IHS Markit

Investec

Investec Services PMI® Ireland

Economics | Monthly

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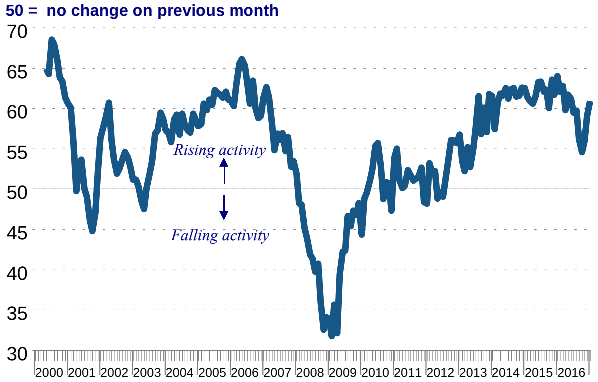
New order growth hits one-year high

Summary:

Growth in the Irish service sector continued its rebound from the slowdown in the second half of 2016 during January, with both activity and new orders rising at faster rates. Higher output requirements meant that job creation remained strong. Meanwhile, the rate of input cost inflation eased slightly, but output prices were raised at the fastest pace since the end of 2015.

Investec Purchasing Managers' Index®:

50 = no change on previous month



Sources: IHS Markit, Investec

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 – rose for the third month running to 61.0 in January from 59.1 in December. In fact, the sharp rate of expansion was the fastest since June last year. Panellists mentioned improved customer confidence, the launch of new products and higher new orders. Activity has now increased in the sector in 54 consecutive months.

Business sentiment remained positive at the start of the year, despite easing from that seen in December. A number of respondents predicted that improvements in the wider Irish economy would support growth of activity over the coming 12 months.

The rate of growth in new business quickened for the third successive month and was the fastest for a year. New orders have now increased on a monthly basis throughout the past four-and-a-half years, with the latest expansion linked to stronger client sentiment and a focus on sales. New export orders also rose at a faster pace in January, with growth recorded for the second month in a row. In fact, the increase was the fastest since July last year.

Backlogs of work continued to rise markedly, with panellists associating the latest accumulation to a pick-up in new business.

Higher output requirements and business expansion plans resulted in another monthly increase in staffing levels. The rate of job creation remained sharp, despite easing marginally from the ten-month high seen in December.

Input prices continued to rise markedly in January, with the latest increase linked by panellists to higher staff costs, rising prices for fuel and energy as well as euro weakness (against the US dollar).

Rising input costs led companies to increase their own selling prices during the month. Moreover, the rate of charge inflation quickened for the third month running to the fastest since December 2015.

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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 further pick-up in the rate of expansion in business activity during January. This continues the recovery from the slowdown recorded in the wake of the UK's vote to leave the EU (indeed, the headline PMI, at 61.0 last month, was the strongest since the Brexit referendum). The Irish services sector has now recorded 54 successive months of growth.

"A key highlight within today's report is the uptick in New Business, with the latest substantial increase the fastest for a year. Sub-sector data show strong growth in new orders across all four segments of the services industry that are captured by the report – Business Services, Financial Services, TMT and Travel & Leisure. The New Export Business component, which dipped marginally into negative territory in November, recorded its second successive monthly increase, helped by stronger demand from the UK (similar to Wednesday's Manufacturing PMI export data, this is a welcome, if somewhat surprising, outturn, given currency moves during the month).

"Stronger client demand produced a further accumulation in Business Outstanding, where the sequence of growth now stretches to 44 months. Unsurprisingly, services companies have attempted to address this by adding to headcounts, with the Employment component recording another sharp improvement last month.

"On a less positive note, services companies continue to endure a sharp rate of input cost inflation, with the latest spike in prices attributed to higher staff costs; rises in the costs of fuel and energy; and the euro's weakness against the US dollar. Firms were, however, able to pass on at least some of these cost pressures by hiking Average Prices Charged. In any event, the Profitability component remains in positive territory, albeit the rate of expansion here eased to the weakest seen in the current (three month) sequence of growth.

"The forward-looking Business Activity: Expected Levels in 12 Months' Time component shows that, despite tacking back a little from the 11 month high recorded in December, sentiment remains strongly positive. Nearly 11 times as many panellists expect to see a rise in output over the coming year as opposed to those who foresee a contraction.

"When all of the above is taken together with this week's Manufacturing PMI release, it is clear that 2017 has gotten off to a bright start for much of the private sector in Ireland."

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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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