



Investec Services PMI[®] Ireland

Economics Monthly

Embargoed until: 06:00 (Dublin) / 06:00 (UTC) January 4th 2018

Service sector gathers growth momentum at the end of 2017

Summary:

The Irish service sector ended 2017 with sharper increases in business activity, new orders and employment as economic conditions remained favourable. Sentiment regarding output growth over the next 12 months also strengthened in December.

Investec Purchasing Managers' Index[®]:



At 60.4 in December, up from 56.0 in November, the headline seasonally adjusted Business Activity Index signalled a sharp and accelerated upturn in service sector activity across Ireland. Growth picked up to the strongest in eight months, supported by a robust expansion in new work intakes and favourable economic conditions.

Service providers were at their most upbeat since September. Projections of expansions in new business from the domestic and external markets, combined with expectations of further improvements in economic conditions, boosted confidence towards the year-ahead outlook for output.

Buoyant demand conditions led to another monthly increase in new work intakes. The rate of growth was sharp by historical standards and accelerated from November's one-year low.

Demand for Irish services from external sources continued to improve at the end of 2017. Although easing slightly since November, the upturn in new export business remained marked.

December data pointed to an increasing degree of pressure on the capacity of Irish service providers, as outstanding business volumes rose to the greatest extent in almost two years.

In response, companies hired additional staff. Services employment rose for the sixty-fourth month in a row, and at the fastest rate since September.

Higher staff costs, alongside increased prices for insurance and utilities, exerted upward pressure on cost burdens in December. The rate of inflation was the joint-strongest seen in the past year and surpassed its long-run average.

The sustained rise in input costs combined with a favourable demand environment and efforts to protect margins underpinned a further increase in selling prices. The rate of charge inflation climbed to a five-month peak.

Service providers signalled improved profitability in the final quarter of 2017, with the latest increase the strongest since the three months to September. Profits have increased on a monthly basis since the November 2016 survey period.

Continues...

Investec Contact Details: www.investec.ie Investec.Economics@investec.ie +353 1 421 0496
To view the full range of Investec Research & Insights go to www.investec.ie/research

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 enjoyed a very strong finish to 2017. The headline PMI strengthened to 60.4 in December, an eight month high, from November's 56.0 outturn.

"The report shows that New Orders grew at a slightly faster pace in December than in the previous month, with more than two-and-a-half times as many panellists reporting a rise in new business as opposed to those disclosing a decline. The most recent improvement seems to have been domestically-driven, as the New Export Orders component saw a moderation in the implied growth rate, notwithstanding higher orders from UK clients.

"Companies are responding to increased client demand by adding to headcounts. The Employment component has posted 64 successive above-50 readings while the breadth of the improvement in hiring is demonstrated by December being the 14th consecutive month in which employment simultaneously grew across all of the segments of the services sector that are captured by this report – Business Services, Financial Services, TMT and Travel & Leisure. Despite the availability of these

extra resources, Business Outstanding increased for a 55th successive month in December.

"Turning to margins, the report shows yet another sharp rise in Input Costs, with higher salaries, insurance costs and utility prices blamed for the latest increase. Firms are, however, able to pass at least some of this pressure on, with the rate of growth in Prices Charged quickening to a five month high. These price increases, allied to volume growth, have led to a strengthening in the Profitability Index.

"The forward looking Business Activity: Expected Levels in 12 Months' Time index improved to its highest since September, which is unsurprising given the increase in New Orders and the generally improving international backdrop.

"Earlier this week we published the Investec Manufacturing PMI, which showed that the headline PMI had strengthened to its strongest in the history of the series (which dates back to May 1998). Combining that with today's eight month high in the headline Services PMI indicates that the momentum behind the Irish economy going into 2018 is very strong."

For further information please contact:**IHS Markit**

Andrew Harker, Associate Director
Telephone +44-1491-461-016
Email andrew.harker@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@ihsmarkit.com

Investec

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

Ronán Roche, The Reputations Agency
Telephone +353-1-661-8915
Email ronan@thereputationsagency.ie

Disclaimer

Investec Bank plc (Irish branch) ("**Investec**") has issued and is responsible for production of this publication. Investec Bank plc (Irish Branch) is authorised by the Prudential Regulation Authority in the United Kingdom and is regulated by the Central Bank of Ireland for conduct of business rules. Investec Bank plc is a member of the London Stock Exchange and the Irish Stock Exchange.

This publication should be regarded as being for information only and should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments, securities or any derivative instrument, or any other rights pertaining thereto (together, "**investments**"). Investec does not express any opinion as to the present or future value or price of any investments referred to in this publication. This publication may not be reproduced without the consent of Investec.

The information contained in this publication has been compiled from sources believed to be reliable, but, neither Investec, nor any of its directors, officers, or employees accepts liability for any loss arising from the use hereof or makes any representations as to its accuracy and completeness. The information contained in this publication is valid as at the date of this publication. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the matters discussed herein.

This publication does not constitute investment advice and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments or pursuing any investment strategies. Investec operates exclusively on an execution only basis.

An investment in any of the investments discussed in this publication may result in some or all of the money invested being lost. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any investments, the reader is warned that forecasts are not a reliable indicator of future performance. The value of any investments can fall as well as rise. Foreign currency denominated investments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such investments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

Investec (or its directors, officers or employees) may to the extent permitted by law, own or have a position in the investments (including derivative instruments or any other rights pertaining thereto) of any issuer or related company referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such investments or financial transactions.

Investec's conflicts of interest policy is available at <http://www.investec.ie/legal/uk/conflicts-of-interest.html>

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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

IHS Markit is a registered trademark of IHS Markit Ltd. All other company and product names may be trademarks of their respective owners © 2018 IHS Markit Ltd. All rights reserved.

About Investec

Investec in Ireland, a member of the Investec Group, is a leading specialist bank and wealth and investment manager in Ireland and is based in Harcourt Street, Dublin 2. The Investec Group is a leading international, specialist-banking group, with headquarters in Johannesburg, South Africa. The group was founded in 1974 and currently has approximately 8,000 employees with offices in 14 countries. Investec acquired NCB in 2012. NCB Group, now trading as Investec Securities Holdings Ireland Limited is one of Ireland's leading financial services groups, whose main activities include Stockbroking (private client and institutional), Bonds, Corporate Finance, Venture Capital Investment and International Funds listing. Investec Group is quoted on the Johannesburg and London stock exchanges with a market capitalisation of circa £4.2bn as of



31 March 2013. Investec's three principal areas of business worldwide are Specialist Banking, Wealth and Investment and Asset Management. For more information, visit www.investec.ie.

This document is not intended to be and must not be construed as an offer to buy or sell stocks or shares. It may not be reproduced in whole or in part or passed to third parties without permission.

The intellectual property rights to the Investec Republic of Ireland Services PMI[®] provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Investec use the above marks under license. IHS Markit is a registered trade mark of IHS Markit Limited.