



Investec Services PMI® Ireland

Economics Monthly

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Activity rises at fastest pace in four months

Summary:

The rate of growth in business activity quickened during May, with the latest expansion reflecting another strong increase in new orders. Employment also continued to rise strongly during the month. Meanwhile, there were signs of inflationary pressures easing slightly, with output prices increasing at the slowest pace since October 2016.

Investec Purchasing Managers' Index®:

50 = no change on previous month



The headline seasonally adjusted Business Activity Index rose to 59.3 in May from 58.4 in April, and signalled that the rate of output growth quickened to a four-month high. Panellists reported higher new orders amid improving economic conditions, but also attributed higher activity to favourable weather.

Expectations of further increases in new orders supported optimism regarding the 12-month outlook for business activity. Some panellists predict that business investment will boost activity. Confidence remained strong in May, despite easing slightly.

New orders increased for the seventieth successive month amid reports of strength in the wider Irish economy. The rate of growth was strong, albeit slower than in April.

The rate of expansion in new business from abroad quickened, meanwhile, and was the fastest since January 2016. A number of respondents reported higher new orders from UK clients.

The current sequence of backlog accumulation was extended to five years in May amid further increases in new orders. The rise in outstanding business was sharp, albeit slightly slower than in the previous month.

The rate of job creation also eased, but remained marked. Service providers took on extra staff in response to rises in new orders and outstanding business, but also in anticipation of further increases in workloads in coming months.

Input prices continued to rise sharply in May. Some panellists mentioned that fuel costs had increased in line with higher oil prices. Meanwhile, other respondents reported higher staff costs. The rate of inflation was above the series average, despite easing slightly.

Output prices increased again in May in response to higher input costs. That said, the rate of inflation eased to a 19-month low amid reports of competitive pressures.

The rate of improvement in profitability strengthened to the most marked since the three months to August last year. Higher workloads was the main factor leading profits to rise, according to panellists, while some signs of easing cost pressures also helped margins.

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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 that the rebound from the extreme weather conditions in March continued in May, with growth of business activity accelerating for the second month running to the fastest (59.3) since January. Activity has now increased in each of the past 70 months.

"While the rate of growth in New Orders cooled slightly from April, it remained sharp amid reports of strength in the wider Irish economy. Overseas demand firmed last month, with the pace of expansion in New Export Business quickening to its fastest since January 2016, with a number of panellists noting higher new orders from UK clients.

"Helped by this healthy demand, services companies reported a further rise in Backlogs of Work, albeit not quite at the same level of growth as had been seen in April. Similarly, while the sequence of growth in the Employment index now stretches to 69 months, the rate of increase in hiring activity was slightly lower than the year to date high that was posted in April.

"Turning to margins, Input Costs continued to rise sharply, with some panellists noting higher fuel prices while others mentioned increased staffing costs. Firms were able to pass on at least a portion of this pressure to end-customers, although we note that the rate of inflation in Charges has moderated

to a 19 month low. In any event, stronger volumes helped to deliver the fastest pace of expansion in the Profitability index since the three months to end-August of last year.

"While the forward-looking Confidence index rose at a slower pace last month, Irish services firms remain very upbeat, with the index remaining above the series average. Around eight times as many respondents predict a rise in activity over the coming year as against those who anticipate a decline, while data for the components of the services sector that are covered by this report (Business Services, Financial Services, TMT and Travel & Leisure) signal the breadth of optimism, with all four areas recording above-50 readings for a 72nd successive month.

"Taken together with last Friday's Investec Manufacturing PMI (where the headline index improved to a three-month high), the May PMI reports suggest that growth in activity across much of the private sector in Ireland has rebounded after the weather inspired softness that was seen in Q1 2018."

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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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