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AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Service sector activity growth at three-month high

Key Findings

New business rises at fastest pace since August

Employment growth at five-month high

Business confidence improves

Irish service providers recorded a solid increase in business activity in November, with the rate of increase recovering from October's 87-month low to the fastest in three months. Meanwhile, the rate of expansion in new orders also quickened from October. As a result of firmer demand conditions, employment growth was solid and the most marked in five months. Looking forward, business confidence rose to its highest level since June. Both input costs and output prices increased at sharper rates than in the previous month.

The headline seasonally adjusted Business Activity Index posted 53.7 in November, up from 50.6 in October and signalling the fastest rise in business activity in three months. This ended a five-month sequence of slower increases in output. Activity growth was registered across all four broad sectors, but was fastest among Financial Services companies.

In line with the picture for business activity, new order growth quickened during November and was the fastest in three months. Anecdotal evidence from panellists indicated that they had seen an improvement in overall demand conditions, with the increase in new orders coming from existing customers as well as successful marketing efforts. Business Services led growth of new orders.

Amid reports of an increase in orders from customers in the UK, US and Latin America, new business from abroad increased in November. The rate of expansion was solid and the fastest since June.

Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

Stronger new order growth resulted in a sharper increase in backlogs during November. Outstanding business rose solidly and at the sharpest pace in four months.

The rate of job creation was solid and the fastest since June. Where employment rose, panellists reported hiring staff as a result of receiving greater customer orders. The TMT sector posted the strongest expansion in staffing levels during November, while Transport & Leisure companies lowered workforce numbers marginally.

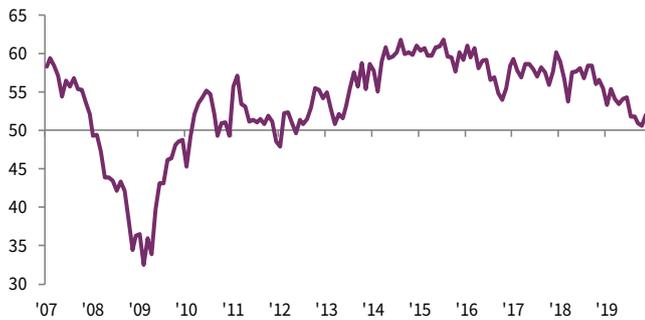
Irish service providers recorded an above-average increase in input prices during November. The rate of inflation was steep and the fastest in six months. Panellists mainly linked inflation to higher fuel and insurance costs, although there were also reports of greater wage bills.

In line with the pick up in cost inflation, service providers increased their output prices at a faster rate during November. The pace of increase was solid and the quickest since May.

Looking forward, business confidence improved to a five-month high in November, as service providers remained optimistic that business activity will increase over the coming 12 months. Just over 40% of panellists predict a rise in activity over the coming year with expectations of stronger customer demand and new product investments cited as reasons to be optimistic.

Private sector activity rises at fastest pace since June

Composite Output Index
sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

The Composite Output Index* posted 52.0 in November, up from 50.6 in October and signalling the fastest rise in business activity since June.

Central to the quickening of Irish private sector output growth was a faster expansion in services activity, with growth accelerating to a three-month high in November. Manufacturers, on the other hand, recorded the fourth reduction in output in five months.

In line with output, the rate of expansion in private sector new business quickened to the fastest in five months. A sharper expansion of service sector sales drove overall growth, while there was a marginal increase in manufacturing order book volumes.

On the employment front, composite workforce expansion was solid but eased slightly from October. A faster rise in employment at service providers was registered, but manufacturing staffing levels declined for the first time since September 2016.

The rate of input price inflation picked up to a six-month high, amid faster increases of both service sector cost burdens and manufacturing operating expenses. As a result, output charges grew solidly and at the fastest pace since May.

Sentiment towards output over the coming year improved to a five-month high, amid stronger optimism among both manufacturers and service providers.

*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.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The strong rebound in the November AIB Services PMI business activity index to 53.7 is a welcome relief. The index fell sharply to a seven year low to 50.6 in October from a level of 53.1 in September. The November rebound suggests this fall was an aberration and that the Irish services sector is continuing to perform strongly."

"The details of the November PMI data make for encouraging reading. Activity expanded in all four of the broad service sectors covered in the survey. Financial Services saw the strongest growth, with the activity index hitting a nine-month high. Solid growth was also registered by business services firms and companies in the Technology/Media/Services sector, with activity in both reaching its highest level since the summer."

"Most encouragingly, both new export orders and total new orders posted solid increases. The recovery in new export orders seen in October and November is particularly welcome as they had weakened a lot during the third quarter. The increase in customer orders saw backlogs rise, pointing to growing capacity constraints in the services sector."

"Meanwhile, employment growth was strong, quickening for the third month running. There was also a further good improvement in business confidence, which had also weakened during the third quarter. Overall then, this report indicates that the services sector of the Irish economy is in good shape, despite the challenges posed this year by Brexit uncertainty and weakening global growth."

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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.

November 2019 data were collected 12-26 November 2019.

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

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