



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Irish service sector growth at 17-month low in August

Key Findings

New business growth slows for sixth month running

Outlook eases on recession and inflation risks

Price pressures hit six-month low, but remain elevated

Data were collected 12-25 August 2022.

Service sector activity in Ireland continued to increase in August, according to the latest AIB PMI® survey data. That said, the rate of growth slowed for the fourth time in five months as new business inflows continued to lose momentum. The 12-month outlook also moderated, reflecting concerns over high inflation and a potential recession. More positively, the rates of inflation in both input and output prices hit six-month lows, and employment continued to expand at a solid pace.

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 fell for the fourth time in five months to 54.7 in August, from July's 56.3. The latest figure signalled an eighteenth consecutive monthly increase in services output, albeit at the weakest rate since March 2021 as the sector reopened from lockdown. The Index was also below its long-run trend level of 55.1 in the latest period.

All four sub-sectors registered growth of activity in August, although rates of expansion slowed in three categories. Financial Services (56.6) led the rankings for the third straight month despite recording the weakest expansion for 15 months. Technology, Media & Telecoms (55.4) was the second-strongest performer and the only sector to see a faster increase than in July. Growth slowed in Transport, Tourism & Leisure (54.8), but remained higher than the sector's long-run trend expansion. Business Services (52.2) lagged the other sectors with the slowest increase in activity in the current 18-month upturn.

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global.

August data signalled a further moderation in demand conditions for Irish service providers. The level of new business continued to increase, but the rate of growth slowed for the sixth month running to the weakest since March 2021. Slower demand was partly linked to inflation and weaker UK markets. The Financial Services sector registered a notable slowdown in growth of new contracts. Meanwhile, overall new export business at service providers rose at the slowest rate since January.

Although easing since July, new business growth remained slightly stronger than the expansion in total activity, resulting in a faster increase in work outstanding in August. The strong rise in incomplete business also reflected staff shortages and supplier delays, according to survey respondents. Pressure on business capacity was most evident in the Financial Services and Transport, Tourism & Leisure sectors.

Rising levels of outstanding work underpinned confidence around the 12-month outlook in August, which also reflected firms' planned development of new services and a continued recovery from COVID restrictions. That said, overall sentiment weakened since July, reflecting rising recession and inflation risks.

Cost pressures remained high in August, especially in the Transport, Tourism & Leisure sector. The rate of overall input price inflation eased to a six-month low, but was still the ninth-highest on record. Similar to the trend for input prices, the rate of charge inflation slowed to a six-month low but was still the seventh-highest since the series began in 2000.

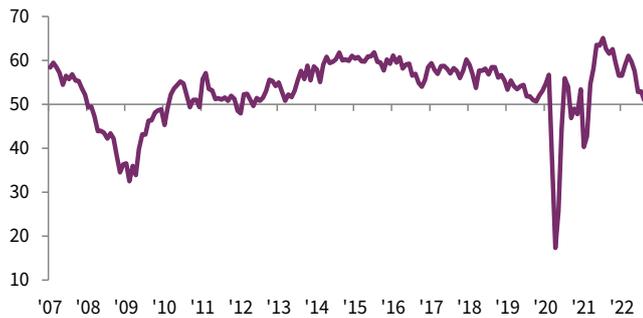
Service providers continued to expand their workforces in August. The rate of job creation was broadly in line with the trend for the current 18-month sequence of growth, and above the long-run survey average.

AIB Ireland Composite PMI®

Private sector output rises only modestly in August as new business growth slows

Composite Output Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global.

The Irish private sector economy, defined as the combined manufacturing and services sectors, registered relatively weak growth in August as demand conditions continued to soften. Inflationary pressures were the weakest in seven months, but still sharp overall.

The seasonally adjusted Ireland Composite Output Index* registered 51.0 in August, down from 52.9 in July and indicative of the weakest rise in output in the current 18-month expansionary sequence. The Index has shed ten points since March.

The loss of growth momentum in August reflected both a slower increase in services activity and a sharper reduction in manufacturing output. Notably, goods production fell for the third successive month and at the fastest rate since February 2021.

Demand conditions continued to moderate in August, with new business growth slowing for the fifth month running. The volume of outstanding business increased at a faster rate, albeit one that remained modest.

The private sector labour force continued to expand in August, at a rate that remained historically strong despite easing to an eight-month low. For the third month running, service providers expanded workforces more quickly than manufacturers.

Inflation of both input and output prices eased to seven-month lows in August, but remained elevated.

*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 August showed activity in the sector continues to expand at a solid pace, though it has lost some momentum. The Business Activity Index fell to 54.7, which is the lowest reading since March 2021 and down from 56.3 in July and 55.6 in June. Activity in the Irish services sector, though, is holding up much better than elsewhere; the flash Services PMIs fell to 50.2, 52.5 and 44.1 in the Eurozone, UK and US, respectively, in August.

“Growth in new business at Irish services firms remained strong, although it slowed for the sixth month running. Meantime, new export business was the weakest since January. Firms attributed the slowing demand to rising inflation and weaker UK markets. Nevertheless, there was another significant increase in backlogs of outstanding business indicating that demand, though softening, remains quite strong. There was also a further marked rise in employment, continuing the trend evident year-to-date.

“Growth was broad based across all the four sub-sectors covered in the survey, although, Business Services lagged the others. Encouragingly, new business growth remained solid in all four sectors. Meanwhile, overall business confidence in services, though still quite positive, weakened somewhat from July reflecting concerns about rising inflation and a potential recession.

“Firms continued to experience acute upward pressure on input prices, but the rate of input price inflation eased to a six-month low. The higher costs are being passed on to customers, but similar to input prices, the rate of increase in prices charged also fell to a six-month low. So there are some signs that inflationary pressures may be starting to moderate somewhat.”



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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 12-25 August 2022.

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

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