



Investec Services PMI® Ireland

Economics

Monthly

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Growth in activity quickens to fastest since February 2007

Summary:

The Irish service sector gained further momentum in August, with rates of growth in activity and new business at multi-year highs. Further pressure on operating capacity was evident and firms raised their staffing levels accordingly. Meanwhile, the rate of input cost inflation picked up, but companies continued to lower their output prices.

Investec Purchasing Managers' Index®:

50 = no change on previous month



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 – rose to 61.6 in August from 57.6 in July, signalling a third successive acceleration in the rate of growth to the strongest since February 2007. The ongoing signs of improvement in economic conditions, allied with an unusually good spell of weather, had contributed to the latest rise in activity.

Companies generally expect further improvements in economic conditions over the coming year, leading to growth of activity. Sentiment regarding the

12-month outlook remained positive and was broadly unchanged from that seen in July.

Sharp growth of new business was recorded, with the rate of expansion the fastest since March 2007. New orders have now risen in each of the past 13 months. Respondents highlighted increased new business from both domestic and export markets. Meanwhile, new business from abroad rose for the twenty-fifth successive month during August and at an accelerated pace.

Outstanding business increased for the third consecutive month in August, and at a solid pace. Respondents indicated that sharp growth of new business had led to increasing pressure on operating capacity.

As has been the case throughout the past year, Irish services companies increased employment during the month. According to respondents, staffing levels were raised in line with greater workloads. Despite slowing from July, the rate of job creation in August was still marked.

The rate of input cost inflation picked up to a six-month high, with increased salary payments mentioned by a number of firms. However, the rate of inflation remained relatively muted.

Conversely, output prices continued to decrease amid strong competitive pressures and efforts to attract and retain clients. That said, the pace of reduction was only modest.

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Markit Economics, Henley on Thames, Oxon RG9 1HG, UK Tel: +44 1491 461000 Fax: +44 1491 461001 e-mail: economics@markit.com

Comment:

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

Services sector soars in summer heat

"The latest Investec Services PMI Ireland report shows a very strong performance in August, with the headline index at a multi-year high (61.6). According to respondents, the principal cause of rising activity in August was the spell of unusually good weather in Ireland and the consequent boost to the tourism sector.

"The strength in August was broad-based with all four subsectors reporting growth in business activity on an unadjusted basis. New Business was very robust, with both domestic and overseas markets reported to be strong. In relation to the latter, the New Export Business component was above 50 for the 25th successive month. Higher new orders was the key factor behind the increase in Employment, which has expanded every month since August 2012 (albeit at a slightly slower pace in August).

"A pick-up in input costs hurt margins during the month but increased volumes ensured that the Profitability component recorded its third consecutive month of expansion.

"Recent PMI readings have clearly been boosted by the relatively good weather during the summer. Expectations of activity in 12 months' time, while quite positive, remained broadly unchanged during that period indicating the short term nature of the current strength. In saying that, with the headline index having improved for 13 consecutive months and service providers citing signs of improvement in economic conditions, the underlying trends are certainly positive."

For further information please contact:

Markit

Andrew Harker, Senior Economist
Telephone +44-1491-461-016
Email andrew.harker@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44- 781-5812162
Email caroline.lumley@markit.com

Investec

Philip O'Sullivan, Chief Economist
Telephone +353-1-421-0496
Email philip.osullivan@investec.ie

Ronán Roche, Corporate Reputations Ltd
Telephone +353-1-661-8915
Email Ronan@corporatereputations.ie

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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.

Markit Economics

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