



# Investec Services PMI® Ireland

Economics Monthly

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## Activity rises sharply, while sentiment strengthens to highest in year-to-date

### Summary:

The end of the third quarter of the year saw further strong increases in business activity and new orders in the Irish service sector. Meanwhile, confidence picked up markedly and companies again looked to expand their capacity by taking on additional staff.

### Investec Purchasing Managers' Index®:

50 = no change on previous month



Sources: IHS Markit, Investec

Rising to 58.7 in September from 58.4 in August, the headline seasonally adjusted Business Activity Index pointed to a further acceleration in the rate of growth of activity at Irish service providers. The latest rise was the fastest in four months. Panellists reported greater activity among customers, resulting in new order growth and rising output.

Predictions of further improvements in economic conditions – both at home and in export markets – supported optimism that activity will increase over the coming year. Moreover, sentiment strengthened sharply and was the highest in 2017 so far.

New orders increased at a substantial pace in September, despite the rate of growth easing from August. Stronger market conditions and the securing of new customers were mentioned by panellists. The

rate of expansion in new business from abroad quickened and was the fastest since February.

Outstanding business rose at the fastest pace in eight months, with panellists indicating that higher new orders was the main factor adding pressure to capacity.

Companies attempted to alleviate some of this capacity pressure by taking on extra staff. Employment rose at a substantial pace that was little-changed from that seen in August. Some panellists increased staffing levels in anticipation of further rises in workloads in coming months.

The rate of input cost inflation remained sharp during September, and was broadly in line with the series average. A number of respondents linked higher cost burdens to salary increases.

Meanwhile, the rate of output price inflation eased. Although remaining solid, the pace of increase slowed for the second month running and was the weakest since last November. The passing on of higher input costs to clients and efforts to improve margins were among the factors reportedly behind rises in charges.

The third quarter of 2017 saw a solid improvement in profitability at Irish service providers. According to respondents, higher new business volumes helped support growth of profits, which increased in spite of reports of higher input costs.

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**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 reveals an improvement in conditions in the sector. The headline PMI accelerated to 58.7 in September, a four month high, from August's 58.4 outturn.

"Panellists reported growth in incoming New Business, extending the run of above-50 readings for this component to 62 months, both from at home and abroad. On the latter, the New Export Business component reveals substantial growth, part-driven by higher demand from the UK (in contrast to the findings of the Manufacturing PMI earlier this week), with the rate of increase in overseas demand quickening to the fastest since February.

"Helped by this strong demand, the Business Outstanding component rose at its fastest pace for eight months. In an effort to arrest this, firms took on extra staff during the month, helping the Employment component continue a sequence of above-50 readings that commenced in September 2012.

"On the margin side, Average Input Costs rose at a sharp pace, with panellists attributing this outturn to rising materials prices and higher salaries. Services firms responded by hiking Average Prices Charged, although this was not enough to prevent a moderation in the Profitability index to the slowest since the period to end-March.

"The forward looking Business Activity: Expected Levels in 12 Months' Time index paints a very optimistic picture, with close to three-fifths of panellists expecting to see a rise in activity over the coming year and a low single digit percentage anticipating a decline. The data for the segments of the services sector that are captured by this report (Business Services, Financial Services, Transport & Leisure and TMT) reveal that firms in the TMT space are the most confident, which has positive read-across for the commercial property sector (a recent report by Savills into the Dublin office market shows that ICT firms accounted for over 40% of office take-up in the city in each of the past three quarters for which we have data, i.e. to end-Q217)."

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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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