



Investec Services PMI® Ireland

Economics Monthly

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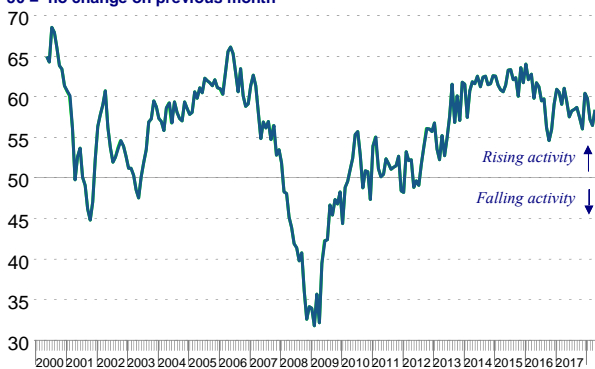
New business growth at six-month peak

Summary:

The Irish service sector started the second quarter on a solid footing as robust demand conditions underpinned faster increases in new business inflows and activity. The improved growth momentum supported the quickest upturn in employment in 2018 so far, as companies sought to expand capacities in line with a sharper accumulation in backlogs of work.

Investec Purchasing Managers' Index®:

50 = no change on previous month



Sources: IHS Markit, Investec

Boosted by favourable economic conditions and robust demand, Irish service providers increased business activity to a greater extent in April. The rate of growth accelerated from March to a three-month high, as signalled by the headline seasonally adjusted Business Activity Index climbing from 56.5 in March to 58.4.

Having moderated in March, confidence strengthened during April. Panellists indicated that investment plans, greater marketing activity and new work in the pipeline are all expected to underpin growth over the course of the coming 12 months.

Inflows of new business displayed the fastest rise since last October. Survey panellists reported sales

gains from domestic and external markets, while greater client bases and successful marketing strategies were also mentioned as having aided the upturn.

April data highlighted a further improvement in foreign demand for Irish services. The increase was the seventeenth in as many months, and the most pronounced in nearly two-and-a-half years.

The accelerated upturn in total new business exerted considerable pressure on the capacity of service providers' operations, as shown by a steep increase in outstanding work. Having quickened from March, the rate of accumulation was at a four-month high.

Amid attempts to alleviate capacity pressures, and in anticipation of further new business growth, service providers took on extra staff in April. Employment increased at the quickest pace in the year-to-date.

The rise in employment added to labour costs which, combined with higher prices for insurance and fuel, resulted in the strongest upturn in input costs for 16 months.

Robust demand conditions enabled Irish service providers to pass on to their clients part of the additional cost burden in April. That said, in contrast to the trend for input costs, charge inflation eased to the lowest rate in one-and-a-half years.

A moderate increase in profitability was seen in the latest three-month period. Furthermore, the rate of expansion improved on that registered in the opening quarter of 2018, with growth having now been recorded in each survey period since November 2016.

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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 a marked recovery in growth in business activity in April, likely helped by the easy comparative provided by the adverse weather in March. The headline PMI strengthened to 58.4 in April, a three month high, from the 56.5 recorded in the previous report.

"The report shows an acceleration in demand, with New Business firming to a six month high while New Export Business was the strongest in the current 17 month sequence of expansion. In turn, this increased demand saw Backlogs of Work increase at a faster pace, extending a series of unbroken growth that commenced in June 2013.

"Amid attempts to alleviate capacity pressures, and in anticipation of further new business growth, service providers took on extra staff in April, with Employment increasing at the quickest pace in the year to date.

"On the margin side, higher staff costs combined with rising fuel and insurance prices to produce the strongest upturn in input costs for 16 months. Robust demand conditions enabled companies to pass at least some of these cost pressures to customers, helping the rate of expansion in the Profitability index to inch higher in the period to end-April.

"The forward looking Confidence index improved to a seven month high, suggesting that there is more to the stronger readings in this report than just the absence of the inclement weather that dampened the previous month's performance. In any event, this week's Manufacturing and Services PMI releases point to a bright start to the second quarter of the year for much of the private sector."

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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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