

AIB Ireland Services PMI®

Irish service sector picks up significant growth momentum

Key findings

Strongest increase in activity since last May

Sustained and marked upturn in new business

Input price inflation eases to 20-month low

Ireland's service sector gained some further growth momentum midway through the first quarter of the year with the latest AIB PMI® survey data marking exactly two consecutive years of monthly improvements in business activity, new business, and employment. Firms were subsequently more optimistic about their future and registered the strongest degree of confidence in a year. Cost pressures eased but charges were hiked at a faster rate.

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.

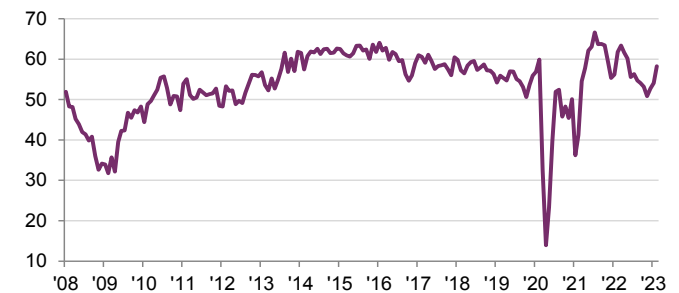
At 58.2 in February, up from 54.1 in January, the Services Business Activity Index marked exactly two consecutive years of monthly improvements in the Irish service sector. The headline reading was the highest since last May and sharp in the context of historical data.

Broken down by sector, faster activity growth in three of the four monitored industries was accompanied by a stabilisation registered at Transport, Tourism & Leisure firms. For the fourth month in a row, the Technology, Media & Telecoms group topped the growth rankings.

Reportedly, the latest uplift in activity levels was largely a reflection of firmer demand conditions. Inflows of new business rose further midway through the first quarter of the year and at the steepest pace since last July. Demand also improved in international markets, as highlighted by a sustained and strong upturn in new export business.

Against a backdrop of increasing workloads and rising order book volumes, Irish service sector companies added to their workforce numbers in February. Though broadly in line with

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



Sources: AIB, S&P Global.
Data were collected 10-23 February 2023.

Comment

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

"The AIB Irish Services PMI posted a strong increase in February for the third month in a row. The Business Activity Index climbed to 58.2 from 54.1 in January, 52.7 in December and 50.8 in November. This is the highest reading since May and points to a robust rate of growth in services activity in February. It is also well above the flash February Services PMI readings for the Eurozone, UK and US of 53.0, 53.3 and 50.5, respectively.

"A further marked rise in new business volumes in Irish services firms was registered in February, including in new export business, reflecting improving demand conditions both at home and abroad. This resulted in another significant increase in backlogs of outstanding business. There was a further rise in employment, but at a modest pace, amid reports of difficulties in sourcing staff. Meanwhile, firms' confidence about the outlook for the next 12 months rose for the third consecutive month to its highest level in a year.

"A very strong expansion in activity and robust growth in new business was recorded in three of the four sectors covered in the survey -Technology/Media/Telecoms, Financial and Business Services. Meanwhile, after five months in decline, there was a stabilisation in activity levels in the Transport/Tourism/Leisure sector, with good growth in new export business.

"Inflationary pressures remain strong in the services sector. Businesses continued to report upward pressure on wages, as well as transport and energy costs, though the rate of increase in input prices eased somewhat further to a 20-month low. Meanwhile, higher costs continue to be passed on to customers, with the rate of increase in selling prices re-accelerating in the month."

the series average, the latest expansion in employment remained softer than rates seen over much of the past two years amid reports of voluntary leavers and candidate sourcing difficulties.

Once again, capacity looked to be squeezed in February, as signalled by a twenty-fourth successive accumulation in backlogged work. The latest growth was solid overall and linked by panel members to the twin impacts of increasing volumes of new business and staff shortages.

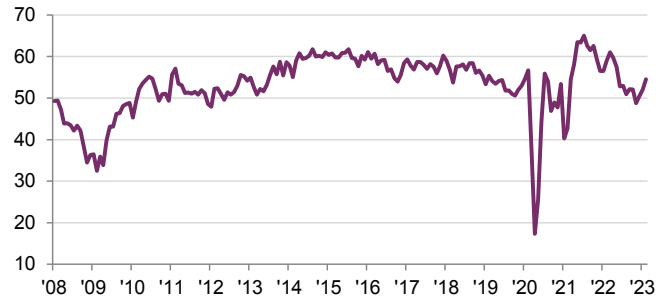
Amid a notable improvement in general market conditions and firmer demand trends, Irish service providers became increasingly optimistic about growth forecasts over the coming 12 months. In fact, the overall degree of confidence was the strongest in a year and historically elevated. Other factors supporting the overall sense of optimism included building project pipelines, the development of new products, and growth strategy plans.

Contrasting movements were displayed in terms of pricing. While sharp, the rate of input cost inflation continued along its current downwards trajectory and reached the lowest level in 20 months. The pace of output charge inflation, however, re-accelerated from January's 16-month low. Anecdotal evidence suggested that increasing labour expenses was a primary driver in the latest rise in cost burdens though inflation was also mentioned across a broad range of inputs. Firms continued to attribute their own charge inflation to higher operating expenses and their ongoing efforts to pass these on to customers.

AIB Ireland Composite PMI®

Service sector drives stronger private sector performance

AIB Ireland Composite PMI Output Index
sa, >50 = growth since previous month



Sources: AIB, S&P Global.

From 52.0 in January, the seasonally adjusted Ireland Composite PMI Output Index - which measures combined output in the manufacturing and services sectors – rose to 54.5 in February. The latest reading was the highest since last May and indicative of a faster expansion in Ireland's private sector economy. Growth was underpinned by a sharp uplift in Irish service sector activity. Manufacturing firms, meanwhile, registered a stabilisation in output volumes.

There was a back-to-back increase in new orders placed with private sector companies in February. Growth in order book volumes was seen across both sectors though the uptick at service sector firms significantly outweighed that seen at their manufacturing counterparts.

Employment increased further at the composite level. Rates of job creation were broadly similar across both sectors.

The aggregate rate of input cost inflation was the softest in two years, but the rate of output price inflation quickened from January's 20-month low.

*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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