



Investec Services PMI[®] Ireland

Economics Monthly

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Growth of activity eases to four-month low

Summary:

The Irish service sector continued to record marked growth of business activity during March, despite a further slowdown in the rate of expansion. New business also increased sharply, helped by accelerated new export order growth. Meanwhile, weaker rises in both input costs and output prices were recorded at the end of the third quarter.

Investec Purchasing Managers' Index[®]:

50 = no change on previous month



Business activity rose sharply again during March, as signalled by the headline seasonally adjusted Business Activity Index posting 56.5. That said, having fallen from 57.2 in February, latest data signalled the weakest expansion in four months, partly as a result of snow disruption at the start of the month. Where activity increased, this was linked by panellists to higher new business.

Predictions of further growth of new orders amid improving economic conditions led to confidence among service providers that activity will increase over the coming year. Business investment and marketing are also set to support growth, according to respondents.

In line with the trend for business activity, new orders rose at a sharp but reduced pace in March. Panellists indicated that marketing activities and a supportive economic environment had helped them to secure new work.

New export orders also increased again in March. Moreover, the rate of growth accelerated to the fastest in 2018 so far amid reports of strong global demand conditions.

With new orders continuing to rise, services companies recorded another monthly increase in backlogs during March. The rate of accumulation was marked, and sharper than seen in February.

Although employment continued to rise at a solid pace, the rate of job creation eased for the third successive month and was the weakest since May 2013.

Service providers recorded a further sharp rise in input costs during March, linked to higher prices for materials and increased staff costs. That said, the rate of inflation eased to a six-month low.

Services companies responded to higher cost burdens by raising their output prices accordingly. As a result, charges have now increased on a monthly basis throughout the past four years. The rate of inflation eased marginally, however.

The first quarter of 2018 saw a slight increase in profitability at Irish service providers. Respondents indicated that higher new business volumes were central to the rise in profits. On the other hand, increased cost burdens acted to dampen the expansion in profitability.

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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 while business activity continued to rise sharply during March, the rate of expansion has eased to a four-month low, partly as a result of snow disruption at the start of the month. The headline PMI was 56.5 versus February's 57.2 reading.

"The report shows that, notwithstanding the weather-related disruptions, the rate of growth in New Business was little changed last month. Unsurprisingly, this outturn seems to have been driven by overseas customers, with the pace of expansion in New Export Orders quickening to the fastest in 2018. In turn, this strong demand led to a sharp increase in Backlogs of Work (where the sequence of growth now stretches to 58 months), despite another uptick in Employment (continuing a 67 month series of above-50 readings).

"On the margin side, despite the rate of growth in Input Costs having moderated to a six month low, it remains pronounced, with higher prices for raw

materials and rising wages credited with the latest increase. Companies are responding to this by upping Output Prices (as they have consistently done on a monthly basis throughout the past four years), but despite this the Profitability Index tumbled to a four month low in March.

"The forward-looking Confidence index slipped to a four month low last month, although we would caution against reading too much into this given that it may have been influenced by the since-departed weather issues. We are nonetheless pleased to see the breadth of optimism across the sector, with all four of the segments that are captured by this release (TMT, Financial Services, Business Services and Transport & Leisure) simultaneously posting above-50 readings in this index for a 70th successive month in March.

"Taken together with the Investec Manufacturing PMI report from earlier this week, the narrative appears to be one of a slight moderation in growth across much of the private sector in Q1 2018. However, given the favourable economic backdrop we would expect to see a pick-up in activity as the year progresses."

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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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