

# Investec Services PMI® Ireland

Economics Monthly

Embargoed until: 06:00 (Dublin) / 05:00 (UTC) July 5th 2017

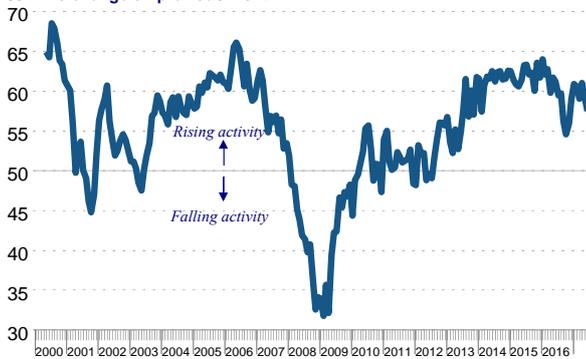
## Business activity continues to rise sharply, despite slowdown in June

### Summary:

As was the case throughout the second quarter of 2017, June saw further strong expansions in business activity and new orders at Irish services companies. This was despite rates of growth easing since May. Confidence remained elevated, encouraging firms to take on staff at an accelerated pace. On the price front, input costs increased at the slowest pace since last November, but output price inflation accelerated.

### Investec Purchasing Managers' Index®:

50 = no change on previous month



Irish service providers recorded a further sharp monthly increase in business activity during June amid reports of improving client demand and higher new orders. This was signalled by the headline seasonally adjusted Business Activity Index posting 57.6. That said, falling from 59.5 in May, the reading pointed to an easing in the rate of expansion to one that was the slowest in seven months.

Business sentiment also eased in June, but remained strongly positive and above the series average. Improving economic conditions, business expansion plans and expected growth of new orders were all mentioned by those companies forecasting growth of output.

Stronger client demand resulted in another monthly increase in new business. As was the case with activity, however, the rate of growth slowed from May. New orders have risen continuously since August 2012.

Meanwhile, the rate of growth in new export orders quickened to a three-month high.

Strong new order growth resulted in a further accumulation of backlogs of work, the forty-ninth in as many months. Moreover, the latest rise was sharper than that seen in May.

The rate of job creation picked up to a three-month high as companies took on extra staff in line with rising workloads and positive expectations regarding the future. Employment has now risen in each of the past 58 months.

The rate of input cost inflation eased for the second month running in June to the weakest since last November. That said, the rate of inflation remained sharp. Higher staff costs was the main factor leading input prices to rise, according to panellists.

The passing on of higher input costs to clients and efforts to improve profit margins resulted in a marked monthly increase in output prices during June. Moreover, the rate of inflation quickened slightly from the previous month.

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Investec Contact Details: [www.investec.ie](http://www.investec.ie) [Investec.Economics@investec.ie](mailto:Investec.Economics@investec.ie) +353 1 421 0496  
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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 shows that the sector enjoyed a further sharp monthly increase in June, with the headline PMI coming in at a robust 57.6, albeit down from the preceding month's 59.5 reading.

"The report shows that strong client demand resulted in another monthly increase in New Business. However, as was the case with activity, the rate of growth slowed from May. The picture was more encouraging for New Export Business, where the rate of growth has quickened to a three month high. Indeed, sub-sector data for the segments of the services industry that are captured by the report (Business Services, Financial Services, Transport & Leisure and TMT) show that all four have simultaneously posted above-50 readings for seven successive months. Staying with exports, we note that a number of panellists cited the UK as a particular source of new business wins, a pleasing outcome given recent FX moves.

"Given the ongoing growth in new orders, it is unsurprising to see continued increases in both Business Outstanding (for a 49th successive month) and Employment (for a 58th consecutive month). On the latter, nearly six times as many respondents

reported increased headcounts as opposed to those who have reduced theirs.

"On the margin side, Average Input Prices once again rose at a sharp pace in June, with panellists blaming higher staff costs in the main for this. As has been the case for 39 months now, firms were able to pass at least some of this on by hiking Average Prices Charged. In any event, the Profitability index remained in positive territory for an eighth successive survey period, helped by stronger volumes.

"The forward-looking Business Activity: Expected Levels in 12 Months' Time index was little changed in June, with the ratio of those expecting growth to those anticipating a decline standing at more than 8:1. Given the generally improving international backdrop, we think that this optimism is warranted.

"Taken together with Monday's Investec Manufacturing PMI Ireland release, we now have a complete picture of how H1 went for much of the private sector in Ireland. The narrative is one of very solid overall expansion, with a slight improvement in Q2 in the growth rate for manufacturing and a marginal moderation in the rate of expansion for services."

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

Andrew Harker, Senior Economist  
Telephone +44-1491-461-016  
Email [andrew.harker@ihsmarkit.com](mailto:andrew.harker@ihsmarkit.com)

Joanna Vickers, Corporate Communications  
Telephone +44-207-260-2234  
Email [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

**Investec**

Philip O'Sullivan, Chief Economist  
Telephone +353-1-421-0496  
Email [philip.osullivan@investec.ie](mailto:philip.osullivan@investec.ie)

Ronán Roche, The Reputations Agency  
Telephone +353-1-661-8915  
Email [ronan@thereputationsagency.ie](mailto:ronan@thereputationsagency.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. 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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