

AIB Ireland Services PMI®

Substantial growth in the Irish service sector in June

Key findings

Growth in activity and new business remain marked

Rates of input cost and selling price inflation accelerate

Faster rise in staffing numbers

Supported by buoyant demand conditions, Irish service providers registered another marked improvement in the health of the sector during June, latest AIB PMI® survey data showed. Growth in new business remained notable and underpinned a further substantial uplift in business activity. In turn, firms raised their headcounts at an accelerated pace. Concurrently, stronger demand conditions sparked a reignition of inflationary pressures. The increase in input costs was substantial and quicker than that seen in May, while the rate of selling price inflation was the most pronounced in four months.

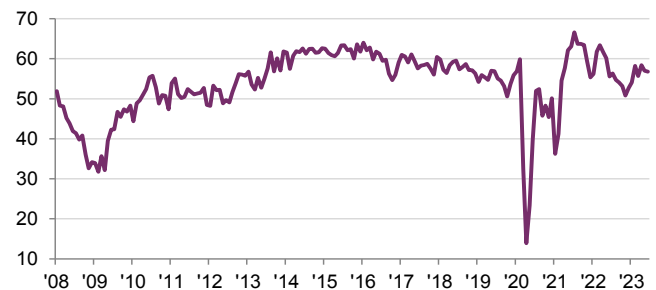
The headline figure is the AIB Ireland Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged'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

Registering 56.8 in June, the latest headline PMI index extended the current sequence of growth originally starting in March 2021. Despite falling from 57.0 in May, the latest reading remained well-above the neutral 50.0 threshold and was consistent with another marked uplift in activity levels in the Irish service sector. According to survey respondents, higher output levels reflected demand buoyancy.

The aforementioned demand strength was underscored by a twenty-eighth consecutive monthly uplift in new business during June. Moreover, the rate of growth in total sales was substantial overall, albeit the softest since March. At the same time, the expansion in new export business continued into June. The increase was solid overall despite being the least pronounced since January.

Greater output combined with an expanding order book spurred companies on in their recruitment endeavours during June. Staffing numbers in the Irish service sector

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



Sources: AIB, S&P Global PMI.
Data were collected 12-27 June 2023.

Comment

Commenting on the survey results, Oliver Mangan, AIB Chief Economist, said:

"The AIB Irish Services PMI for June registered another very strong reading of 56.8, down slightly from 57.0 in May. This reading is consistent with a continuing robust rate of growth in business activity in the services sector. The Irish figure once again outperformed some of the major advanced economies, with the flash May Services PMI readings of 52.4 for the Eurozone, 53.7 in the UK and 54.1 in the US.

"The robust performance reflected strong demand in the sector. This was evidenced by another very solid increase in new business volumes at Irish services firms, driven by ongoing strength in both domestic and external demand.

"The combination of increased output levels and an expanding order book saw the sector record another solid rise in employment. The continuing strong growth in new business saw a further rise in the level of outstanding work. Meanwhile, firms in the service sector remained optimistic about their expectations for activity levels over the next 12 months, albeit not to the same extent as in the previous month.

"Financial Services was the best performing sector in terms of output growth, for the first time in eight months, coinciding with a notable increase in new business. Meantime, Technology Media and Telecoms lagged behind the other sub-sectors, experiencing a further loss of momentum in June.

"Inflationary pressures remained elevated in the services sector against the backdrop of continuing strong growth in activity. Indeed, both input and output prices saw a re-acceleration in their pace of increase."

subsequently rose for the twenty-eighth month straight. Having accelerated from May, the rate of job creation was strong overall.

Elsewhere, marked growth in new work continued to increase the strain on manufacturers' capacity at the end of the second quarter. The overall volume of incomplete business rose in June, thereby extending the current sequence of increase to almost two-and-a-half years. That said, the rate of accumulation eased to the slowest pace in the year thus far.

Stronger overall demand conditions brought with it the reignition of inflationary pressures in June. Average cost burdens rose sharply and at an accelerated pace. According to panel members, increasing business expenses were largely a result of persistent wage pressures across the sector. Prices charged by Irish service sector companies subsequently increased at a quicker pace. In fact, the rate of selling price inflation was the most pronounced since February and substantial in the context of historical data. Survey respondents often noted that higher output charges were due to the pass-through of greater costs to clients.

Looking to the future, Irish service providers maintained a positive outlook. Opportunities for growth mentioned by panel members included hopes for a further pick-up in demand, business expansion plans and a payoff from recent investment in new product development. The degree of confidence, however, waned from that seen in May and dipped back below its historical average.

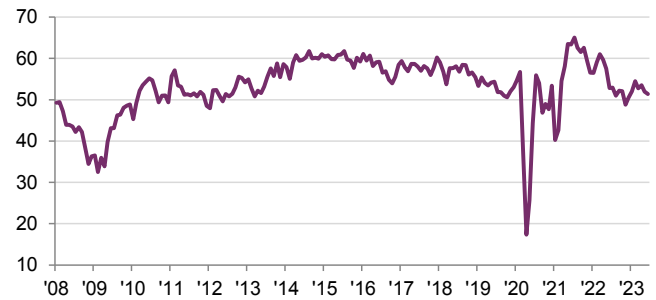
Finally, sub-sector splits showed the Financial Services sector at the top of the output growth rankings for the first time since last October. Financial Services also registered the strongest rates of input cost and selling price inflation. Meanwhile, the Technology, Media & Telecoms category registered the weakest rise in activity of the four sub-sectors monitored.

AIB Ireland Composite PMI®

Private sector economy expands at the weakest rate in the year so far

AIB Ireland Composite PMI Output Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global PMI.

The AIB Ireland Composite PMI Output Index* posted 51.4 in June, down from 51.9 in May, but still indicative of a seventh successive monthly expansion in the Irish private sector economy. The manufacturing sector continued to act as the main drag on the overall performance, recording a strong and quicker contraction in output. Meanwhile, services activity rose markedly, albeit at the slowest pace in three months.

The rate of growth in total new sales was unchanged from that recorded in May and therefore remained solid overall. Manufacturing order book volumes contracted for the fourth month running while new business in the services sector continued to rise substantially.

Meanwhile, the rate of job creation across the private sector eased to a 28-month low amid a fresh fall in factory employment.

Rates of inflation at the composite level were little-changed from those seen in May. Sustained falls in input costs and selling prices in the goods-producing sector were offset by accelerated rates of inflation in the services economy.

*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.



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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@ihsmarkit.com.

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