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Irish service sector activity expands in July, but outlook stalls

Key Findings

First rise in overall business activity since February

But growth only modest as new work declines further

Expectations for activity remain positive, but momentum stalls

Total service sector activity grew for the first time since the economy was locked down in late February to contain the COVID-19 outbreak, according to the July PMI® data from AIB. That said, the rate of expansion was only modest, as the volume of incoming new sales fell further and firms supported workloads by completing outstanding business. Employment continued to decline, and firms’ expectations for activity stalled following June’s rebound.

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 posted another steep rise in July, from 39.7 in June to 51.9. The month-on-month increase in the headline figure was less than June’s record 16.3 points, but took it above the crucial 50.0 no-change mark which divides expansion from contraction for the first time since February.

That said, the rate of growth signalled was modest, and below the pre-crisis trend. Discounting the four-month downturn from March to June, July’s Index reading was the second-lowest since August 2012. It was also well below the long-run survey average of 55.0 since May 2000.

Three out of four sub-sectors registered growth of total activity in July. The strongest expansion was in Transport, Tourism & Leisure, which had previously seen the strongest declines in each of the previous four months. Conversely, the Technology, Media & Telecoms sector recorded a decline in activity in July, having been the only sector to post an increase in June. Meanwhile, activity rose only modestly in Financial Services and Business Services.

The modest expansion in total service sector activity reflected a lack of incoming new work. New business declined for the fifth month running, albeit at the slowest rate in this sequence. Consequently, total output rose due to a further reduction in outstanding business. That said, backlogs also declined at the slowest rate in the current five-month sequence.

With demand continuing to weaken and amid further indications of spare capacity, service providers cut workforces for the fifth month running in July. The rate of job shedding was strong in the context of historic survey data, but the slowest since March. Sub-sector data signalled that all four monitored areas recorded further reductions in July. The strongest decline in jobs in July was in Financial Services, following a three-month period where Transport, Tourism & Leisure had seen the worst losses. Technology, Media & Telecoms posted the slowest fall in staffing, despite being the only sector to see lower total activity in July.

July data signalled returning cost inflationary pressure in the Irish service sector economy. Average input costs rose for the first time since March, albeit at a relatively weak rate. Companies reported higher labour and shipping costs, and general price increases from suppliers. Financial Services posted the steepest increase in cost burdens during the month, with modest rises elsewhere.

Although input prices rose during the month, firms continued to reduce their charges in an effort to stimulate sales as the lockdown eased. Prices charged fell for the fifth month running, albeit at the joint-weakest rate in this sequence. Business Services was the only sub-sector to register a rise in charges.

Sentiment regarding the 12-month outlook for activity remained positive in July, but failed to gain momentum since June and was well down on the pre-crisis trend. A number of firms expected business to remain weak during the COVID-19 pandemic.
Irish private sector output returns to growth in July

The Ireland Composite Output Index* posted a another strong month-on-month rise from 44.3 in June to 55.9 in July, signalling a rebound in private sector output following the severe declines from March through to June as the economy locked down to contain the COVID-19 outbreak. The rate of growth was not as sharp as in February, but stronger than in any previous month stretching back to November 2018.

The rebound in activity was broad-based across the manufacturing and service sectors. Manufacturing production in particular surged, with the fastest month-on-month growth rate since December 1999. Service sector activity rose at a much slower pace in comparison, with the increase softer than the pre-crisis trend.

The volume of new business rose for the first time in five months in July, as pent-up demand was released as lockdown restrictions were lifted. New work rose more slowly than total activity, however, as firms continued to complete existing business. Backlogs declined for the fifth straight month, albeit at the slowest rate in this period.

Private sector employment in Ireland declined for the fifth month running in July, albeit at the slowest rate in this sequence. The manufacturing workforce expanded, but only slightly.

July data signalled returning inflationary pressure in the private sector. Input prices rose for the first time in four months, while charges increased for the first time since February.

*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.
AIB Ireland Services PMI®

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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 13-28 July 2020.

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

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Purchasing Managers’ Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched monthly indicators of economic trends.

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