



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

Economics

Monthly

## Sharpest rise in activity since January

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### About PMI

Purchasing Managers' Index<sup>®</sup> (PMI<sup>®</sup>) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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This survey covers all private sector services in Ireland, excluding retail and wholesale, and provides timely data on an area of the economy that is not well covered by official figures. The data are derived from questionnaires sent to a representative panel of around 450 Irish private-sector service companies. Monthly data have been collected since May 2000.

**Business Activity** The rate of growth in business activity at Irish service providers quickened for the third month running in June and was the sharpest since January. Where activity rose, panellists linked this to increases in new orders and stronger client demand. Growth of activity has now been recorded in each of the past 71 months (see page 2).

**Confidence** Favourable economic conditions are expected to help support growth of activity over the coming year, while investment plans and marketing efforts are also reasons for optimism. Sentiment regarding the 12-month outlook for activity remained strong in June (see page 2).

**New Business** New orders rose at a sharp and accelerated pace in June, with reports of increased new business from both domestic and export clients (see page 3).

**New Export Business** New export orders continued to rise markedly, despite the rate of expansion easing slightly. Panellists reported higher new orders from key export partners such as the UK and US (see page 3).

**Backlogs of Work** Outstanding business increased in June, with panellists suggesting that current capacity was insufficient to deal with the strength of new order growth. That said, the rate of accumulation was the weakest since last November (see page 4).

**Employment** Services companies increased staffing levels for the seventieth successive month, with the rate of job creation quickening to the fastest in 2018 so far. Respondents linked hiring to strengthening client demand and business expansion plans (see page 4).

**Input Costs** The rate of input price inflation quickened in June. Respondents mentioned higher prices for energy, fuel and insurance, as well as higher staff costs (see page 5).

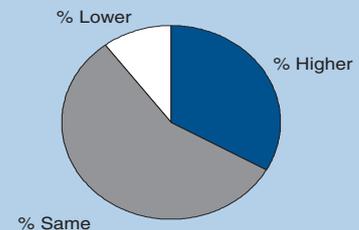
**Charges** Service providers responded to rising input costs by increasing their selling prices. Charges rose solidly at the end of the second quarter, with the rate of inflation accelerating to a three-month high (see page 5).

**Profitability** Profits continued to increase during the second quarter of the year, with the rate of expansion little-changed from that seen in the previous survey period. Rising workloads were among the factors mentioned by panellists as having supported growth of profits (see page 6).

### Business activity and employment



### % breakdown for Business Activity



### The Survey

The survey uses a methodology identical to the Investec Purchasing Managers' Index of the manufacturing economy. The survey uses a panel of around 450 regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the services economy.

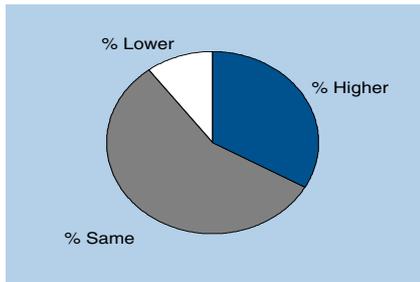
Data are presented in the form of diffusion indexes. These are a weighted sum of the positive, negative and no change replies and form a convenient single-figure summary of the data.

Diffusion indices vary between 0 and 100 with a level of 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase on the previous month. Readings below 50.0 signal a decrease. The greater the divergence from 50.0, the greater the rate of change signalled.

Where possible, diffusion indexes are seasonally adjusted to take into account expected or normal variations for the time of year.

**Business Activity: Current**

Q. Please compare the level of business activity at your company with the situation one month ago.



**Sharp increase in business activity**

Irish service providers recorded another steep expansion of business activity during June. The rate of growth quickened for the third successive month and was the fastest since January. Activity has now increased in each of the past 71 months.

Where activity increased, panellists generally attributed this to higher new orders amid improving client demand. One-third of respondents signalled a rise in activity, compared with 10% that posted a fall.

**Business Services leads growth of activity**

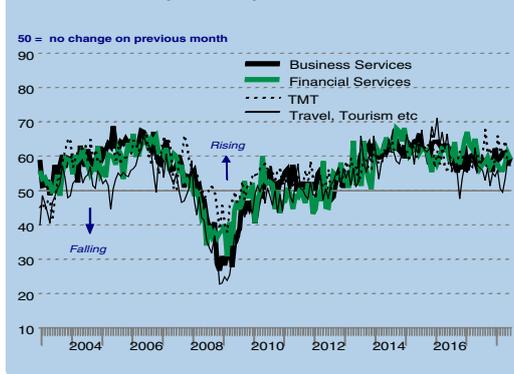
Strong rises in business activity were recorded across each of the four broad sectors covered by the survey in June. The fastest expansion was in the Business Services sector, where the rate of growth quickened from that seen in May. After posting the fastest expansion in the previous month, the pace of increase in Financial Services activity eased back slightly in June, but remained marked nonetheless. Transport & Leisure activity increased for the third month running in June. Although slowing from May's 13-month high, the rate of expansion remained substantial. Growth of business activity in the Technology, Media & Telecoms (TMT) sector eased for the second successive month in June and was the weakest recorded for a year-and-a-half.

**Total service sector business activity (seasonally adjusted)**



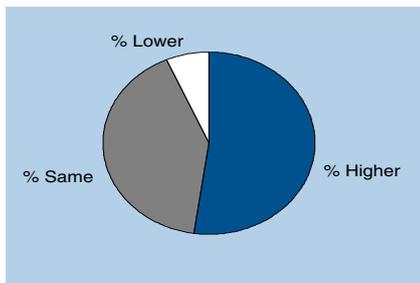
A reading of the Business Activity Index above 50.0 signals an increase in activity compared to the previous month. Readings below 50.0 signal contraction.

**Business Activity Index by sector (seasonally adjusted)**



**Business Activity: Expected Levels in 12 Months' Time**

Q. Do you expect the level of business activity at your company to be higher, the same or lower than now in twelve months' time?



**Sentiment improves at the end of second quarter**

Services companies in Ireland continued to forecast growth of business activity in the year ahead, with sentiment improving from May. Over half of all panellists were optimistic, with fewer than 7% of firms predicting lower output.

Anecdotal evidence suggested that confidence was boosted by investment plans, increased access to finance, marketing efforts and the offering of new services. There were also mentions that robust demand and favourable economic conditions are likely to drive output growth.

**Optimism led by TMT companies**

As has been the case in each of the past 16 months, the TMT sector posted the strongest sentiment of the four broad sectors monitored by the survey in June. Confidence among TMT firms improved for the second month running and was the highest since February. Financial Services also saw optimism improve during June, with confidence up to a four-month high. After dipping in the previous month, optimism in the Business Services sector recovered some ground in June and was above the series average. Above-average confidence was also registered in the Transport & Leisure sector, despite sentiment dropping to a three-month low. The category was the only one monitored to see confidence ease from that seen in May.

**Business expectations: all services (not seasonally adjusted)**



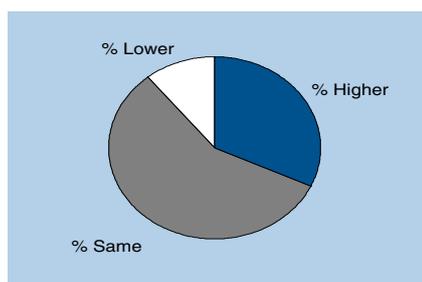
A reading of the Business Expectations Index above 50.0 signals an expected increase in overall business activity levels over the next twelve months. Readings below 50.0 signal contraction.

**Business expectations by sector (not seasonally adjusted)**



## Incoming New Business

Q. Please compare the level of orders/business placed at your company (whether already fulfilled or not) with the situation one month ago.



### New business growth accelerates in June

As has been the case on a monthly basis for nearly six years, new business placed with Irish service providers increased during June. Moreover, the rate of expansion was sharp and accelerated from that seen midway through the second quarter.

Among those survey participants that signalled higher new work, there were mentions of improved demand domestically and externally. Firms also reported greater sales to new and existing clients. In some cases, the upturn was linked to successful advertising.

### Widespread rises in new orders

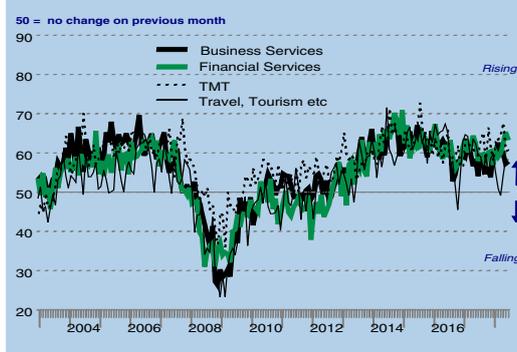
All four monitored sectors posted increases in new business during June. The sharpest expansion was in the Financial Services category where new orders rose at a substantial pace. This was despite the rate of growth easing from that seen in May. The TMT sector posted a sharp and accelerated rise in new business during June, with the rate of expansion in advance of the series average. Business Services also saw new orders increase at a faster pace in June. New business in the sector has now expanded in each of the past 70 months. As has been the case in each of the past three months, Transport & Leisure companies registered a rise in new orders during June. The rate of growth remained sharp, despite easing from the previous month.

### Incoming new business: all services (seasonally adjusted)



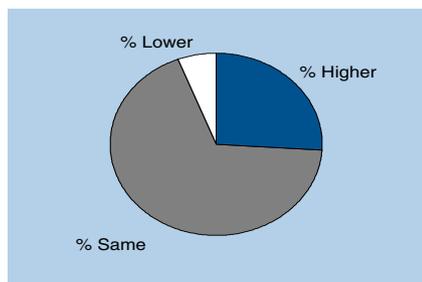
A reading of the Incoming New Business Index above 50.0 signals an increase in the volume of new business placed compared to the previous month. Readings below 50.0 signal contraction.

### New business by sector (seasonally adjusted)



## Incoming New Export Business

Q. Please compare the level of orders/business from abroad placed at your company (whether already fulfilled or not) with the situation one month ago.



### Robust upturn in new export business

June data pointed to a further increase in the level of new work received by service providers from externally-based clients. This extended the current sequence of uninterrupted growth to 19 months, with the pace of expansion remaining marked despite easing from May.

According to panel members, new work had been secured from key export partners, with the UK and US mentioned in particular. Firms suggested that sales growth in part stemmed from online bookings, while there were also reports of greater inbound tourism.

### Financial Services posts fastest rise in new export orders

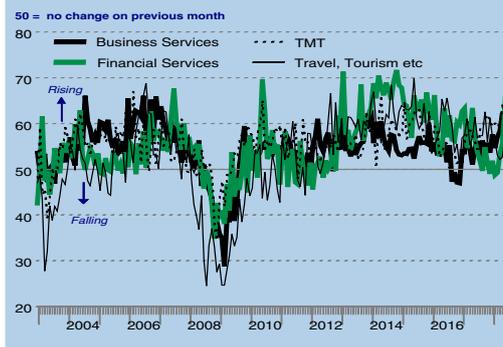
Consistent with the picture for total new business, the Financial Services sector posted the fastest rise in new export orders during June. New business from abroad increased for the fourth consecutive month, and at a substantial pace. Strong growth of new export orders was also recorded in the TMT sector during the month as the rate of expansion quickened from that seen in May. Business Services saw a nineteenth successive monthly rise in new export orders. The latest increase was marked, albeit the weakest since January. The rate of expansion in the Transport & Leisure sector also slowed in June and was the weakest of the four sectors covered by the survey.

### New export business: all services (seasonally adjusted)



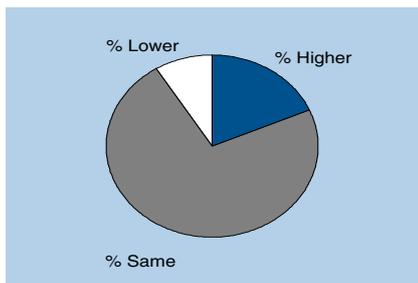
A reading of the New Export Business Index above 50.0 signals an increase in the volume of new business from abroad placed compared to the previous month. Readings below 50.0 signal contraction.

### New export business by sector (seasonally adjusted)



## Business Outstanding

Q. Please compare the level of outstanding business (i.e. work-in-hand but not yet completed) at your company with the situation one month ago.



### Softer increase in unfinished business

Irish services companies signalled another increase in work-in-hand during June, with backlogs now having risen on a monthly basis for over five years. Despite moderating to the weakest since last November, the pace of accumulation was marked in the context of historical survey data.

Survey participants suggested that current capacity levels were not sufficient to cope with rising workloads and that additional staff were needed. Around twice as many firms noted higher unfinished business volumes as those that reported a decline.

### Fastest rise in Business Services backlogs in year-to-date

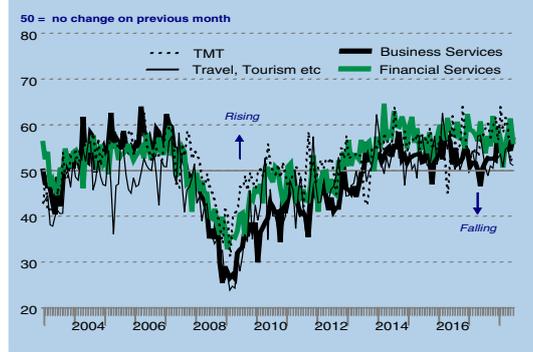
While all four monitored sectors posted increases in outstanding business during June, rates of accumulation varied markedly. The sharpest increase was in the Business Services sector, where the rate of accumulation was strong and the fastest in 2018 so far. Financial Services also posted a marked rise in backlogs of work, albeit one that was the slowest in three months. Work-in-hand at TMT firms increased for the twenty-sixth successive month in June. The rate of accumulation was solid and faster than that seen in May. The slowest increase in backlogs was in the Transport & Leisure sector, where the rise was only slight. Moreover, the latest increase was the slowest in four months.

### Business outstanding: all services (seasonally adjusted)



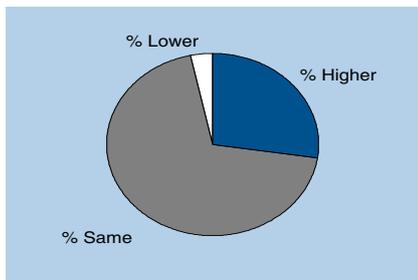
A reading of the Business Outstanding Index above 50.0 signals an increase in levels of backlogs of work compared to the previous month. Readings below 50.0 signal contraction.

### Business outstanding by sector (seasonally adjusted)



## Employment

Q. Please compare the number of people employed with the situation one month ago (treat two part-time as one full-time and ignore temporary labour).



### Employment rises at strongest pace in year-to-date

Business expansion plans and robust demand conditions encouraged Irish service providers to take on additional workers during June. Subsequently, the current sequence of rising payroll numbers was extended to 70 months.

Furthermore, the rate of expansion was sharp and picked up to the fastest recorded since December last year. The seasonally adjusted Employment Index was well above its long-run trend (52.8), but below the average seen over 2017 as a whole (58.5).

### TMT sector leads job creation in June

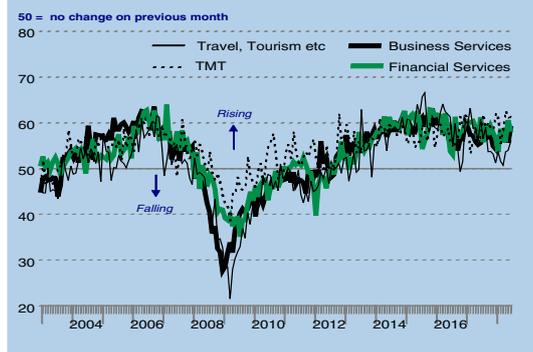
Strong increases in staffing levels were recorded across all four sectors covered by the survey in June. The fastest expansion was in the TMT category, where the rate of job creation ticked up from the previous month. Employment in the sector has now risen in each of the past 70 months. Business Services registered a sharp and accelerated monthly increase in staffing levels at the end of the second quarter. Furthermore, the rate of job creation was the steepest for a year-and-a-half. Financial Services saw jobs growth ease slightly from that seen in May, but remain much greater than the series average. The pace at which employment increased in the Transport & Leisure sector quickened for the third month running in June and was the fastest since August last year.

### Employment: all services (seasonally adjusted)



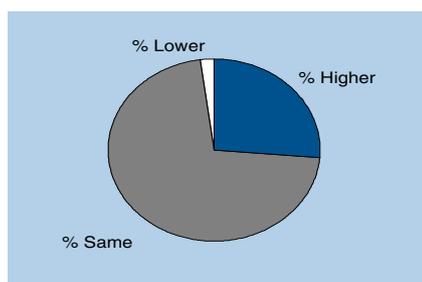
A reading of the Employment Index above 50.0 signals an increase in the number of people employed in services compared to the previous month. Readings below 50.0 signal contraction.

### Employment by sector (seasonally adjusted)



## Average Input Prices (Costs)

Q. Please compare the average price paid by your company for all purchases, wages and salaries etc. with the situation one month ago.



### Cost inflationary pressures intensify

Amid reports of higher prices paid for energy, fuel and insurance, average cost burdens facing Irish services companies increased further in June. Some panellists also linked the rise to greater salaries awarded to staff.

The rate of inflation was sharp overall, and accelerated from that seen in the prior survey period. The latest increase in input costs was also stronger than the series average. Around 26% of monitored firms reported higher average input prices, while only 2% noted a reduction.

### Transport & Leisure sector sees faster rise in input costs

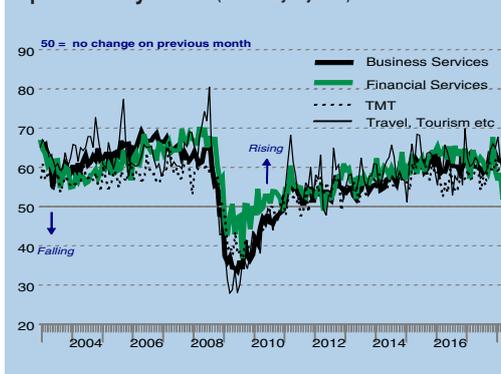
The rate of input price inflation in the Transport & Leisure sector accelerated sharply during June and was the strongest since January. The substantial increase in input costs in the category was the fastest of the broad sectors covered by the survey and above the respective series average. Business Services also registered a sharp monthly rise in input prices, although the rate of inflation eased to a four-month low during June. The pace at which input costs increased also eased at Financial Services companies. The rate of input cost inflation in the TMT sector accelerated in June from May's 26-month low and was marked. That said, the category continued to record the slowest rise in input prices of the four monitored sectors.

Input costs: all services (seasonally adjusted)



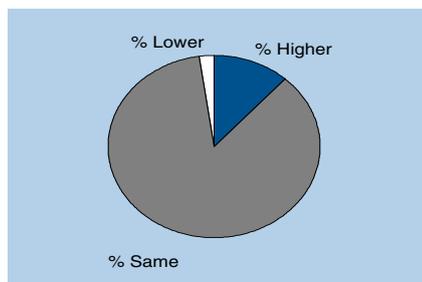
A reading of the Input Costs Index above 50.0 signals an increase in average input costs and prices compared to the previous month. Readings below 50.0 signal contraction.

Input costs by sector (seasonally adjusted)



## Average Prices Charged

Q. Please compare the average price charged by your company (e.g. prices charged per item or unit of time) with the situation one month ago.



### Sharper increase in services charges

Greater input and overhead costs led Irish services firms to increase their charges in June. Output prices have risen in each month since April 2014. Having accelerated from May's 19-month low to the highest in the current quarter, the overall rate of inflation was solid.

Almost 12% of survey respondents indicated that they raised their selling prices during the month. By comparison, just 2% of businesses offered discounts. Despite picking up, the rate of output price inflation remained below the average seen for 2017.

### TMT charges decrease

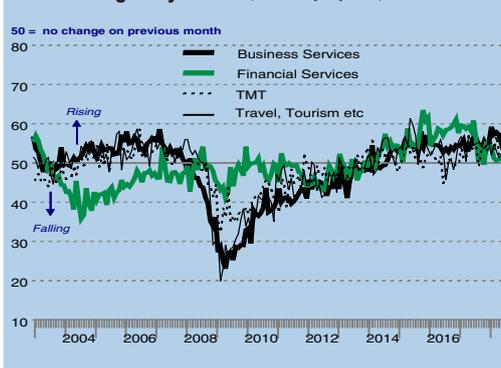
Three of the four sectors covered by the survey saw output prices increase during June, the exception being TMT where a fractional reduction was signalled. The fall at the end of the second quarter ended a nine-month sequence of inflation. The sharpest increase in charges during June was registered in the Business Services sector, where the rate of inflation quickened from that seen in May. A marked and accelerated rise in output prices was also noted at Transport & Leisure companies. Moreover, the rate of inflation reached the fastest in the year-to-date. As has been the case in each of the past eight months, Financial Services companies increased their output prices in June. The rate of inflation was solid and the sharpest since January.

Prices charged: all services (seasonally adjusted)



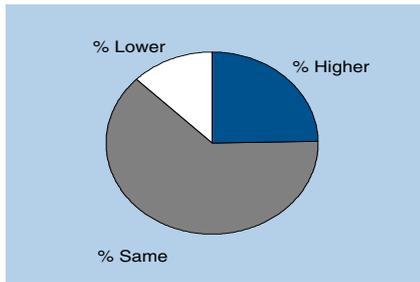
A reading of the Prices Charged Index above 50.0 signals an increase in the average price levied for service by service providers compared to the previous month. Readings below 50.0 signal reduced charges.

Prices charged by sector (seasonally adjusted)



**Profitability**

Q. Please compare the profitability of your company's operations with the position three months ago.



**Solid rise in profits in Q2**

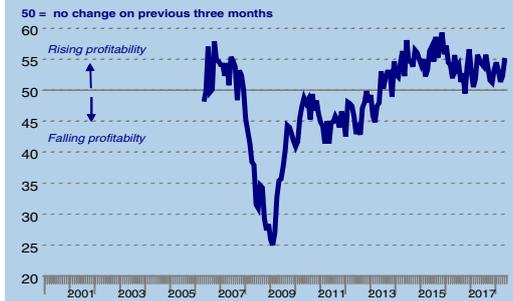
Profitability at Irish services companies continued to increase in the second quarter of 2018, extending the current period of growth to 20 survey periods in a row. Little-changed from that seen in the three months to May, the rate of expansion remained solid.

According to panellists, the rise in profits reflected increased workloads, selling price hikes and better cost management policies. Almost one-quarter of firms signalled growth during the three months to June, versus 13% that reported deteriorating profits.

**Business Services profits growth accelerates**

The fastest increase in profitability during the second quarter of the year was seen at Business Services companies, where profits rose markedly following a fractional expansion in the previous survey period. The improvement in profitability was the strongest since February. Business Services was the only category to see profits increase at a faster pace in the three months to June. Both Financial Services and TMT saw further marked rises in profitability, but at slightly weaker rates than in the previous survey period. Meanwhile, Transport & Leisure registered only a fractional increase in profits during the second quarter, and one that was the slowest in the current three-survey sequence of growth.

**Profitability: all services (seasonally adjusted)**



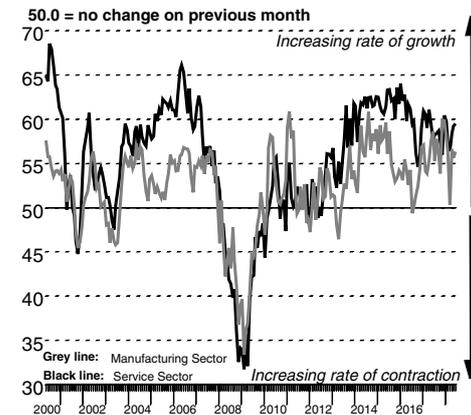
A reading of the Profitability Index above 50.0 signals an increase in levels of profitability compared to three months earlier. Readings below 50.0 signal decline.

**Profitability by sector (seasonally adjusted)**



**Comparisons of Service Sector and Manufacturing Sector Business Conditions**

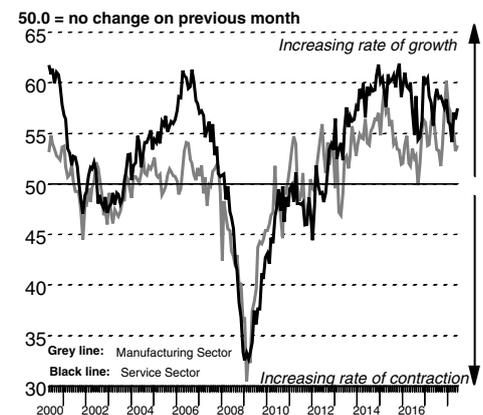
**Output/Business Activity**



Faster increases in output across both sectors.

Rates of growth in employment also quicken.

**Employment**



The above chart plots the Irish Manufacturing Output Index and the Business Activity Index for Irish services.

The above chart plots the Irish Manufacturing Employment Index and the Employment Index for Irish services.

Sharper increases in business activity were recorded across both the manufacturing and service sectors in June.

Increased activity requirements encouraged service providers to raise their staffing levels at the end of the second quarter.

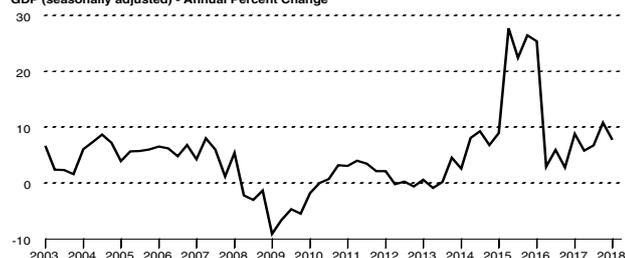
Services activity rose more quickly than manufacturing output, the seventh month running in which this has been the case.

Moreover, rates of job creation quickened across both monitored sectors, with services employment rising at the fastest pace in 2018 so far.

## Key Economic Data

## GDP

GDP (seasonally adjusted) - Annual Percent Change



Source: CSO Ireland.

Irish GDP continued to rise sharply in the final quarter of 2017. Output was up 7.8% year-on-year, following a 10.9% increase in Q3. GDP has now risen in 19 consecutive quarters.

## Consumer Prices (Harmonized)

Harmonized Consumer Price Index - Annual Percent Change



Source: CSO Ireland.

After decreasing fractionally during April, consumer prices rebounded in May. Prices were up 0.7% year-on-year, following a -0.1% fall in the previous month.

## Employment

Employment - Annual Percent Change



Source: CSO Ireland.

Employment continued to rise in Ireland on an annual basis in the first quarter of 2018. Employment was up 2.9% year-on-year, following a 3.1% increase in Q4.

## Interest Rates

3-month EURIBOR Rate



Source: OECD.

May saw euro area interest rates remain in negative territory. At -0.33%, the 3-month EURIBOR was unchanged from that seen during April.

## 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.

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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