Irish service sector remains severely restricted by coronavirus lockdown in May

Key Findings

- Second-fastest drop in activity in 20-year survey history
- Same trends for new and outstanding business
- Sentiment picks up but remains negative

Irish service sector firms remained severely restricted by the ongoing lockdown measures to contain the coronavirus pandemic, the latest AIB Irish services PMI® data revealed. Total business activity fell at the second-fastest rate since the survey began in May 2000, although it eased notably compared with April’s collapse. Employment also continued to shrink rapidly. The 12-month outlook for activity remained negative, but less so than in March and April.

The headline figure from the survey is the Ireland 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 Business Activity Index rose to 23.4 in May, from April’s record low of 13.9. Though the month-on-month increase was a series-record, the index was still the second-lowest ever recorded, and signalled a further severe drop in service sector activity midway through the second quarter. Some 61% of survey respondents reported lower activity during the month, compared with 78% in April. The Index remained some 36.5 points below February’s pre-crisis figure of 59.9.

All four sub-sectors continued to record severe contractions in business activity in May. Transport, Tourism & Leisure again registered the fastest decline, and Technology, Media & Telecoms the slowest. All four sectors registered weaker falls than in April, however. Business Services and Transport, Tourism & Leisure posted the biggest one-month gains in the activity index, but still recorded stronger overall rates of decline than the other two monitored sub-sectors.

In line with the trend for total business activity, the volume of new business received by service providers fell at a slower rate in May, but the drop was still the second-fastest on record. Almost two-thirds (65%) of firms reported weaker demand, down from 79% in April. Companies widely reported a lack of new work from hesitant clients, as demand continued to dry up due to the coronavirus pandemic.

With new work continuing to drop markedly, the volume of outstanding business at service providers declined at a rate only slightly weaker than April’s record pace.

Irish service sector employment fell markedly for the third consecutive month in May as firms continued to adjust their workforces in light of temporary shutdowns and very little new business. The rate of job shedding eased only slightly from April’s record and was the fourth-fastest in the 20-year survey history. Transport, Tourism & Leisure again registered a notably marked decline in its workforce.

Deflationary pressures remained in May. Average input prices fell for the second month running, and at a rate that remained strong despite easing since April. With sustained falls in input prices, firms again cut their own charges in an attempt to bring in revenues, with the rate of reduction the strongest since April 2013.

With many businesses remaining shut down and demand continuing to plummet, the 12-month outlook for activity remained very weak in May. A greater proportion of firms expect activity to fall by May 2021 (42%) than increase (36%). That said, the overall degree of pessimism was softer than in both March and April, in a sign that sentiment had turned a corner.

At the sub-sector level, three areas recorded negative sentiment with pessimism strongest in Financial Services, followed by Business Services and Transport, Tourism & Leisure respectively. The Technology, Media & Telecoms sector posted renewed confidence regarding activity over the next 12 months, with reports of work on new business solutions for clients in the post-pandemic environment and the development of remote working systems.
Private sector output in Ireland, covering manufacturing and services, continued to drop at a historically marked pace in May as the lockdown to contain the coronavirus pandemic remained largely in place despite some lifting of restrictions. The Composite Output Index* rose from April’s record low of 17.3 to 25.7, but the latest figure was still lower than in any previous survey period since the series began in May 2000. The next-lowest figure was 32.5 in February 2009.

Services again recorded a faster decline in activity than manufacturing production, although both sectors saw the rate of decline ease since April. The differential between services and manufacturing narrowed for the second month running, however.

New business exhibited a similar trend to output in May, posting a slower fall but still the second-strongest on record. Outstanding business declined at the second-fastest pace in just over 11 years.

The combined manufacturing and services workforce continued to shrink at a severe pace in May, despite the rate of job losses easing since April. The slower overall drop mainly reflected the trend in the manufacturing sector.

The Future Output Index remained below the no-change mark of 50.0 in May, but rose from April’s record low and was also above the March reading. This signalled that, although still weak by historical standards, sentiment had begun to recover as firms looked towards the further easing of lockdown restrictions and a restarting of the wider 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. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
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 range from 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 May 2020.

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

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