



Investec Services PMI[®] Ireland

Economics Monthly

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New order growth accelerates at start of 2018

Summary:

The Irish service sector made a strong start to 2018 as faster growth of new business resulted in another sharp increase in activity. Companies continued to take on extra staff at a marked pace, albeit one that was the weakest in eight months. Service providers were also optimistic around the near-term outlook for activity, with sentiment up to a four-month high.

Investec Purchasing Managers' Index[®]:

50 = no change on previous month



Sources: IHS Markit, Investec

The headline seasonally adjusted Business Activity Index posted 59.8 in January, signalling a further steep increase in activity. That said, the rate of expansion was slightly weaker than December's eight-month high (60.4). New order growth and improving economic conditions were reportedly behind the latest upturn.

Expectations of further improvements in domestic economic conditions, alongside predictions of greater foreign tourism, supported optimism that activity will continue to rise over 2018. In fact, sentiment strengthened to a four-month high.

The rate of new order growth accelerated in January and was substantial. The securing of new contracts, favourable economic conditions and the launch of

new services all reportedly supported increases in new business. New work from abroad also rose, and at a marked pace. That said, the rate of expansion eased to the slowest since August last year.

With new business rising sharply again, companies noted another increase in backlogs of work. The rate of accumulation was sharp.

Additional workloads, and the prospect of further increases in coming months, encouraged companies to raise staffing levels for the sixty-fifth month running in January. That said, the rate of job creation eased to an eight-month low.

The rate of input price inflation remained elevated at the start of the year. Higher prices for fuel, insurance and raw materials were mentioned by panellists, alongside increased staff costs.

Service providers responded to increased cost burdens by raising their output prices accordingly. Charge inflation was marked in January, and little-changed from that seen at the end of 2017. There were, however, some reports of competitive pressures limiting pricing power.

Price increases and higher volumes of new orders were factors supporting stronger profitability in the three months to January, while improved productivity was also mentioned. The rate of profits growth picked up to the fastest since the three months to August 2017.

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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 sharp rate of expansion in business activity in January, albeit one that was slightly weaker than December's eight month high. The headline PMI was little changed at 59.8 from 2017's exit rate of 60.4.

"Despite growth in New Export Business moderating to the slowest since August, the pace of expansion in overall New Business has quickened to a three month high. Increased client demand has led to a further accumulation in Outstanding Business (extending the sequence of growth here to 56 months) and continued growth in Employment (for a 65th successive month).

"Turning to margins, the rate of Input Cost inflation remains very sharp. Fuel, insurance, labour and raw materials prices all contributed upward pressure to

firms' cost bases in January. Nearly a fifth of services companies raised Output Prices last month, with the primary motive here being to protect margins in the face of the aforementioned rising costs. In any event, helped by volume growth, the Profitability index stayed in positive territory for a 15th successive survey period in January.

"The forward-looking Expectations index improved to a four month high, helped by positive sentiment on the economic outlook both at home and abroad. This positive disposition is broad-based, with all four segments of the services sector that are captured by this survey – Business Services, Financial Services, Travel & Leisure and TMT – simultaneously posting above-50 readings for this component for a 68th successive month. Given the improving global backdrop, we think that Irish services firms are right to be upbeat on their future prospects."

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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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