



Investec Services PMI® Ireland

Economics Monthly

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Rate of growth in business activity quickens to ten-month high

Summary:

The rate of expansion in Irish services business activity accelerated to the fastest in ten months during April as companies were able to take advantage of improving client sentiment to secure greater amounts of new business. This also supported ongoing job creation. Meanwhile, cost inflation was the highest in the year-to-date and output prices also increased at a faster pace.

Investec Purchasing Managers' Index®:

50 = no change on previous month



Sources: IHS Markit, Investec

At 61.1 in April, up from 59.1 in March, 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 – pointed to a sharp and accelerated monthly rise in business activity, with the rate of expansion quickening to a ten-month high. Anecdotal evidence suggested that clients had increased their own activity, feeding through to higher workloads in the service sector.

Improving economic conditions, business investment and marketing are all predicted to

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support growth of output over the coming year. Sentiment was strongly positive and higher than in March.

The rate of expansion in new business was substantial in April and faster than recorded in the previous month as companies benefited from strengthening economic sentiment. The rise in total new orders was stronger than that seen for new export business. Although new business from abroad continued to rise markedly, the rate of expansion eased to the slowest in 2017 so far. New export orders have now risen in five successive months.

Increases in new orders resulted in a further accumulation of backlogs of work at service providers, with the latest rise the fastest in three months.

As has been the case in each month since September 2012, Irish service providers increased their staffing levels in April, largely as a result of ongoing growth in new orders. The rate of job creation was sharp, albeit the weakest in five months.

April data pointed to the fastest rise in input prices in 2017 so far. Panellists mainly attributed increased input costs to rising salaries, while higher prices for fuel and insurance were also mentioned.

The rate of output price inflation also accelerated at the start of the second quarter. Rising charges reflected both the passing on of higher input costs to clients and efforts to improve profit margins.

Continues...

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 bright picture, with the rate of growth in Business Activity quickening to a 10 month high. The headline PMI improved to 61.1 in April from the previous month's 59.1 reading.

"The report also shows that the rate of expansion in New Business remains substantial, notwithstanding a cooling in the pace of growth in New Export Business to the slowest seen in the year to date. In spite of the latter, services firms' Backlogs of Work continue to increase (as they have consistently done for almost four years now). Services companies continue to add to headcounts in an effort to meet the flow of new client demand and also put a dent into the stock of outstanding orders.

"On the margin side, Input Costs continue to rise at a sharp pace, with panellists blaming higher payroll,

fuel and insurance costs for this outturn. Firms were, however, able to pass on at least some of these costs to customers by hiking Output Prices. In any event, helped by higher volumes the Profitability index strengthened to the strongest in 2017 so far.

"The forward-looking Confidence index shows that Irish services companies remain strongly optimistic, with more than 10 times as many firms expecting to record growth in activity over the coming 12 months as opposed to those who anticipate a decline.

"All in all, there is a sense of déjà vu in the above, given that Tuesday's Investec Manufacturing PMI release also pointed to stronger new business, expanding headcounts and some pressure from input costs. Taken together, this week's reports suggest that economic activity in Ireland picked up at the beginning of Q2."

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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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