PMI® By IHS Markit

Investec

Investec Services PMI® Ireland

Economics Monthly

Embargoed until: 06:00 (Dublin) / 06:00 (UTC) November 3rd 2017

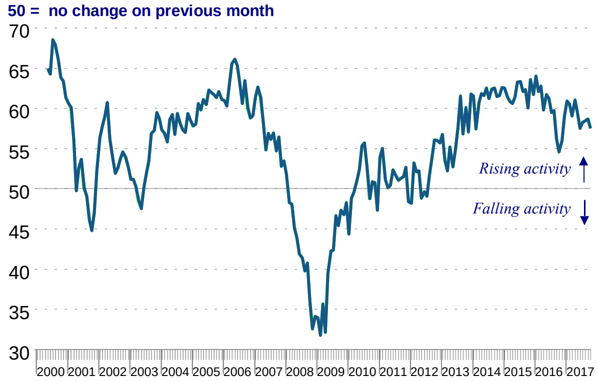
Growth of activity eases to 11-month low

Summary:

The Irish service sector continued to perform strongly in October, helped by a sharp and accelerated rise in new orders. That said, there were signs of growth easing as activity rose at the weakest pace in 11 months and business sentiment dropped. Meanwhile, higher staff costs contributed to a faster rise in input prices, but companies increased their charges at a slower pace.

Investec Purchasing Managers' Index®:

50 = no change on previous month



Sources: IHS Markit, Investec

The rate of expansion of business activity eased in October, as signalled by the seasonally adjusted Business Activity Index dipping to 57.5 from 58.7 in September. That said, growth remained sharp amid reports of higher new orders and improving market conditions. Activity has now increased in each of the past 63 months.

A drop-off in optimism was recorded in October, with service providers the least confident since September 2016. Those panellists that expect activity to rise over the coming year linked this to predictions of further improvements in economic conditions and an associated rise in new orders.

Total new business increased at a substantial pace again in October, with the rate of growth quickening from that seen in the previous month. According to panellists, the rise in total new business partly reflected growth of new export orders. New business from abroad rose at the fastest pace in eight months, with new work sourced from other European countries as well as the US.

Strong growth of new orders fed through to another monthly increase in backlogs of work. Furthermore, the rate of accumulation quickened to the fastest since January 2016.

Service providers continued to take on extra staff at a rapid pace, with the rate of job creation in October slowing only marginally from that seen in September.

The rate of input cost inflation accelerated for the second month running and was the joint-fastest in the year-to-date. According to respondents, higher input prices were largely due to increasing staff costs.

While cost inflation accelerated, the pace at which output prices increased eased over the month. Charges still rose at a solid pace, however, with respondents linking inflation to the passing on of higher input costs to clients and efforts to improve profit margins.

As has been the case throughout the past 12 survey periods, Irish service providers recorded a rise in profits during the three months to October. That said, the latest improvement was modest and the weakest since the three months to February.

Continues…

Investec Contact Details: www.investec.ie Investec.Economics@investec.ie +353 1 421 0496
To view the full range of Investec Research & Insights go to www.investec.ie/research

IHS Markit, Henley on Thames, Oxon RG9 1HG, UK Tel: +44 1491 461000 Fax: +44 1491 461001 e-mail: economics@ihsmarkit.com

Comment:

Commenting on the Investec Republic of Ireland Services PMI survey data, Philip O'Sullivan, Chief Economist at Investec Ireland said:

"At first glance, the latest Investec Services PMI report paints an underwhelming picture, with the headline PMI slowing to an 11 month low. However, the 57.5 PMI reading (versus September's 58.7) is still commensurate with a sharp pace of expansion.

"Another reassuring factor is that Irish services companies reported faster growth in demand from customers both at home and abroad. Nearly four times as many companies reported growth in New Business compared to those who experienced a softening in demand, while in terms of the export markets the strongest growth last month was recorded from Europe and the US.

"As a result of this strong demand, services companies' Backlogs of Work accumulated at their fastest pace in 21 months. In an effort to address this, firms have been adding to headcounts, with the Employment component posting growth for a 62nd successive month. Sub-sector data for the segments of the industry that are covered by the Services PMI (Financial Services, Business Services, TMT and Travel & Leisure) show that all four simultaneously increased their payrolls for a 12th consecutive month, while the data also suggest that Financial Services saw the strongest growth in hiring last month.

"The news was less positive on the margin side, however. The rate of growth in Input Prices spiked in October to a six month high (and to the joint-fastest in the year to date), with panellists blaming higher salaries and raw materials costs for this. In response to this, firms raised Average Prices Charged, but the rate of increase here cooled to the slowest since November 2016. This moderation is likely to have been a factor behind the rate of increase in the Profitability index slowing to the weakest since the period to end-February.

"Somewhat puzzlingly, the forward-looking Business Activity: Expected Levels in 12 Months' Time index weakened to its lowest since September 2016 in spite of the stronger client orders cited above. A number of respondents expressed concerns about customer sentiment, although it should be noted that nearly six times as many firms expect growth compared to those who expect a moderation in business activity over the coming year. Given the favourable economic outlook for the majority of Ireland's key trading partners and the domestic economy, we are in the camp of those who expect 2018 to be another year of progress for the services industry."

For further information please contact:

IHS Markit
Andrew Harker, Associate Director
Telephone +44-1491-461-016
Email andrew.harker@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@ihsmarkit.com

Investec
Philip O'Sullivan, Chief Economist
Telephone +353-1-421-0496
Email philip.osullivan@investec.ie

Ronán Roche, The Reputations Agency
Telephone +353-1-661-8915
Email ronan@thereputationsagency.ie

this publication. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the matters discussed herein.

This publication does not constitute investment advice and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments or pursuing any investment strategies. Investec operates exclusively on an execution only basis.

An investment in any of the investments discussed in this publication may result in some or all of the money invested being lost. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any investments, the reader is warned that forecasts are not a reliable indicator of future performance. The value of any investments can fall as well as rise. Foreign currency denominated investments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such investments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

Investec (or its directors, officers or employees) may to the extent permitted by law, own or have a position in the investments (including derivative instruments or any other rights pertaining thereto) of any issuer or related company referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such investments or financial transactions.

Investec's conflicts of interest policy is available at http://www.investec.ie/legal/uk/conflicts-of-interest.html

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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

About Investec

Investec in Ireland, a member of the Investec Group, is a leading specialist bank and wealth and investment manager in Ireland and is based in Harcourt Street, Dublin 2.The Investec Group is a leading international, specialist-banking group, with headquarters in Johannesburg, South Africa. The group was founded in 1974 and currently has approximately 8,000 employees with offices in 14 countries. Investec acquired NCB in 2012. NCB Group, now trading as Investec Securities Holdings Ireland Limited is one of Ireland's leading financial services groups, whose main activities include Stockbroking (private client and institutional), Bonds, Corporate Finance, Venture Capital Investment and International Funds listing. Investec Group is quoted on the Johannesburg and London stock exchanges with a market capitalisation of circa £4.2bn as of 31 March 2013. Investec's three principal areas of business worldwide are Specialist Banking, Wealth and Investment and Asset Management. For more information, visit www.investec.ie.