



Investec Services PMI® Ireland

Economics Monthly

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Further sharp rise in activity as export growth hits record high

Summary:

Business activity continued to increase strongly in the Irish service sector at the start of 2014 as new business continued to rise. This led companies to increase their staffing levels again in January. Improving demand enabled service providers to raise their output prices, the first time this has been the case since July 2008.

Investec Purchasing Managers' Index®:

50 = no change on previous month



Irish services companies saw further sharp growth of activity during January, as signalled by the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – remaining well above the 50.0 no-change mark. The reading of 61.5 was only slightly below December's 61.8. Activity has now increased in each month throughout the past year-and-a-half. Panellists largely attributed the latest expansion to increased new business.

An expectation that economic conditions in Ireland will continue to improve over the coming year led

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business sentiment to strengthen in January. Optimism equalled the recent high seen in November last year.

A general improvement in market demand and the securing of new clients helped lead to a further rise in new business at the start of 2014. Although easing from December's 82-month high, the rate of growth was substantial. New export orders also rose sharply. Furthermore, the rate of growth was the fastest since the series began in June 2002, having accelerated for the fourth month running. The US and UK were mentioned as having been sources of new business during the month.

A further marked increase in backlogs of work was recorded at Irish service providers in January, mainly reflecting ongoing growth in workloads.

Improved workloads led companies to take on extra staff. Employment has now increased in each of the past 17 months and the latest rise was only marginally weaker than recorded in December.

The rate of input cost inflation quickened fractionally in the Irish service sector at the start of 2014, but was still slower than the survey average. Higher salary payments and increased supplier charges had reportedly contributed to rising input costs.

Service providers raised their output prices for the first time in nearly five-and-a-half years in January as some companies reported passing on higher input costs to clients. That said, the rate of inflation was only marginal.

Continues...

Comment:

Commenting on the Investec Republic of Ireland Services PMI survey data, Philip O'Sullivan, Chief Economist at Investec Ireland said:

"The latest Investec Services PMI Ireland report shows a bright start to 2014 for the services sector. The headline PMI came in at 61.5, a little below the 82 month high of 61.8 recorded in December and consistent with a strong rise in activity. The headline Services PMI has now been above the 50 'no change' level for 18 successive months.

"The New Business component recorded another strong reading during January, with respondents citing a general improvement in market demand. Unadjusted data for the four segments covered by the Services PMI (business services, financial services, TMT and travel & leisure) once again show rising New Business across all areas. Backlogs of work rose sharply during January and at a pace that was only marginally slower than December's 81 month high.

"The New Export Business component rose at its fastest pace since the series began in June 2002, with the rate of growth in new business from abroad having now quickened for four successive months. Panellists cited the US and UK as key sources of new business.

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"Buoyed by the improved demand noted above, employers continued to add to headcounts during January, with the Employment component notching up a 17th successive above-50 reading.

"Another positive takeaway from this release is on the prices front. The Average Prices Charged component rose marginally during January, snapping a run of continuously falling charges which stretched back to August 2008. Taking some of the gloss off this, however, was the Average Input Prices component, where the pace of increase in input costs rose for a fourth successive month. However, rising volumes meant that the Profitability component recorded growth for the seventh time in the past eight months.

"Last month we said that the sector had exited 2013 with a strong tailwind behind it. With order books and payrolls on the rise and the Expectations component standing at its joint-highest level since October 2006, it is clear that the outlook for the services sector in Ireland remains very encouraging indeed."

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[Notes on the methodology](#)

This report is based on data compiled from monthly replies to questionnaires sent to a panel of companies in the Irish private service sector. The panel includes around 450 private companies from the sector. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The Service Sector economy is divided into the following areas:

- A. Hotels & Restaurants
- B. Transport & Storage
- C. Post & Telecommunications
- D. Financial Intermediation
- E. Renting & Business Activities
- F. Other Services

This report complements the Purchasing Managers' Report for the Irish manufacturing sector, produced with the same technical applications used in the production of the United Kingdom report, and its data have become one of the tools used frequently by governments, economists in the public and private sector and financial institutions. Questionnaires are dispatched at mid-month, requesting comparisons of data with the situation one month previously. The survey data are presented in different ways. First, we show the percentage of companies indicating an improvement, declining or stability of the situation when compared to the previous month. We then show a net value which is the result of subtracting the number of companies indicating a decline from those indicating an improvement. From the combination of these figures, we obtain a unique value - an individual index, known as a diffusion index (i.e. Employment Index). Diffusion indices vary between 0 and 100, with 50.0 representing the level base. An index situated above 50.0 indicates activity expansion of the corresponding variable (i.e. new orders, price, employment, etc.); An Index situated below 50.0 indicates a contraction of the activity, whilst an index at the same level as 50.0 indicates that the situation is stable compared with the previous month. The greater the divergence from 50.0, the greater the rate of expansion or contraction. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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