



# Investec Services PMI<sup>®</sup> Ireland

Economics Monthly

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## Service providers record further sharp increase in activity

### Summary:

The Irish service sector maintained growth momentum midway through the third quarter of the year, with activity, new orders and employment all continuing to rise sharply in August. Input prices increased further, albeit at a reduced pace, while output price inflation also eased.

### Investec Purchasing Managers' Index<sup>®</sup>:

50 = no change on previous month



Sources: IHS Markit, Investec

Irish services activity continued to rise sharply in August, as evidenced by the headline seasonally adjusted Business Activity Index ticking up to 58.4 in August from 58.3 in July. Activity has risen on a monthly basis for over five years, with higher new orders and improved customer sentiment reportedly behind the latest increase.

Optimism around the wider Irish economy supported confidence among companies that activity would increase over the coming 12 months. That said, sentiment eased for the third month running and was the lowest since last September.

New orders continued to rise sharply, with the rate of growth only slightly weaker than seen in July. Some panellists reported that client interest had picked up.

The rate of expansion in new business from abroad eased to a three-month low in August and was weaker than that seen for total new orders. That said, the rate of growth remained marked.

Ongoing new order growth resulted in a further monthly rise in outstanding business, with the latest accumulation broadly in line with that seen in July.

Staffing levels at Irish services companies have increased on a monthly basis throughout the past five years, with August registering a substantial pace of job creation. Panellists mentioned having raised employment in order to expand capacity in response to rising workloads and positive expectations.

Higher staff costs was the main factor leading input prices to rise in August as companies reported offering higher salaries to staff. The rate of inflation was sharp, albeit the weakest since last November.

The rate of output price inflation also eased, and was at a five-month low. While some respondents mentioned having raised charges in line with higher input costs, others reported offering discounts amid competitive pressure. Output prices have now risen in each of the past 41 months.

Rising sales volumes supported a further increase in profitability during the three months to August. Moreover, the rate of growth was marked, having quickened to the fastest since the three months to April.

*Continues...*

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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:

"At a headline level, the latest Investec Services PMI Ireland report indicates a slight uptick in the overall rate of growth in activity in August, with the PMI firming to 58.4 from the previous month's 58.3 reading.

"This outturn is in spite of a slight moderation in the pace of growth in both New Business and New Export Orders. On the latter, we note that the rate of growth in New Export Orders now stands at a three month low, which may be partly influenced by the recent strengthening of the euro. Within the different segments of the Services sector that are captured by our survey (Business Services, Financial Services, TMT and Travel & Leisure) we note that Financial Services exports posted a contraction in August. While only slight, it was the first decline that has been recorded in this area since October 2012.

"While the rate of growth in New Business and New Export Orders may have slowed, it remains comfortably in positive territory. This, in turn, contributed to a 51st successive monthly increase in Business Outstanding, despite the additional resources available to Services firms signalled by a further sharp increase in the Employment index.

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"On the margin side, we note that the rate of Input Price inflation eased for the fourth consecutive month to the slowest since November. Rising wages and insurance costs were blamed for the cost hikes that were recorded during the month. Panellists were, once again, able to pass on at least some of these extra charges to end-customers, but as with costs the rate of growth in Average Prices Charged slowed last month. In any event, the Profitability index strengthened in August, with the sequence of growth in that component now stretching to 10 months.

"While still firmly in positive territory, the forward-looking Business Activity: Expected Levels in 12 Months' Time index has eased to its lowest since last September. This softening may reflect the currency moves alluded to above, but it should be noted that nearly eight times as many firms expect to see growth in activity over the coming year compared to those who anticipate a decline. All in all, while recent FX moves are unhelpful for the Irish economy, our core view remains that the improving trends across most of Ireland's key trading partners will be sufficient to deliver continued progress for the Services industry here."

**Investec**

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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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