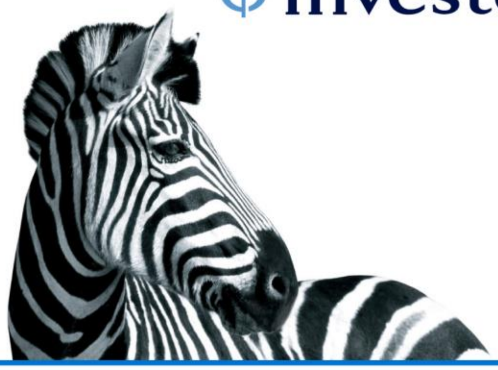


Investec Services PMI® Ireland

Economics Monthly

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

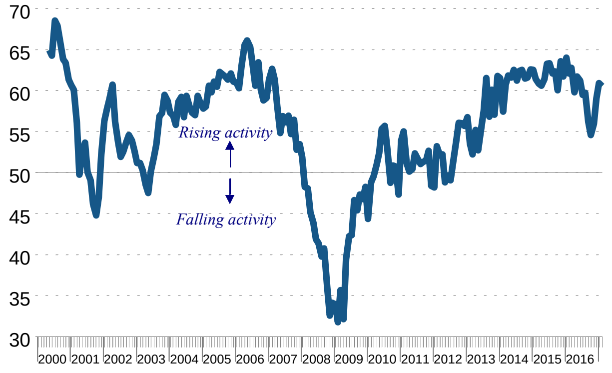
Services activity continues to rise sharply during February

Summary:

Irish service providers benefited from improving economic conditions in February, seeing further sharp rises in activity and new business and recording an improvement in business confidence. Higher workloads encouraged companies to increase their staffing levels again. Inflationary pressures eased slightly, but remained marked as a number of firms commented on rising staff costs.

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 – posted 60.6 in February, down only slightly from 61.0 in January and pointing to a further sharp increase in business activity. Higher new orders and increased marketing reportedly contributed to growth of activity, but the main factor behind the expansion was improving economic conditions.

Panellists expect further improvements in the Irish economy over the coming year, thereby leading to optimism regarding the outlook for business activity. Business sentiment picked up slightly from that seen at the start of 2017.

Service providers posted a further substantial monthly increase in new business, with the rate of growth only fractionally slower than in January. A number of respondents mentioned stronger market conditions. The rate of expansion in new export orders accelerated in February and was the sharpest since July last year.

Growth of new business imparted capacity pressure on service providers, resulting in a further build-up of backlogs of work. The latest rise was marked, albeit the slowest since last November.

Rising workloads and business expansion plans contributed to a further increase in employment during February. Moreover, the rate of job creation was faster than that seen in the previous month.

Input prices continued to rise sharply, despite the rate of inflation easing for the second month running. According to respondents, rising staff costs had been the main factor behind higher input prices, while increases in fuel costs and prices charged by suppliers were also mentioned.

Higher input costs and efforts to raise prices amid improving client demand led to a further increase in output charges. The latest rise in selling prices was marked, but the weakest in three months.

Continues…

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compiled by markit

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 business activity continued to increase sharply during February, with the rate of expansion only slightly weaker than January's seven-month high. The headline PMI came in at 60.6, versus 61.0 in the previous month.

"The report also shows that customer demand remains very healthy, with the rate of growth in New Business once again coming in much stronger than the series average, while the pace of expansion in New Export Business quickened to the fastest since July 2016.

"Buoyed by this strong demand, Outstanding Business increased once more, extending the sequence of growth to 45 months. Services firms have been growing headcounts in a bid to address this, with the Employment component having been consistently in positive territory throughout the past four-and-a-half years.

"On the margin side, Input Prices again rose at a sharp pace in February, with higher staff and fuel costs blamed for this latest increase. Firms have been passing on at least some of these cost pressures through hiking Output Prices. In any event, and despite the benefit of higher volumes, the Profitability index moderated to the weakest in the current four-survey sequence of growth.

"As was also the case in Wednesday's Manufacturing PMI report, the forward-looking Business Expectations component shows that firms remain very optimistic on the outlook for the sector. Across the services industry circa 14 times as many firms expect to see a rise in activity over the next year as against those who are pessimistic about the outlook. Sub-sector data for the components of the sector surveyed in this report (Business Services, Financial Services, TMT and Travel & Leisure) show that the positivity is widespread and above the series average in each case.

"All in all, this week's Investec PMI surveys indicate that while the rate of growth in activity across much of Ireland's private sector has eased slightly from January, it remains well above the series average."

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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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