



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Growth of activity and new business pick up in December

Key Findings

Business Activity Index rises for first time in five months

Input price inflation eases to 11-month low

Outlook remains subdued on recession and inflation concerns

Data were collected 6-20 December 2022.

The final batch of AIB PMI® survey data for 2022 revealed slightly faster increases in activity and new business in December, though growth rates remained modest overall. Firms hired staff at a weaker rate as the 12-month outlook remained below-par on recession and inflation concerns, despite improving since November. More positively, input price inflation slowed notably during the month to the weakest for nearly a year. Charge inflation eased to a four-month low but remained among the highest on record.

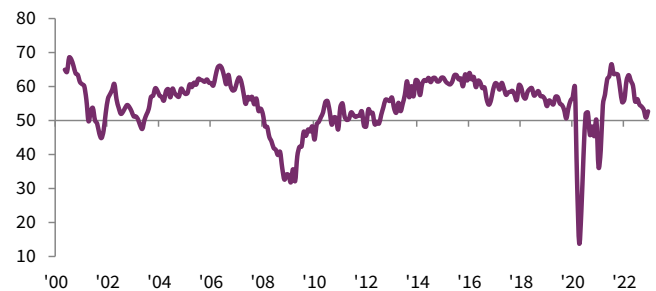
The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The index therefore varies between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

The Services Business Activity Index rose for the first time in five months from 50.8 in November to 52.7 in December, signalling a slightly faster rate of expansion in Irish service sector output. That said, the pace of growth was still the second-weakest registered over the current 22-month period of expansion. The Index was below its long-run average of 55.1 for the fifth consecutive month.

The overall pick-up in growth reflected the Technology, Media & Telecoms (59.2) and Business Services (55.1) sub-sectors, where growth rates were the fastest in six and three months, respectively. Technology, Media & Telecoms was also the only sector to register an expansion that was stronger than the long-run average. Financial Services (50.2) registered a near-stagnation in activity in December, while Transport, Tourism & Leisure (44.0) posted a fourth successive decline in activity, albeit at a weaker rate than in November.

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global.

Stronger growth of total activity at the end of 2022 reflected a faster expansion in new business. Demand growth quickened over the month for only the second time in ten months, although remained modest overall and below the long-run survey trend. Sector data signalled a divergence as growth in new work was limited to two sub-sectors: Technology, Media & Telecoms and Business Services. New contracts from international markets increased only marginally during December.

Outstanding business rose in December, extending the sequence that began in March 2021. That said, the rate of expansion was the weakest over this period, reflecting the recent moderation in demand growth. Backlogs fell further in Transport, Tourism & Leisure, but rose solidly in Business Services.

Irish service providers raised headcounts for the twenty-second successive month in December. The rate of job creation was solid overall and above the long-run survey average, albeit the weakest in 2022, reflecting uncertainty moving into 2023. Expectations for activity improved since November but remained weak in the context of historic survey data, reflecting firms' concerns around a potential recession, the energy crisis and high inflation dampening demand. Confidence remained weakest in the key Business Services sector.

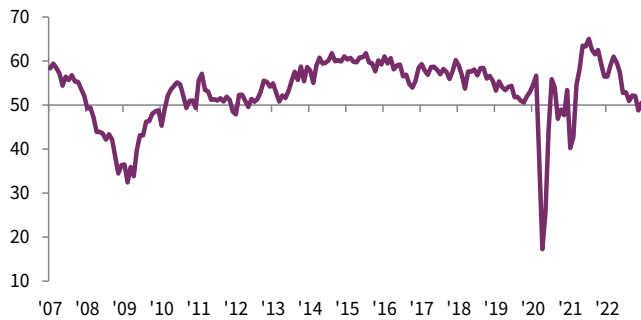
There was a further easing of input price inflation in December, continuing the trend since it surged to a record high in March. The latest rise in input prices was the weakest since January, but still historically strong with firms highlighting increased utility and labour costs. Input price inflation was strongest in the Financial Services sector. Meanwhile, charges levied by service providers increased at the slowest rate in four months, albeit still the tenth-highest on record. Charge inflation was strongest in the Business Services sector.

AIB Ireland Composite PMI®

Output rises slightly in December following November decline

Composite Output Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global.

Private sector output in Ireland rose in December, following the first contraction in 21 months in November. That said, the increase was only marginal as a sharper reduction in outstanding business supported activity while new orders fell further. Input price inflation eased for the seventh consecutive month while charges increased at a faster pace in December.

The seasonally adjusted Ireland Composite Output Index* rose from 48.8 in November to 50.5 in December, signalling renewed growth in activity in the private sector. The rate of growth was only marginal, however, as manufacturing production continued to fall and services activity increased at a below-par rate.

New business fell for the second month running in December, at a rate little-changed from November. Similar to output, new orders at manufacturers fell while growth was registered at service providers. The volume of outstanding business, meanwhile, fell for the second month running and at a faster rate.

Employment rose for the twenty-fifth month running in December, and across both sectors. That said, the rate of job creation was the slowest since February 2021.

Cost pressures moderated to a 20-month low in December, with service providers seeing steeper increases in input prices than manufacturers for the fifth straight month. Charge inflation picked up slightly and remained historically strong.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Services PMI for December showed a modest pick-up in momentum in the sector, recovering some of the ground lost in November. The Business Activity Index rose to 52.7 from 50.8 in November, but this was still below the level of 53.2 recorded in October. Overall, the Irish services sector remains in expansion territory, unlike elsewhere. The flash Services PMIs readings for December in the US, UK and Eurozone, stood at 44.4, 50.0 and 49.1, respectively, well below the Irish figure.

"Service demand growth quickened in Ireland during December, while remaining modest overall, with just a marginal increase in new export business. There was only a slight increase also in backlogs of outstanding business. However, there was a further solid rise in employment, while, firms' outlook for the next 12 months improved, recovering the ground lost in November.

"As has been the case for some months now, the Services PMI in December continued to be weighed down by a very weak performance in the Transport/Tourism/Leisure sector. It registered a reading of 44.0 for business activity, with new business, new exports and outstanding business also posting levels well below 50. By contrast, Technology/Media/Telecoms as well as Business Services, both recorded strong readings for the month.

"Businesses continued to experience strong upward pressure on input prices, with firms referencing higher utility and labour costs. The rate of increase, though, fell to an 11-month low, pointing to some easing in inflationary pressures. Higher costs continued to be passed on to customers. However, the pace of increase in charges fell to its lowest level since August, albeit this was still the tenth-highest on record."



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Methodology

The AIB Ireland Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Data were collected 6-20 December 2022.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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