Fourth successive slowdown in growth of activity

Key Findings

New business growth at 76-month low
Solid rise in employment
Business confidence at almost eight-year low

Business activity in Ireland’s service sector expanded at the slowest pace since May 2013, amid a softening of both foreign and domestic demand conditions. Total new orders increased at the weakest rate in 76 months, as export sales fell for the second time in the past three months. Moreover, the rate of contraction of new export business was the joint-fastest since July 2009 as panellists noted a downturn in UK orders due to continued Brexit uncertainty.

Meanwhile, though a solid increase in payrolls was observed in September, the rate of job creation was little changed from August’s 75-month low. Meanwhile, business confidence was the lowest in almost eight years, as Brexit uncertainty weighed on sentiment.

The headline seasonally adjusted Business Activity Index posted 53.1 in September, down from 54.6 in August and signalling the weakest rise in business activity since May 2013. That said, the rate of expansion was solid, with activity increasing on a monthly basis for over seven years. At the sector level, companies in the Financial Services sector posted the fastest rise in business activity of the four monitored categories.

Central to the softer rise in business activity was a weaker increase in new orders. The pace of new business growth eased to a 76-month low in September amid reports of Brexit uncertainty negatively affecting customer demand. As with output, businesses in the Financial Services category posted the steepest rise in new orders of all monitored categories.

Meanwhile, inflows of new business from abroad decreased for the second time in the past three months in September.

Despite being marginal, the rate of contraction matched that seen in July and was the joint-fastest since July 2009. Anecdotal evidence from panellists indicated that they had observed a general softening of external demand conditions, with a notable downturn in UK orders stemming from Brexit uncertainty.

Employment across the Irish service sector continued to increase during September. Though solid, the rate of job creation was little changed from August’s 75-month low. Service providers commented that they had added staff in order to cope with greater business activity. Employment rose across all four monitored sectors, led by Transport & Leisure firms.

Further increases in new orders contributed to greater levels of outstanding business during September. That said, in line with the weaker rise in customer demand, the rate of backlog accumulation was modest. Work outstanding has now increased on a monthly basis since June 2013.

On the price front, the rate of input cost inflation ticked up slightly during September. Higher fuel, staff and rental costs were mentioned by panellists. The rate of output charge inflation also quickened and was the fastest in four months.

Looking ahead, service sector business confidence was the lowest in almost eight years as Brexit uncertainty weighed on sentiment. Exactly one-third of panellists were confident of a rise in business activity from present levels in 12 months’ time, linked to expectations of higher new orders, product development initiatives and continued growth of the Irish economy.
AIB Ireland Composite PMI®

Output rises at slowest pace since March 2013

The Composite Output Index* posted 51.0 in September, down from 51.8 in August and signalling the slowest rise in business activity in six-and-a-half years.

Central to the slower growth of Irish private sector output was the weakest expansion of service sector activity since May 2013. Meanwhile, manufacturing output declined for the third month running and at the same pace as in August.

Inflows of total new business slowed for the fourth month in a row during September. The rate of growth was marginal and the softest since May 2012. Meanwhile, export sales shrank at the quickest rate for over ten years.

At the composite level, job creation eased for the third month running to the slowest in over six years. Manufacturing employment was unchanged from August, whilst service sector payroll growth quickened slightly.

Composite input prices rose at the slowest pace since July 2016, as a softening of manufacturing purchasing cost inflation outweighed a faster rise in service sector input costs. Despite this, the rate of output charge inflation accelerated to a three-month high.

Sentiment towards output over the coming year dropped to a series low for the second month running during September. Service sector optimism weakened to the lowest since December 2011, whilst manufacturers were the least confident in the 87-month series history.

*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 Ireland Composite Output Index is a weighted average of the Ireland Manufacturing Output Index and the Ireland Services Business Activity Index.

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Comment

Oliver Mangan, AIB Chief Economist, commented:

“The combination of weakening global activity and the growing risk of a no-deal Brexit, which has been weighing on manufacturing activity this year in Ireland, is now beginning to impact on the services sector according to the latest AIB PMI data. Business activity in the Irish services sector fell to 53.1 in September from 54.6 in August, its lowest level since May 2013. It was also the fourth consecutive monthly decline in the index.

“The impact of on-going Brexit uncertainty was quite evident the survey. Growth in new orders eased to a six year low, with firms reporting that Brexit is impacting consumer demand. New export orders actually fell in the month, with respondents seeing a notable downturn in UK orders due to continuing Brexit uncertainty.

“Furthermore, business confidence fell to its lowest level in almost eight years as Brexit weighed on the outlook for activity in the sector. Meanwhile, although employment growth remained solid in September, it was still close to its slowest rate in over six years.

“In terms of the four sectors covered in the survey, they all showed solid growth. Companies in financial services reported the fastest rise in activity and those in the Transport/Tourism/Leisure sectors saw a return to growth after two months of contraction.

“The September reading of 53.1 still represents a solid pace of growth in the services sector. However, recent PMI data point to a deceleration in the pace of activity in the Irish economy as the year has progressed, largely owing to external headwinds.”
Methodology
The AIB Ireland Services PMI® is compiled by IHS Markit 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 to the previous month. 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.

September 2019 data were collected 12–25 September 2019.

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

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