

AIB Ireland Services PMI®

Service sector growth slides to six-month low in February

Key findings

Weakest increases in activity and new business since last August

Inflationary pressures remain strong

Year-ahead expectations for activity improve since January

The Irish services economy expanded in February but continued to lose momentum, the latest AIB Ireland Services PMI® survey data showed. Business activity rose at the softest rate in six months, and a pace that remained below the long-run survey trend. New business growth also moderated to a six-month low, although the 12-month outlook picked up slightly. Price pressures remained relatively strong, although charge inflation eased notably from January's recent high.

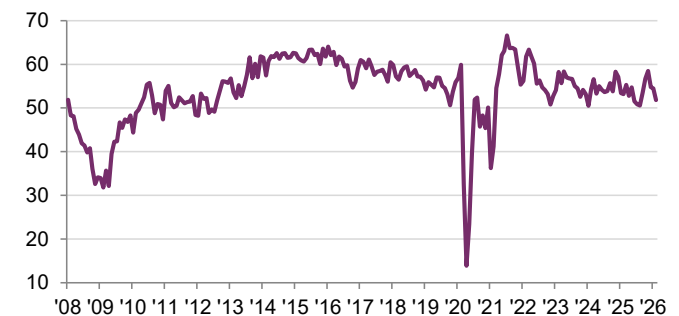
The AIB Ireland Services Business Activity Index is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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 seasonally adjusted AIB Ireland Services Business Activity Index fell for the third month running to 51.8 in February, from 54.5 in January. The latest figure signalled the softest rate of expansion in total activity in six months, and one that was below the long-run survey average for the third successive month. February's expansion nevertheless extended the current sequence of growth to five years.

Financial Services (55.4) remained the fastest-growing sector in February, despite a further slowdown. Business Services (51.2) and Transport, Tourism & Leisure (50.2) registered only modest increases in activity, while Technology, Media & Telecoms (TMT, 49.9) saw a broad stagnation.

The rate of expansion in new business moderated for the third month running in February. The latest expansion was the softest in six months, and below the long-run trend. New business fell slightly in Transport, Tourism & Leisure, but rose

AIB Ireland Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: AIB, S&P Global PMI.

solidly elsewhere. New export business rose only modestly during February.

Although new business growth continued to lose momentum in February, the level of outstanding work rose for the fourth time in five months. The rate of growth was only modest, however, weighed down by a reduction in the TMT sector.

With outstanding contracts rising in February, albeit only modestly, Irish service providers were confident regarding the 12-month outlook. Confidence was linked to increasing demand, new markets, new clients and marketing campaigns. Overall sentiment strengthened in February, but remained below the long-run average.

Service providers continued to raise their staffing levels in February. Employment in the service sector has risen continuously for almost five years, except for brief dips last January and August. Financial Services recorded the sharpest increase in staffing, while Transport, Tourism & Leisure posted a slight fall.

Pressure on service providers' costs remained strong in February. Average input prices increased at a slightly softer rate than in January, but one that remained above the long-run survey average. Panellists linked greater costs to wages, pensions, energy, fuel, transport and materials.

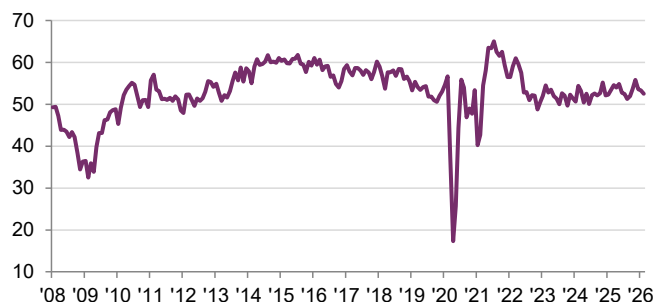
Although input price inflation held close to January's level, the rate at which service providers increased their own prices slowed notably from January's 20-month high as companies limited increases to remain competitive as new business growth slowed. The TMT sector recorded only a fractional rise in charges. That said, charge inflation remained strong in the context of historical survey data as firms continued to raise prices to protect profitability from increased costs.

AIB Ireland Composite PMI®

Weakest rise in output in five months

AIB Ireland Composite PMI Output Index

sa, >50 = growth since previous month



*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.

Sources: AIB, S&P Global PMI.

A further slowdown in services business activity growth in February resulted in the weakest overall expansion in output in five months. New business growth eased to a six-month low and cost pressures neared a three-year high.

The AIB Ireland Composite PMI® Output Index* decreased from 53.3 in January to 52.5 in February. The latest figure signalled a moderate overall expansion that was the slowest since last September, and softer than the long-run average (53.8).

Services activity increased at the softest pace in six months, while manufacturing output growth accelerated to a seven-month high.

New business rose at the slowest rate since last August. Employment growth eased slightly but remained solid.

Input price inflation accelerated to a 35-month high, while charge inflation eased but remained relatively strong.

Comment

Commenting on the survey results, David McNamara, AIB Chief Economist, said:

"The AIB Irish Services PMI for February shows modest growth in the sector, with the PMI falling to 51.8 from 54.5 in January, signalling an easing in the pace of expansion. Activity growth in February was largely driven by gains in new and outstanding business, alongside a rise in employment. The rate of growth in the Irish services sector was in line with the flash Eurozone PMI at 51.8; but slightly behind the UK and US PMIs at 53.9 and 52.3, respectively.

"New business rose at its slowest pace since August, with new export business expanding at a steady pace. However, the volume of outstanding work bounced back to growth in February following a contraction in January, signalling robust activity across the sector.

"The four sub-sectors covered in the survey registered varying degrees of activity in February. Financial services registered the fastest growth once again, with more modest gains in Business Services, and close to stagnant growth in Transport, Tourism & Leisure. However, Technology, Media & Telecoms recorded a fractional contraction in activity in the month. Hiring activity was also mixed across the sectors, with financial services again the best performer during the month, offsetting weaker trends in the other sectors.

"On the inflation front, the input cost index remained elevated, implying rising cost pressures in the sector. Wages, pensions and energy costs were cited as key drivers of higher costs. However, the rate of increase in prices charged decelerated, implying some margin compression for firms seeking to pass on these higher costs.

"In terms of the outlook, business sentiment saw an uptick, with firms broadly optimistic for their prospects in the coming 12 months, linked to new projects and business opportunities."

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Survey 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. Data collection began in May 2000.

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.

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

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