The Irish service sector continued to expand rapidly at the start of the final quarter of 2021, the latest AIB PMI® survey data showed. Growth rates for activity and new business remained stable at elevated levels, while backlogged work rose the most in any month over the past 21 years. Employment continued to rise sharply, and the 12-month outlook remained strong. Inflationary pressures continued to build, with average input prices rising the most since late-2000 and charges increasing at the third-fastest rate on record.

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 registered 63.4 in October, down only fractionally on 63.7 in August and September and indicating another rapid expansion in Irish service sector output at the start of the final quarter. The current sequence of growth now stretches to eight months as the sector continues to rebound with the lifting of pandemic restrictions.

The Transport, Tourism & Leisure sector (65.3) overtook Financial Services (64.9) as the fastest-growing sub-sector in October, and has been the strongest of the four monitored sectors three times in the past five months. Elsewhere, growth accelerated in Technology, Media & Telecoms (63.1) but eased to a four-month low in Business Services (61.4).

The volume of incoming new business expanded rapidly in October, attributed to improving consumer demand as more businesses reopened with the further easing of restrictions. The rate of expansion eased slightly since September but was among the fastest registered over the past six years. Demand growth was strongest in the Transport, Tourism & Leisure sector. New business from export markets also rose sharply, linked to online activity and business opportunities arising from Brexit.

Pressure on service sector business capacity scaled new heights in October. Outstanding workloads increased the most in any month over the past 21 years, and for the eighth consecutive month. The fastest increases in incomplete business were again registered in the Technology, Media & Telecoms and Financial Services sub-sectors.

Capacity pressures were again addressed by an increased workforce in October. Employment at service providers rose for the eighth successive month, and at one of the fastest rates in the past three years. Higher staff levels were broad-based by sub-sector, with the strongest recruitment in October seen in the Business Services sector.

Irish service providers remained strongly optimistic regarding the forthcoming 12 months of trading. Overall expectations for activity were the softest since July, but still greater than the long-run survey average. Confidence was linked to a return to ‘normal’ trading conditions with the lifting of pandemic restrictions and as the economy adjusts to the impact of Brexit, as well as long-term investments in new products and markets.

The rate of input price inflation accelerated for the sixth consecutive month to the highest since November 2000. Cost pressures were linked to a wide range of sources including fuel, freight charges, wages (especially for drivers), insurance, electricity, customs and Brexit. In response to soaring costs, service sector charges were increased at the third-fastest rate on record.
AIB Ireland Composite PMI®

Record inflationary pressures in Irish private sector economy in October

Composite Output Index
1a, >50 = growth since previous month

October survey data covering the combined manufacturing and services sector revealed unprecedented rates of both input price and output charge inflation, stretching back to May 2000 and September 2002 respectively. Manufacturers signalled record increases in both input and output prices, while service providers’ input costs and charges increased the most in 21 years.

Business activity growth accelerated for the first time in three months in October. The Ireland Composite Output Index registered 62.5, up from 61.5 in September, the sixth-highest figure on record. Service providers registered stronger growth than manufacturers for the fourth successive month.

New business continued to expand markedly in October, despite the rate of growth easing to a six-month low. Service providers registered stronger growth than manufacturers for the second month running, following a six-month period where the opposite had been the case.

Backlogs continued to rise strongly in October. The rate of growth was weaker than those seen during the third quarter, but sharper than in any previous period since the series began in 2002. Notably, manufacturing backlogs rose at the slowest rate in six months.

Employment rose strongly in both the manufacturing and services sectors in October. The overall rate of jobs growth picked up from September.

*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 October showed that the sector continues to register a robust expansion. The business activity index recorded a very strong reading of 63.4, which was only slightly below the 63.7 level registered in both August and September. The index has now been above 60 for six straight months, reflecting the robust pick-up in activity for the sector as pent-up demand continued to be released. This was against the backdrop of a further reopening of businesses as Covid-19 restrictions continued to be eased.

“This backdrop of strong demand was also reflected in the new business index. While slightly lower compared to September, it still experienced one of its highest levels over the last six years. There was also another very healthy performance from external demand. This was linked to online activity and opportunities arising from Brexit. Meantime, firms remain very confident on the 12 month outlook for business.

“The rebound in activity in the services sector continued to be broad-based with all four sub-sectors recording very strong growth in the month. The fastest growing sector was Transport, Tourism and Leisure.

“Meanwhile capacity pressures were once again evident in the sector. Outstanding business rose for an eighth month in-a-row, reaching its highest level in 21 years. Service firms continued to add more workers in an attempt to ease capacity pressures. Employment has now risen for eight consecutive months in the sector.

“However, cost pressures continued to build. Input price inflation rose to its highest level since late 2000. This saw prices charged to customers increased at their third quickest rate on record.”
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 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 October 2021.

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

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