



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Declines in activity and new business soften in October

Key Findings

Modest drop in activity compared with September

Slowest decline in employment of current retrenchment period

Business expectations weakened to five-month low

Data were collected 12-27 October 2020.

The Irish service sector experienced a partial stabilisation in October following September's downturn but underlying conditions remained weak, according to the latest AIB PMI® data. Activity and new work both declined further, but at softer rates. Meanwhile, outstanding business and employment both fell at the slowest pace in their respective eight-month sequences of decline. Expectations moderated to the weakest in five months, reflecting rising uncertainty over a second wave of COVID-19 and a potential no-deal Brexit.

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 Business Activity Index remained below the no-change mark of 50.0 in October at 48.3, from September's 45.8, indicating a second successive monthly decline in Irish service sector output. This renewed downturn followed growth in July and August as the economy initially reopened following the spring lockdown. The rate of decline in the latest period was only modest, however, and slowed from September.

The latest sub-sector data revealed contrasting trends across the four categories monitored. Two sectors registered strong declines in activity, with Transport, Tourism & Leisure posting a steeper drop than Financial Services. Meanwhile, a strong rise in activity was registered in Business Services, the third expansion in the past four months, while a modest increase was seen in the Technology, Media & Telecoms (TMT) sector.

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

The volume of new business received by Irish service providers continued to decline in October, with survey respondents linking weaker demand to ongoing coronavirus restrictions and uncertainty over rising virus cases. The rate of reduction in new orders slowed since September, however.

A fall in the overall level of outstanding work in the Irish services sector was registered for the eighth month running in October, as business capacity remained under-utilised. That said, the rate of decline was the slowest in the aforementioned sequence. This reflected higher backlogs in the Business Services and Financial Services sub-sectors.

Overall service sector employment followed the same pattern as outstanding business in October, falling for the eighth month running but at the weakest rate over this period. Companies reported redundancies and reduced working hours. Notably sharp rates of job shedding were seen in the Transport, Tourism & Leisure and Financial Services sub-sectors, while a modest decline was seen in Business Services and the TMT sector posted strong growth.

The 12-month outlook for business activity remained positive in October, as firms broadly expect a fading impact from the COVID-19 pandemic in a year's time. That said, with uncertainty over rising virus cases over the medium term and concerns regarding a potential no-deal Brexit, the strength of sentiment was the weakest since May. The Transport, Tourism & Leisure sub-sector recorded the weakest confidence, and the TMT sector the strongest.

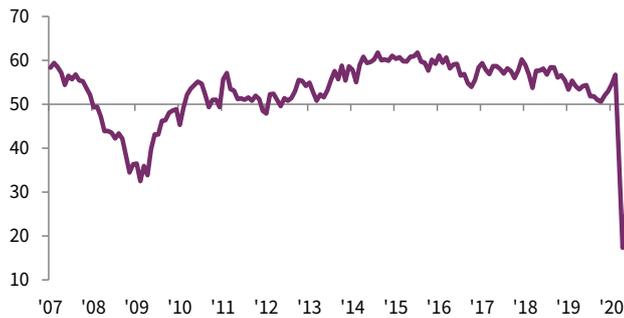
Cost pressures remained strong in October, linked by respondents to expenditure on PPE equipment, higher freight charges due to COVID-19 restrictions, costs related to remote working adjustments and compliance. Companies continued to pass higher input prices on to customers, with average charges rising for the second month running and at a faster rate than in September.

AIB Ireland Composite PMI®

Private sector activity nears stabilisation in October, but outlook darkens

Composite Output Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

Irish private sector output fell for the second month running in October as inflows of new business continued to decline. The rate of reduction in total activity slowed to only a marginal pace but the 12-month outlook was the weakest in five months, reflecting ongoing concerns over the longevity of the coronavirus pandemic and rising risks of a no-deal Brexit.

The seasonally adjusted Composite Output Index rose to 49.0 in October, from 46.9 in September, indicating a further drop in private sector activity but one that was only marginal overall. The slower overall contraction reflected both a broadly stable level of manufacturing output, and a slower decline in services activity.

New business at private sector firms in Ireland fell for the second month running in October, following a brief two-month recovery in demand. The rate of decline eased since September, however, and was much slower than those seen during the spring lockdown.

Private sector employment fell for the eighth month running, but at the weakest rate over this period. This reflected both a slower decline at service providers and slightly higher employment in the manufacturing sector.

Business expectations remained positive in October, but were the weakest in five months, reflecting renewed concerns over the long-term impact of COVID-19 and also a potential no-deal Brexit.

*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 recovered some ground in October after a marked decline in September, with the business activity index improving to 48.3 from 45.8 the previous month. The index, though, remains below 50 indicating that services activity continues to contract, though not at the same pace as in September. The Irish index was above that for the Eurozone, where the October PMI fell to 46.2. The UK index also fell back, but remained in expansion mode at 52.3.

"The detailed PMI data point to ongoing difficult business conditions for many services firms. Weak demand was evident in a continued decline in new business from both at home and abroad. Firms linked the weakness of demand to Covid-19 restrictions. Falling orders saw backlogs decline again for the eighth consecutive month. Meanwhile, margins are being squeezed, with input costs rising more quickly than output prices. Firms are responding to these challenges by continuing to cut their workforces in October.

"The recent marked rise in new cases of Covid-19 and resulting re-imposition of restrictions on activity is being most clearly felt in services sectors that depend on discretionary consumer spending. In particular, the Transport, Tourism and Leisure sector posted another very weak reading for October, well below that for other sectors.

"The 12-month outlook for the services sector remained positive, although it continues to ease back from its recent high in June. Overall, the PMI data show that business conditions are challenging for many services firms. This will be even more so in November, with much of the sector now back in lockdown."

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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 12-27 October 2020.

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

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