

20 April 2015

Service Sector Confident

The service sector is expanding at a brisk pace. This has been the case for a good two years now with even a hint of acceleration appearing of late. The Performance of Services Index (PSI) is the very latest pointer coming in at a robust 57.6 in March, with particular strength in sales and new orders. It bodes well for another solid quarter of economic growth in Q1. Indeed, the upbeat service sector reflects the general economic expansion as was the message from last week's Quarterly Survey of Business Opinion (QSBO) for Q1. In the QSBO, service sector confidence was smack on the average across an upbeat business community, where a net 23% of firms expect improvement in the general business situation over the coming six months.

As Activity Accelerates

Confidence is one thing but seeing a lift in activity is another. The latter was a striking feature of both the PSI and the QSBO. In March, the PSI sales activity indicator posted its third consecutive month above 60 representing acceleration in sales in the first quarter of the 2015. The QSBO strongly reinforced this narrative with service sector sales experienced over the past quarter rising to its highest level since 2007 (and the highest across sectors in Q1 itself). Service sector firms' confidence and sales expectations have been elevated for some time and remain so. But the first quarter of 2015 appears to have been the first in quite a few years that those expectations have been fulfilled.

Spending Strongest In Service Sector

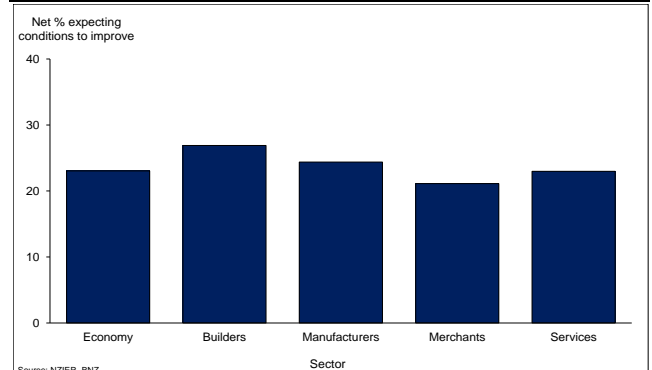
Spending indicators confirm a buoyant service sector and economy. March's value of electronic card transactions was 5.2% higher than a year earlier. The service sector led the charge with annual growth of 7.7%. It's all a lot of nominal growth, especially given the lack of inflation over this period. Hospitality stands out with an 11.2% expansion, as the tourism boom continues (no surprise to see the hospitality sector among the strongest in today's PSI). We also note a material lift in durable spending in Q1 (up 6.5% y/y), coinciding with renewed heat in the housing market. Spending has lifted despite markedly lower dairy revenue filtering through the system.

Help Wanted

Buoyant activity is driving demand for labour in the service sector. The PSI employment index rose to 54.8 in March, taking the 3 month average to 54.2. The latter is the second highest it has ever been since the survey started 8 years ago. The QSBO also registered very strong labour demand in the service sector with employment intentions about as strong as they get. The problem might be in finding the people, with firms reporting difficulty.

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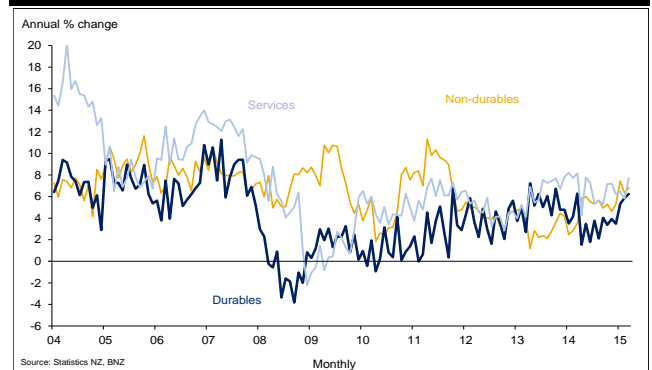
QSBO – Business Confidence



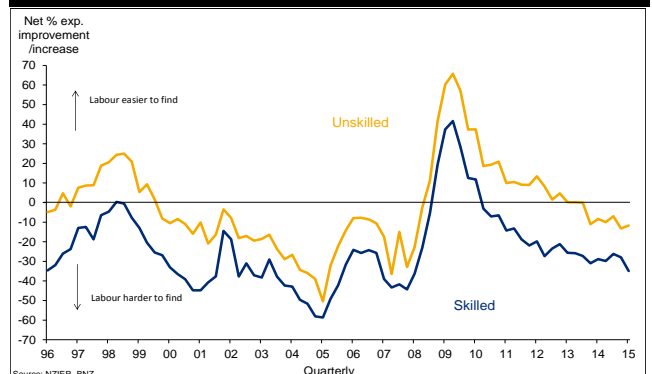
QSBO Services Trading Activity



Monthly Electronic Spending



QSBO Services Ease of Finding Labour



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