



Investec Services PMI® Ireland

Economics Monthly

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Activity rises at sharper pace in August

Summary:

Strengthening growth momentum was recorded in the Irish service sector during August, with activity, new orders and employment all rising at sharper rates than in July. Meanwhile, rates of both input cost and output price inflation also quickened during the month.

Investec Purchasing Managers' Index®:

50 = no change on previous month



The headline seasonally adjusted Business Activity Index rose to 58.0 in August from 57.4 in July. This pointed to another sharp rise in business activity, which firms linked to higher new orders and improving economic conditions. Moreover, the rate of expansion quickened from that seen in July. A number of respondents indicated that they had been busier than expected during the month.

Forecasts of new order growth fuelled confidence among service providers that activity would increase over the coming year. Optimism remained strong in August, but was the lowest since October last year.

Total new business increased sharply during August, with the rate of expansion quickening over the month. Respondents mainly linked higher new orders to improving economic conditions.

Higher new orders from clients in the UK contributed to a rise in new export orders among Irish service providers. The rate of growth was marked, but slowed to a five-month low.

Rising new business resulted in a further accumulation of backlogs of work during August, although the pace at which outstanding business increased eased to the slowest for a year.

The rate of job creation quickened for the third month running to the fastest in the year-to-date. Employment has now risen on a monthly basis throughout the past six years, with the increase in August well above the series average.

Input prices rose at a sharp and accelerated pace in August, with the latest increase the steepest since April. Higher costs for staff and fuel were widely mentioned.

Service providers responded to higher input costs by raising their selling prices, and to the greatest extent since March. Charge inflation was recorded for the fifty-third month in a row in August.

Profits continued to increase at a solid pace during the three months to August, with rising workloads and higher output prices reportedly behind the latest improvement. That said, the rate of growth eased to the weakest since the three months to April.

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 that the sector recorded another sharp rise in

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business activity in August. The headline PMI increased to 58.0, having fallen to a four-month low of 57.4 in July.

“The improvement was driven by strong client demand with the New Business index increasing slightly from the prior month’s level and indicating a sharp rise in activity. Although the rate of expansion in New Export Business slowed to a five-month low in August, this index also pointed towards strong levels of growth with some panellists reporting higher order volumes from clients in the UK.

“Unsurprisingly, companies responded to increased demand by adding to headcounts at the fastest pace seen in 2018 so far. Rising new business resulted in a further accumulation of Backlogs of Work during August, although the pace at which outstanding business increased eased in the month.

“Turning to margins, Input Costs rose sharply once again last month, with panellists attributing this to higher staff and fuel costs. In response, service providers raised their selling prices and to the greatest extent since March. Although profitability increased at a solid pace during the three months to

August, the rate of growth eased to the weakest since the three months to April.

“Looking ahead, although the Business Activity: Expected Levels in 12 Months’ Time index slowed to its lowest level since October last year, its level is consistent with strong optimism amongst service sector firms. More than 44% of panellists foresee a rise in activity over the coming year, against 6% that expect a decline and optimism is again greatest in the technology, media and telecoms (TMT) sector.

“Considered alongside the Investec Manufacturing PMI Ireland report, this week’s PMI releases suggest that the rate of growth in activity across much of Ireland’s private sector remains strong.”

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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.

For the purposes of the report, the Service Sector economy is divided into the following areas:

- Business Services
- Financial Services
- Technology, Media & Telecoms (TMT)
- Transport, Travel, Tourism & Leisure

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. IHS 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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