



# AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

## Stronger service sector growth at start of 2023

### Key Findings

Activity and new business increase at faster rates

Sentiment strengthens to 11-month high

Sustained easing in inflationary pressures

Data were collected 12-26 January 2023.

Ireland's service sector started 2023 in a relatively positive fashion, according to the latest AIB PMI® survey data. Expansions in activity and new business were the fastest in four and three months, respectively, and accompanied by a further increase in staffing numbers. Other positive news came from a sustained easing in cost pressure with rates of input price and output charge inflation easing to 19- and 16-month lows, respectively. Overall business sentiment also brightened as firms were hopeful that the current market trajectory would continue.

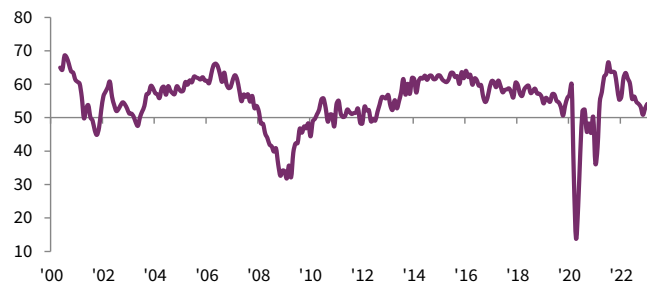
The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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.

At 54.1 in January, up from 52.7 at the end of last year, the latest Services Business Activity Index reading was indicative of a further expansion in service sector output that was the twenty-third in as many months. Notably, growth was solid overall and the strongest since last September. By sector, growth in three of the four monitored industries offset a contraction in Transport, Tourism & Leisure. The Technology, Media, and Telecoms sub-sector topped the growth rankings for the third month in a row.

Faster growth in activity was largely linked to a similar sized increase in new business. In fact, volumes of new business expanded at a strong pace that was the fastest in three months. Anecdotal evidence from panellists indicated that they had seen an improvement in underlying demand conditions and an increase

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global.

in the number of new projects being undertaken. Demand from overseas also increased at the start of the year and at a moderate rate overall.

Against a backdrop of higher activity and increased orders, Irish service sector firms added to their workforces in January. That said, the rate of job creation was the second-weakest in the current 23-month positive sequence amid reports of voluntary leavers and talent shortages.

Spare capacity across Ireland's service sector remained evident during January, as signalled by a further accumulation in backlogged work. Growth in outstanding orders was solid and reportedly reflective of strong demand growth. Staff shortages also contributed to the latest accumulation, said survey respondents.

Irish service providers became more optimistic about their future in January and registered the strongest degree of confidence since last February. That said, it remained below its historical average. Firms that were more positive about their future cited hopes for better market conditions and stronger demand. Other firms mentioned concern about the long-lasting effects of the current global economic downturn.

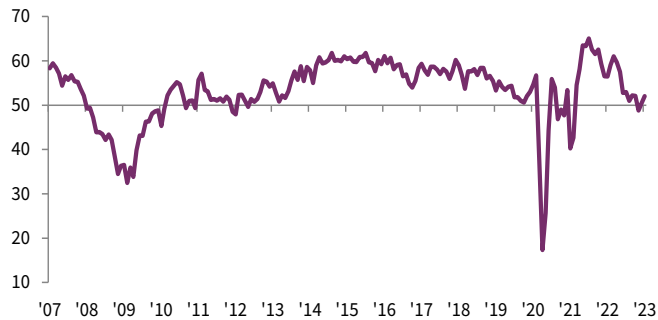
January survey data was indicative of a sustained easing in cost pressures across Ireland's service sector. Average cost burdens faced by Irish service providers increased at the weakest pace in 19 months while firms raised their selling prices at a rate the least pronounced in 16 months. When listing the key sources of cost pressures, survey participants mentioned higher energy prices and increasing staff costs. As such, firms reportedly continued to partly pass on increasing operating expenses to their clients in the form of higher selling prices.

## AIB Ireland Composite PMI®

# Service sector expansion continues to offset manufacturing contraction

Composite Output Index

sa, &gt;50 = growth since previous month



Sources: AIB, S&amp;P Global.

Irish private sector output increased for the second successive month at the start of 2023, amid stronger growth of services activity and a softer decline in manufacturing production. The AIB Ireland Composite PMI® Output Index\* rose to 52.0 in January, up from 50.5 in December and the strongest reading since last October.

A similar picture was painted in terms of demand across the private sector. Service providers registered a strong increase in new business while the reduction in factory orders was the softest in the current eight-month downturn.

In terms of employment levels, the increase was broad-based across the manufacturing and service economies with the rates of job creation at each broadly matching one another. The same cannot be said for backlogged work. While service providers registered a faster accumulation in backlogs, their manufacturing counterparts recorded the steepest reduction since June 2020.

Inflationary pressures eased across the private sector. Rates of cost and charge inflation dipped to 23- and 20-month lows, respectively.

Looking to the future, sentiment across the private sector was the strongest in 11 months with optimism improving for both service providers and manufacturing firms.

\*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 January showed faster growth in activity for the sector in a strong start to 2023. The Business Activity Index rose for the second month running, climbing to 54.1 from 52.7 in December and 50.8 in November. By contrast, the flash Services PMIs for the UK and US remained well into contraction territory in January at 48.0 and 46.6, respectively, with the index for the Eurozone standing at a subdued 50.7.

"There was a marked pick up in new business volumes here in January, including in new export business, reflecting an improvement in demand. This resulted in a significant increase in backlogs of outstanding business, with signs of growing capacity constraints. There was a further rise in employment, but at a modest pace, amid indications of tightness in the labour market. Meanwhile, firms' confidence about the outlook for the next 12 months rose to its highest level since last February.

"As has been the case for the past six months, the Services PMI in January continued to be weighed down by a very weak performance in the Transport/Tourism/Leisure sector. It registered a very low reading of 40.1 for business activity. By contrast, the other three sectors covered in the survey expanded strongly in the month.

"Meanwhile, inflationary pressures in the services sector, while still strong, eased further in January. Businesses continued to report upward pressure on wages and energy costs, but the rate of increase in input prices fell to a 19-month low. Higher costs are still being passed on to customers, but the rate of increase in selling prices eased to its lowest level in 16 months."



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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 12-26 January 2023.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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