PMI® By IHS Markit

Investec

Investec Services PMI® Ireland

Economics Monthly

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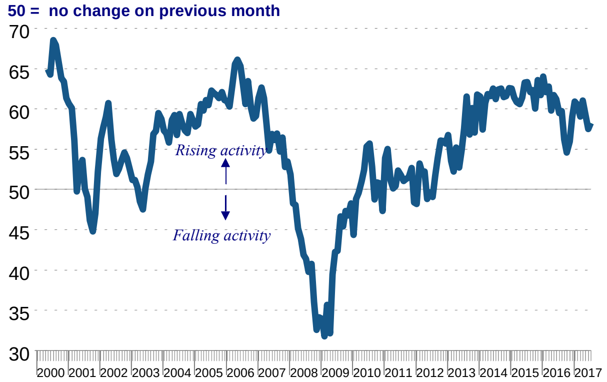
Rate of job creation at five-month high in July

Summary:
Rates of growth in business activity and new orders quickened in the Irish service sector during July. Furthermore, firms remained optimistic that activity will continue to expand over the coming year. This confidence, allied with strong rises in current workloads, led to an acceleration in the rate of job creation to the fastest since February.

Investec Purchasing Managers' Index®:



Sources: IHS Markit, Investec

The headline seasonally adjusted Business Activity Index rose to 58.3 in July, from 57.6 in June, to signal a faster pace of growth at the start of Q3. The latest expansion extended the current sequence of monthly increases in output to five years, with panellists reporting stronger client demand and higher new orders amid improving market conditions.

Companies were generally optimistic that activity will continue to rise over the coming 12 months. More than 47% of panellists forecast output growth, but sentiment dipped to the lowest since last November.

Stronger economic conditions supported a further steep rise in new business in July. As was the case with activity, the rate of expansion quickened.

Meanwhile, new business from abroad rose at the sharpest pace in four months. Panellists reported higher new orders from a range of markets including the UK, the US and other European countries.

Strong new order growth fed through to a further increase in backlogs of work, the fiftieth in as many months.

Service providers reacted to rising workloads by increasing their staffing levels. Furthermore, the rate of job creation accelerated to the fastest since February. Some panellists reported training new staff in line with anticipations of further increases in new work.

The rate of input cost inflation eased for the third month running in July, but remained sharp. Panellists mainly linked higher input prices to rising staff costs, while increased insurance costs were also mentioned.

Companies raised their output prices to the greatest extent in six months. Panellists indicated that the sharp increase in charges was largely due to the passing on of higher input costs to clients. Output price inflation has now been recorded in 40 consecutive months.

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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 paints a positive picture for the sector. The headline PMI came in at 58.3 in July, implying a slightly faster rate of growth in activity compared to June (57.6). July's outturn also means that the Irish Services PMI has been consistently above the 50 'no change' line separating growth from contraction for five years.

"The report shows a slightly quicker pace of expansion in New Orders. Even more encouragingly, the New Export Orders component, which increased at its fastest rate in four months, reveals broad growth in demand, with respondents reporting higher new orders from a range of markets including the UK, US and Continental Europe.

"This higher demand, in turn, contributed to a further build up in Business Outstanding, where the fiftieth above-50 outturn in as many months was recorded. Services firms have been responding to this by hiring more staff and here we note that the rate of growth in hiring improved to the highest since February. Indeed, some panellists reported that they are training new staff in line with anticipations of further increases in workloads.

"On the margin side, despite easing for the third month running in July, the rate of input cost inflation remained sharp. Respondents blamed higher wage and insurance costs for this. However, with output price inflation being recorded for the 40th consecutive month, it is clear that services firms are able to pass at least some of these higher costs on to end-customers. In any event, despite moderating for the third survey period in a row, the Profitability index remained in positive territory.

"We note that the forward-looking Expectations Index weakened to an eight month low in July, although it is important to highlight that more than nine times as many firms expect growth in activity over the coming 12 months compared to those who foresee a decline. Looking at the sub-sector data, the main area that saw a dip in optimism was the Travel & Leisure component. It is possible that speculation around Ireland's future (post-Brexit) trading relationship with the UK could be slightly dampening the mood here, as that component is more reliant on UK business than the other parts of the industry that are captured by our survey (TMT, Financial Services and Business Services). All in all, today's release reveals a bright start to H2 for the overall services 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.

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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About Investec

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