



Investec Services PMI® Ireland

Economics

Monthly

Activity rises at fastest pace in four months

Investec

T: +353-1-421-0496
E: Investec.Economics@investec.ie
W: www.investec.ie

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About PMI

Purchasing Managers' Index® (PMI®) 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.

Tel: +44 1491 461000

economics@ihsmarkit.com

Website: markiteconomics.com

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 Irish services activity quickened to a four-month high in May, with output up sharply from April. Panellists reported higher new orders amid improving economic conditions, but also attributed higher activity to favourable weather (*see page 2*).

Confidence 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 (*see page 2*).

New Business 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 (*see page 3*).

New Export Business 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 (*see page 3*).

Backlogs of Work 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 (*see page 4*).

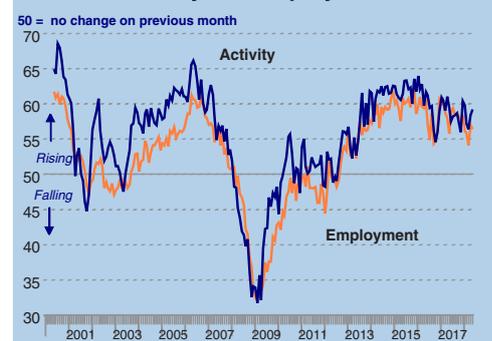
Employment The rate of job creation also eased, but remained marked. Service providers took on extra staff in response to rises in new orders and outstanding business, but also in anticipation of further increases in workloads in coming months (*see page 4*).

Input Costs 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 (*see page 5*).

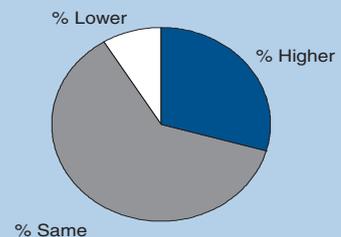
Charges Output prices increased again in May in response to higher input costs. That said, the rate of inflation eased to a 19-month low amid reports of competitive pressures (*see page 5*).

Profitability 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 (*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.

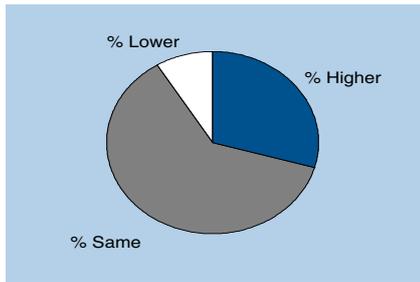
Data are presented in the form of diffusion indexes. These are a weighted sum of the positive, negative and no change replies and form a convenient single-figure summary of the data.

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.



Fastest rise in activity for four months

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

Better weather conditions were indeed mentioned by a number of those panellists that saw activity increase over the month. Respondents also linked higher output to improving economic conditions and rising new orders. Around 30% of panellists reported a rise in activity, compared with 9% that posted a fall.

Financial Services leads growth in May

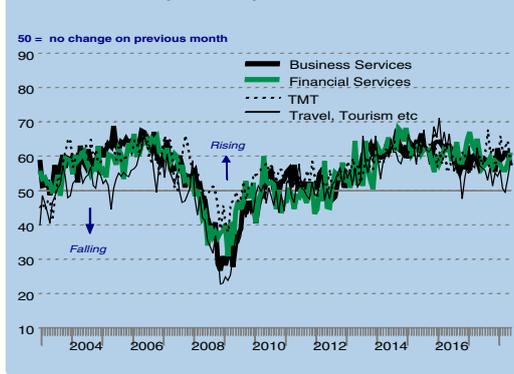
The Financial Services sector posted the fastest rise in activity of the four broad sectors covered by the survey in May, as growth in the sector accelerated to the steepest since April 2017. The previous four months had all seen growth being led by the Technology, Media & Telecoms (TMT) sector, but the category saw a marked slowdown in the rate of expansion in May. Activity rose at the slowest pace in 11 months. Activity in the Transport & Leisure sector increased for the second month running in May. Moreover, the rate of expansion accelerated sharply and was the fastest in just over a year. While Business Services activity continued to rise markedly, the rate of growth eased to a six-month low in May.

Total service sector business activity (seasonally adjusted)



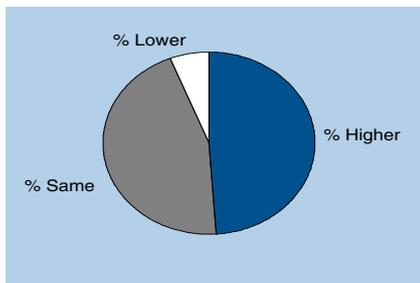
A reading of the Business Activity Index above 50.0 signals an increase in activity compared to the previous month. Readings below 50.0 signal contraction.

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?



Business confidence remains strong

Irish service providers remained optimistic that business activity will increase over the coming 12 months. Although May saw sentiment ease from the previous month, it remained above the series average.

Close to 49% of respondents predict a rise in activity over the coming year, with a number linking this to expectations of improvements in economic conditions and a subsequent increase in new business. Some panellists also indicated that they expect business investment to help boost activity over the next 12 months. On the other hand, just 6% of respondents were pessimistic regarding the outlook.

Optimism picks up in TMT sector

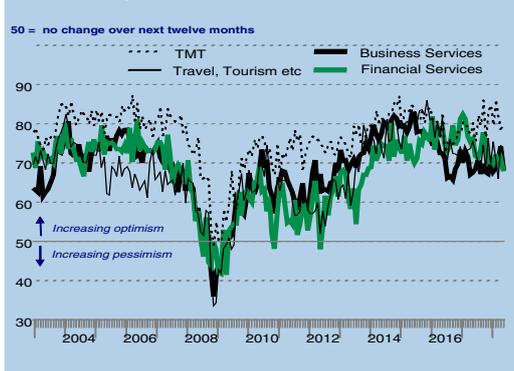
The only sector to buck the wider trend and see confidence strengthen during May was TMT, where firms were strongly optimistic that activity will rise over the coming year. As well as being the only category to see a pick-up in sentiment, TMT also posted the highest confidence of the four monitored sectors. Elsewhere, optimism remained strong despite easing from April. Transport & Leisure companies continued to post sentiment that was above the series average. Business Services saw optimism ease to a four-month low during May, but the biggest drop in sentiment was recorded in Financial Services where confidence was the lowest in four-and-a-half years.

Business expectations: all services (not seasonally adjusted)



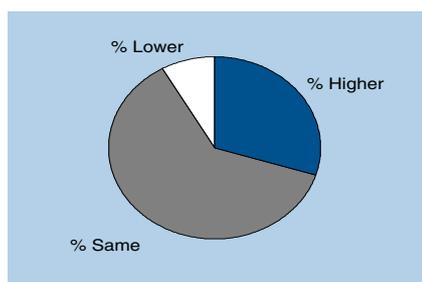
A reading of the Business Expectations Index above 50.0 signals an expected increase in overall business activity levels over the next twelve months. Readings below 50.0 signal contraction.

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 continues to rise sharply

As has been the case in each of the past 70 months, Irish services companies posted a rise in new orders during May. Although easing from the six-month high seen in April, the rate of expansion remained sharp and was above the series average.

According to respondents, strength in the wider Irish economy was key to their ability to win new work again during the month. Client workloads had reportedly increased, leading them to submit more new orders. Around 30% of panellists reported a rise in new business, compared with 8% that posted a fall.

Financial Services leads growth of new business

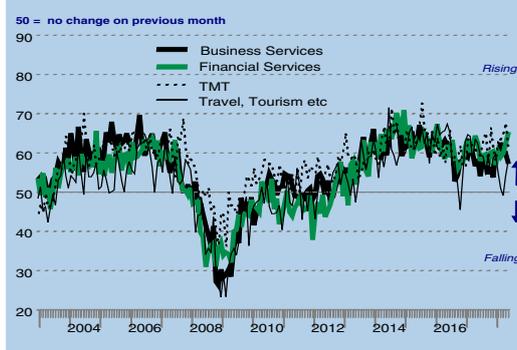
The Financial Services sector posted the fastest increase in new orders during May as the rate of expansion accelerated to the sharpest since January 2016. The rate of growth in the sector has now quickened in three successive months. Transport & Leisure also recorded a stronger rise in new business in May. New orders increased for the second month running, and at the fastest pace in 2018 so far. TMT new orders continued to expand steeply midway through the second quarter, despite the rate of growth easing to a five-month low. The slowest increase in new work was recorded at Business Services companies, where the rise was the weakest since last November. The rate of expansion was still marked, however.

Incoming new business: all services (seasonally adjusted)



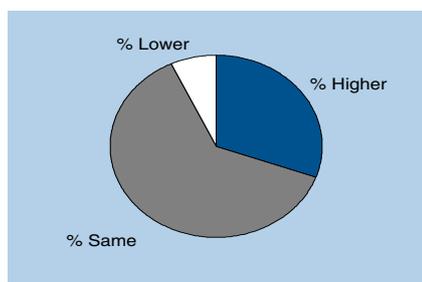
A reading of the Incoming New Business Index above 50.0 signals an increase in the volume of new business placed compared to the previous month. Readings below 50.0 signal contraction.

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.



New export order growth at 28-month high

Irish service providers continued to record growth of new business from abroad during May, extending the current sequence of expansion to a year-and-a-half. Furthermore, the rate of growth accelerated for the third month running and was the strongest since January 2016.

Those respondents that saw new business from abroad increase during the month often linked this to higher new orders from the UK. Around 31% of panellists registered an expansion of new export orders during May, against 7% that saw a contraction.

Widespread increases in new business from abroad

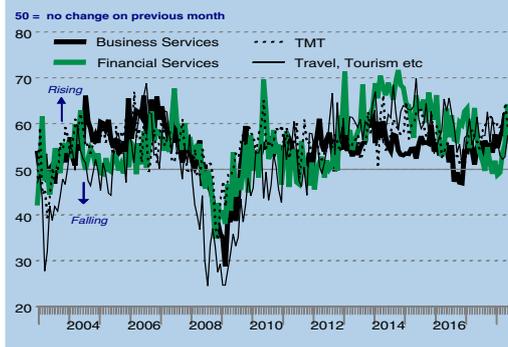
All four broad sectors saw new export orders increase during May. As was the case with total new business, the sharpest expansion was at Financial Services companies. New export orders rose for the third month running in the sector, with the rate of growth the steepest since January 2016. The only other sector to record a stronger pace of expansion in May was Transport & Leisure, where the pace of increase quickened to a six-month high. TMT new export orders continued to rise at a sharp pace in May, albeit one that was the slowest in three months. Business Services also posted a weaker rise in new export orders during the month, but the pace of expansion remained marked.

New export business: all services (seasonally adjusted)



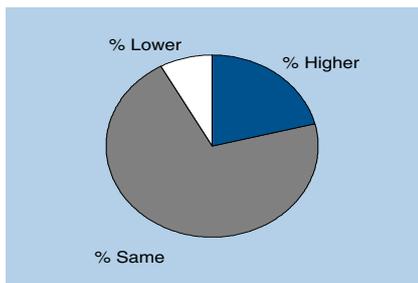
A reading of the New Export Business Index above 50.0 signals an increase in the volume of new business from abroad placed compared to the previous month. Readings below 50.0 signal contraction.

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.



Further accumulation of backlogs of work

Increases in new business continued to result in rising volumes of backlogs of work during May, with outstanding business now having accumulated on a monthly basis throughout the past five years.

Although easing slightly from the previous month, the rate at which backlogs increased remained marked and was much stronger than the series average. Exactly 21% of respondents signalled a rise in outstanding business during the month, compared with 8% that recorded a fall.

Financial Services leads growth of outstanding work

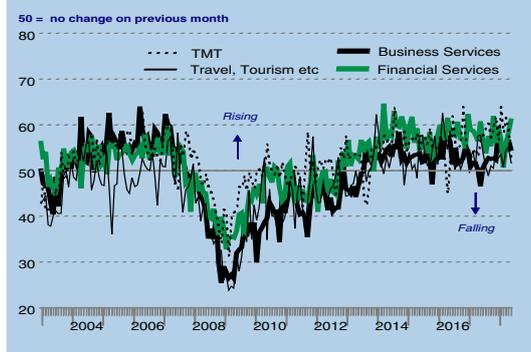
Consistent with the sector seeing the sharpest increases in both total new orders and new export business in May, Financial Services posted the fastest accumulation of backlogs of work. In fact, the rise in the sector was much stronger than recorded elsewhere, and the sharpest since last October. The three remaining categories all saw rates of accumulation weaken in May. The slowest rise was at Transport & Leisure companies, where the pace of increase was only slight. The rate of accumulation in TMT backlogs weakened markedly during the month and was the slowest in the current 25-month sequence of rising work-in-hand. Meanwhile, the pace at which outstanding work increased in the Business Services sector was solid, despite slowing from April's four-month high.

Business outstanding: all services (seasonally adjusted)



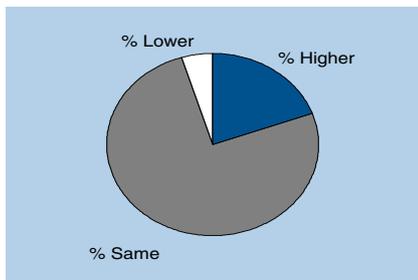
A reading of the Business Outstanding Index above 50.0 signals an increase in levels of backlogs of work compared to the previous month. Readings below 50.0 signal contraction.

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).



Slower rise in employment

May data signalled another monthly rise in staffing levels in the Irish service sector, extending the current sequence of job creation to 69 months. The pace at which employment increased remained sharp, but slowed from the four-month high seen in April.

Panellists reported taking on extra staff in response to rising new orders and a build-up of outstanding business. Some respondents also mentioned predictions of further increases in workloads in coming months. More than 19% of panellists raised staffing levels, against just 5% that lowered workforce numbers.

Steep increase in TMT staffing levels

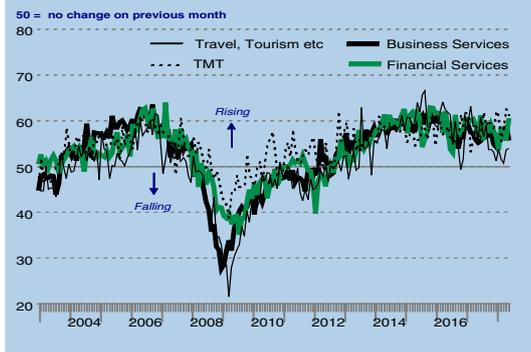
The TMT sector posted the fastest rise in employment for the third consecutive month during May. The rate of job creation remained substantial, despite easing slightly from that seen in April. Financial Services also registered a strong monthly increase in employment during May, with the rate of jobs growth quickening to the sharpest in 11 months. As has been the case in each of the past 69 months, Business Services companies raised their staffing levels in May. The increase in employment was marked, but the slowest in the year-to-date. The slowest pace of job creation was seen in the Transport & Leisure sector, although the rate of growth quickened for the second month running.

Employment: all services (seasonally adjusted)



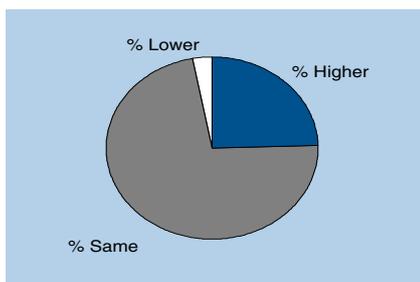
A reading of the Employment Index above 50.0 signals an increase in the number of people employed in services compared to the previous month. Readings below 50.0 signal contraction.

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.



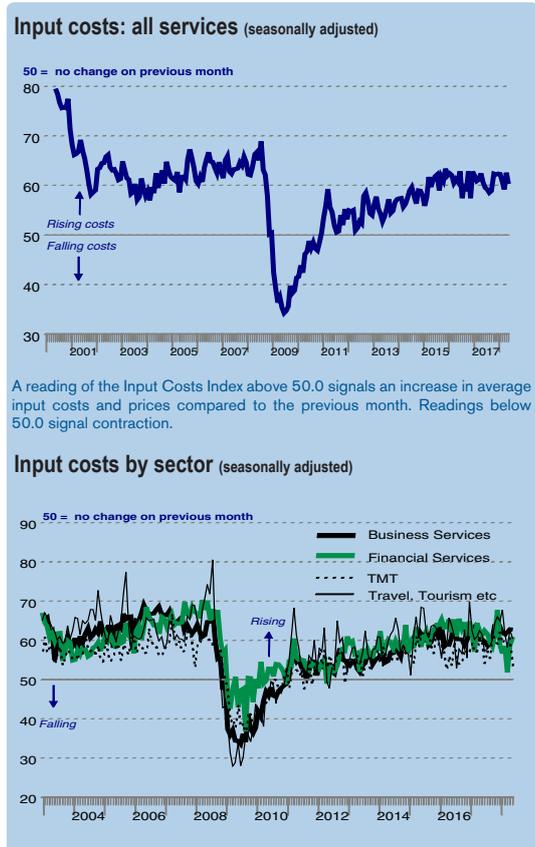
Input prices rise sharply again

Irish services companies signalled a further marked monthly increase in input prices during May. The rate of inflation remained above the series average, despite easing from that seen in April.

A number of respondents indicated that fuel costs had increased due to the recent rise in the oil price. Meanwhile, higher staff costs were also widely mentioned. Approximately one-quarter of all respondents noted a rise in input prices during May, compared with 3% that posted a fall.

TMT cost inflation slows markedly in May

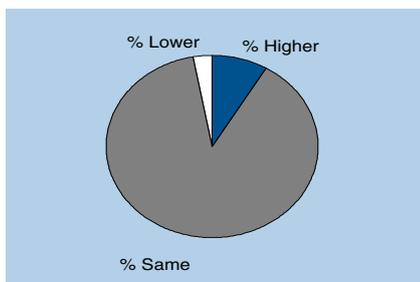
By far the slowest rise in input prices was recorded in the TMT sector during May. The rate of inflation in the sector eased sharply over the month and was the weakest since March 2016. On the other hand, the strongest increase in input costs was at Business Services companies, where the rate of inflation was little-changed from April's four-month high. Financial Services saw the pace of increase in input costs quicken for the second month running in May, with the latest rise the strongest since last November. Meanwhile, Transport & Leisure companies continued to see input prices increase during May. The rate of inflation in the sector was just above the respective series average, despite easing from that seen in the previous month.



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.

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.



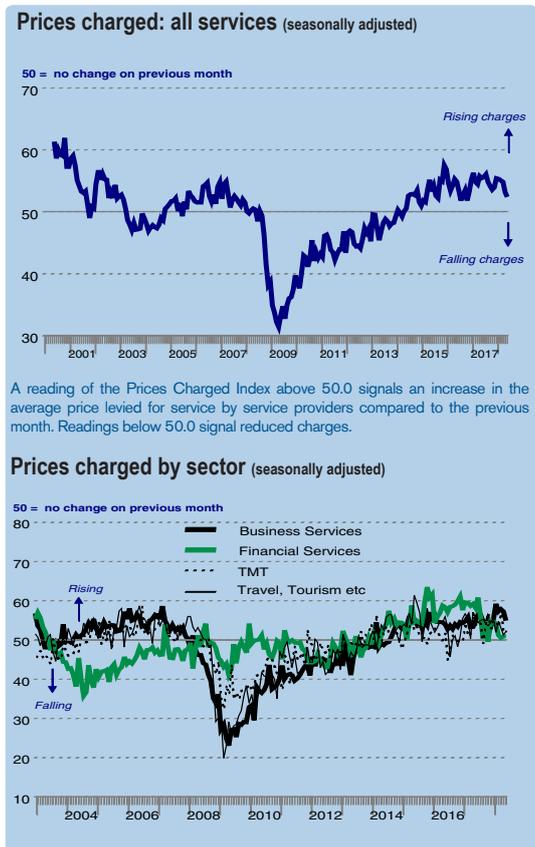
Rate of output price inflation eases again

Prices charged by Irish service providers continued to increase during May, the fiftieth successive month in which a rise has been recorded. That said, the rate of inflation eased for the fifth consecutive month and was the slowest since October 2016.

Where an increase in output prices was recorded, panellists generally linked this to higher input costs. On the other hand, competitive pressures led some companies to lower their selling prices. Charges rose at around 9% of respondents, with discounts offered by 3%.

Marked rise in Business Services charges

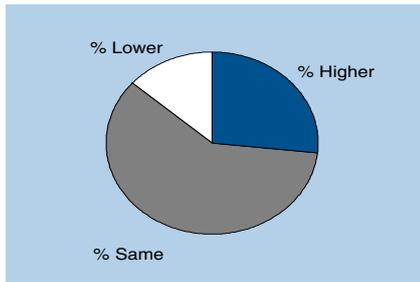
The Business Services sector signalled the fastest rise in output prices of the four broad sectors covered by the survey in May. The category has now posted the sharpest rate of inflation in five successive months, with the latest rise extending the current sequence of increasing charges to 46 months. The rate of inflation in May was marked, but the slowest since November 2017. Financial Services output prices rose only slightly during May, with the rate of inflation unchanged from the previous month. Selling prices have now risen in seven consecutive months, however. Both the TMT and Transport & Leisure sectors posted solid increases in output prices, with rates of inflation quickening in each case.



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.

Profitability

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



Rate of profits growth picks up

The three months to May saw profitability improve again at Irish services companies, extending the current sequence of profits growth to 19 survey periods. Moreover, the rate of expansion was marked, having quickened for the second month running to the fastest since the three months to August 2017.

Higher volumes of work reportedly contributed to improved profitability over the latest three-month period. Some panellists also suggested that slower cost inflation meant reduced pressure on margins. Close to 27% of respondents indicated that profits increased over the three months to May, compared with 14% that recorded a decrease.

Rate of expansion in profits quickens markedly in Financial Services

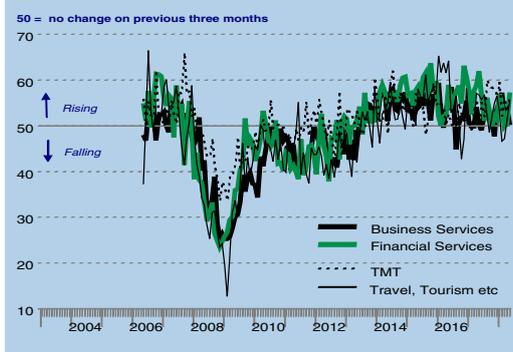
The sharpest increase in profits in the latest survey period was recorded in the Financial Services sector. The rate of growth accelerated sharply and was the fastest for a year. Stronger improvements in profitability were also recorded in the TMT and Transport & Leisure sectors, with rates of expansion marked in both cases. TMT saw the fastest rise in profits since the three months to January, while Transport & Leisure growth was the steepest in 2018 so far. The only category to see a slowdown in the pace of improvement was Business Services, where profits increased only marginally.

Profitability: all services (seasonally adjusted)



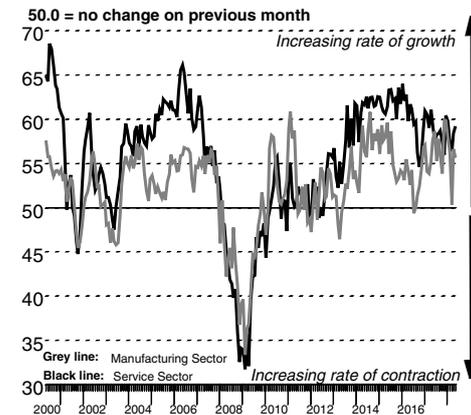
A reading of the Profitability Index above 50.0 signals an increase in levels of profitability compared to three months earlier. Readings below 50.0 signal decline.

Profitability by sector (seasonally adjusted)



Comparisons of Service Sector and Manufacturing Sector Business Conditions

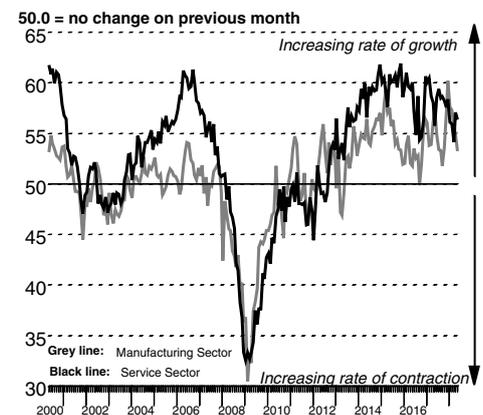
Output/Business Activity



Sharp increases in output across both monitored sectors.

Rates of job creation ease, but remain marked.

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.

Both the manufacturing and service sectors in Ireland saw business activity increase markedly during May.

Staffing levels continued to increase in both monitored sectors during May as companies responded to higher workloads.

The rate of expansion eased slightly in manufacturing, but quickened to a four-month high in services.

Although remaining solid, the rate of job creation eased to an eight-month low in manufacturing, while services also posted a weaker rise in employment.

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

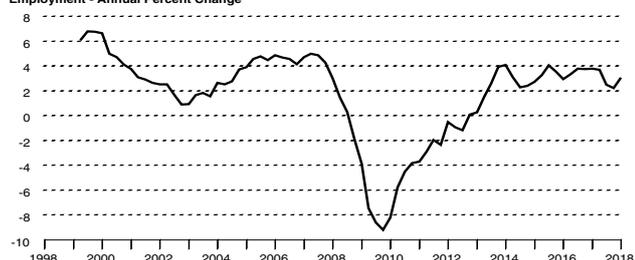


Source: CSO Ireland.

Consumer prices decreased in Ireland during April, thereby ending an eight-month sequence of inflation. Prices were down -0.1% year-on-year, following a 0.5% increase in March.

Employment

Employment - Annual Percent Change



Source: CSO Ireland.

Irish employment growth picked up at the end of 2017. Q4 saw a 3.1% increase in employment, faster than the 2.2% rise in Q3 and the sharpest since the opening quarter of the year.

Interest Rates

3-month EURIBOR Rate



Source: OECD.

Euro area interest rates remained at a record low during April. The 3-month EURIBOR averaged -0.33%, the sixteenth month running in which this has been the case.

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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