



Investec Services PMI® Ireland

Economics Monthly

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Growth of activity remains sharp at end of Q1

Summary:

March data rounded off a positive first quarter for the Irish service sector, with activity, new orders and employment all continuing to rise sharply. That said, rates of expansion eased slightly from February. On the price front, cost inflation quickened but output prices rose at the slowest pace since last November.

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 – dipped to 59.1 in March from 60.6 in February. This signalled a substantial monthly rise in activity, albeit the weakest in the year-to-date. The increase was recorded amid greater volumes of new work and reports of an improved economic environment.

Sentiment dipped slightly in March, but remained strongly positive as almost 52% of panellists predicted a rise in activity over the coming year. Confidence reflected strengthening economic

conditions, expectations of new order growth and business expansion plans.

As was the case with activity, new orders rose at a sharp but slightly reduced pace in March. New business growth has been recorded continuously since August 2012, with the latest expansion attributed to general improvements in economic conditions and marketing activities.

New business from abroad also increased sharply, extending the current sequence of expansion to four months. That said, the rate of growth slowed slightly from that seen in February.

Higher new orders led to a further increase in outstanding business in the Irish service sector at the end of Q1. The rate of backlog accumulation was solid, but eased for the third consecutive month.

The rate of services job creation slowed to the weakest since last November, but remained strong as companies took on extra staff in line with higher new orders and business expansion plans.

Input prices increased sharply in March, with the rate of inflation ticking up slightly from that seen in February. Panellists reported higher costs for staff, fuel and energy in particular.

Higher input costs led companies to raise their output prices again, extending the current sequence of inflation to three years. That said, the latest increase in charges was the slowest since November last year.

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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 business activity increased at a sharp, but slightly reduced, pace in March. The headline PMI came in at 59.1, a three month low, from February's 60.6 outturn.

"As has been the case in every month since August 2012, Irish services firms reported growth in New Business. Sub-sector data for the segments of the services industry captured by this report – Business Services, Financial Services, TMT and Travel & Leisure – show broad growth in new orders. The sequence of growth in New Export Business now stretches to four months and within that we note that the UK was mentioned as a particular area of strength during the month.

"Given the ongoing rise in client demand, it is no surprise that Business Outstanding continues to increase (as it has done for 46 successive months now). However, the rate of increase slowed to a six month low, which likely explains the moderation in

Employment creation to its slowest pace since November.

"Turning to margins, Input Prices continued their upward march during the month, with firms attributing this to higher staffing and energy-related costs. Firms were able to pass on at least some of these costs to end users by hiking Output Prices once more, but in any event the rate of improvement in the Profitability index quickened in the period to the end of March.

"While dipping to a four-month low, the forward-looking Expectations index shows that services firms remain very upbeat on the sector's prospects, with 13 times as many companies expecting to see growth in activity over the coming year as opposed to those who anticipate a decrease. This positive outlook is similar to the findings of Monday's Investec Manufacturing PMI release, so we would be inclined to 'look through' the marginal decline in the rate of growth implied by this week's PMIs and we anticipate stronger responses later in 2017."

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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.

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