Research

Services Landscape

16 November 2026

Moving in the right direction

The Performance of Services Index (PSI) extended its move higher in October, emerging from a prolonged period of weakness. The PSI rose to 51.7, above the breakeven 50 mark and its highest reading since 2023, before the sector entered a prolonged period of contraction. Together, with last week's Performance of Manufacturing Index, the result supports our forecast of just over 2% GDP growth through to the end of 2026.

Activity gaining traction…

Encouragingly, the activity/sales subindex rose solidly in October after spending the past few months hovering around the breakeven mark. It appears earlier strength in new orders is now feeding through to activity, and with the new orders/business subindex remaining in expansionary territory, there is scope for activity to improve further.

Signs of firmer services activity are particularly welcome given the sector's importance to New Zealand's economy and, therefore, the broader outlook for GDP. If sustained, this move would provide further evidence that the economic recovery is broadening and becoming more established.

…but employment lags

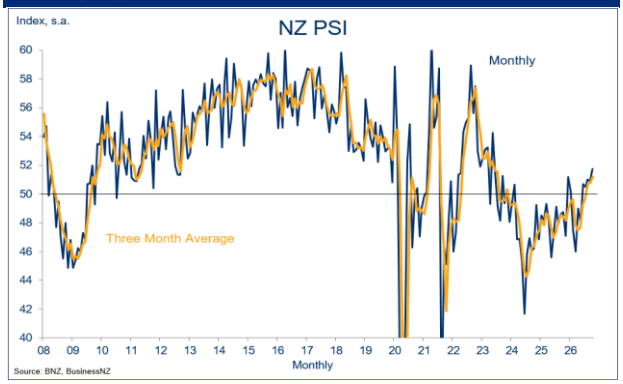
Signs of subdued services employment lingered in October. At 49.9, the subindex was just shy of breakeven, pointing to little change in services employment over the month. This follows weaker-than-expected Q3 labour market data which revealed a small drop in employment and a tick higher in unemployment. While we forecast a gradual decline in the unemployment rate from Q4, sustained improvement will likely require services employment to strengthen.

Recreational sector lagging

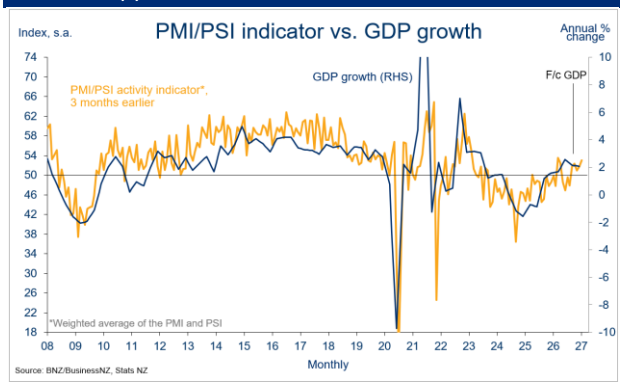
The discretionary parts of the services sector remained under pressure in October. The cultural, recreational and personal subindex fell sharply, and retail trade remained subdued despite the 11 days of school holidays in October. The accommodation, cafés and restaurants subindex provided a brighter spot, but this follows a sharp contraction earlier in the year after fuel prices surged. Overall, discretionary services continue to show the effects of squeezed household budgets. In contrast, export associated sectors like transport and wholesale trade saw solid expansion.

india_power@bnz.co.nz/doug_steel@bnz.co.nz

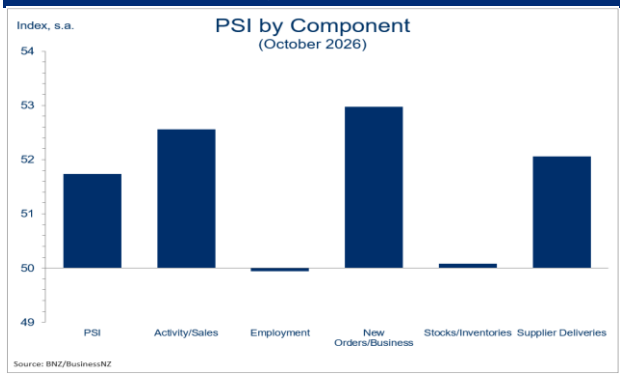
Moving higher



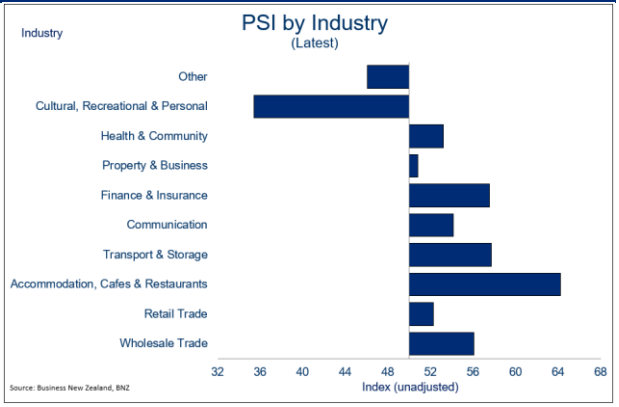
Growth supportive



Positive news for activity and new orders



Discretionary sectors weaker



Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

India Power
Economist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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