falling fuel prices. At the other end of the spectrum industries that are driven by discretionary spending such as accommodation, cafes & restaurants and cultural, recreational & personal are doing very poorly with respective readings of 36.3 and 41.3. At 49.8 the retail sector has also stayed sub 50 for its fifth consecutive month. It's on the improve as disposable incomes start recovering thanks to falling fuel prices but it's a long way from healthy.

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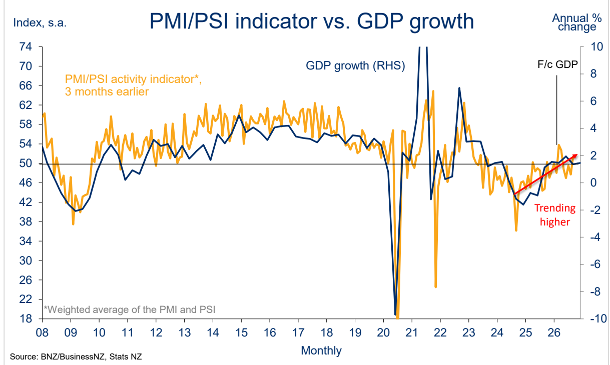
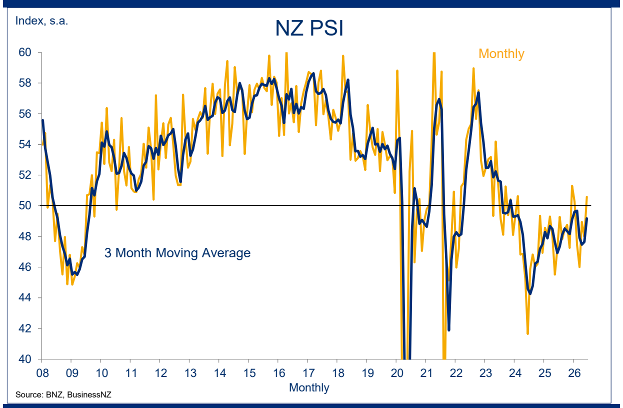
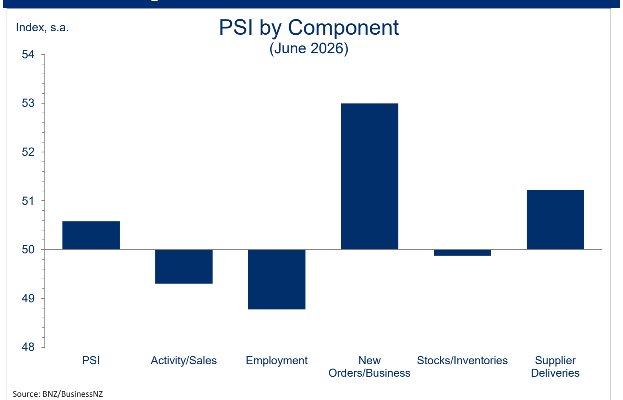
Trending higher



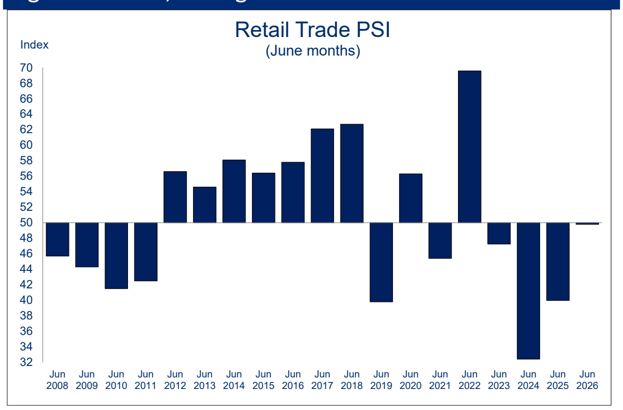
PSI trails the PMI



Mixed messages



Right direction, wrong level



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