February was a strong month for the Irish services economy, according to the latest AIB PMI® data. Total activity increased at the fastest rate since December 2017, with the pace of expansion quickening for the fourth straight month. Growth of both new and outstanding work accelerated, while jobs were added at the strongest rate in eight months. The outlook eased to a three-month low, but remained above the trend shown during most of 2019.

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 sharply to 59.9 in February, from 56.9 in January, indicating the fastest growth of Irish service sector output since December 2017. The headline figure has risen for four months in a row, the longest sequence of continuous gains since the first half of 2010 when the sector emerged from the global financial crisis of 2008-09. Moreover, the index was well above its long-run trend level of 55.5 in the latest period.

Growth in business activity accelerated in three out of four sub-sectors in February. The Technology, Media & Telecoms (TMT) sector registered the fastest growth, followed by Financial Services and Business Services respectively. Transport, Tourism & Leisure continued to weigh on overall growth, posting a slower, marginal rise in activity.

The trend in total activity reflected that seen for inflows of new business. The rate of growth in new contracts accelerated for the fourth successive month in February, recovering further since last October’s 87-month low. The pace of expansion was the sharpest since April 2018. A marked acceleration in growth of new export business was signalled, driven by financial services.

Service providers in Ireland reported the strongest increase in outstanding business since May 2018 in February. The rate of growth in incomplete contracts has accelerated three times in the past four months, following a subdued period during the middle of 2019.

Service providers achieved much faster growth of total activity in February despite only a slight quickening in the rate of employment growth, signalling improving productivity. Service sector jobs rose at the strongest pace in eight months, with the fastest increase seen in the TMT sector.

February data also revealed rising cost pressures in the services economy, mainly reflecting salaries and fuel prices. The overall rate of input price inflation rose to a 12-month high, and was above the long-run series average. Firms operating in the Transport, Tourism & Leisure sector faced the biggest increase in average input costs.

The rate of inflation in prices charged for services picked up from January’s three-month low in February, and was in line with the trend shown over the past two years. A marked rise in charges at TMT firms was signalled, in contrast to only a fractional increase in financial services fees.

Although current business conditions strengthened notably in February, the 12-month outlook moderated slightly from January’s 18-month peak. Sentiment remained stronger than throughout much of 2019, but eased to a three-month low. This reflected uncertainty related to the inconclusive general election, the post-transition Brexit settlement and potential disruption to the global economy from the COVID-19 outbreak.
AIB Ireland Composite PMI®

Private sector output growth hits 17-month high in February

The Irish private sector economy continued to build momentum at the start of 2020. The Composite Output Index* rose for the fourth month running to 56.7 in February, from 54.7 in January, signalling the strongest expansion since September 2018.

Manufacturing output and services activity both increased at faster rates in the latest month though it was the latter that accelerated most notably, driven by financial services and the technology, media & telecoms sector. Total services activity growth hit a 26-month high.

New business growth reached a 15-month high in February, with stronger gains in manufacturing new orders and new services business. Subsequently, backlogs of work rose for the second month running, having previously declined throughout the second half of 2019.

Private sector employment continued to rise in February, extending the current sequence of job creation that began in September 2012. This was despite a third decline in the manufacturing workforce in the past four months.

Business expectations eased to a three-month low in February, but remained above the 2019 trend. The moderation in sentiment reflected domestic political uncertainty, the post-transition Brexit settlement and disruption from the coronavirus outbreak.

*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 Services PMI data for February show the Irish economy to be in strong shape. The services business activity index rose for a fourth consecutive month to its highest level since December 2017. The index hit 59.9 as the sector continues its rapid rebound from the seven year low of 50.6 reached in October last year.

"The robust expansion in service activity is being driven by strong growth in new business. Total new orders gained further momentum in February, rising at their fastest pace since April 2018. Most notably, new exports orders, which had weakened a lot in 2019, have picked up considerable strength in the past couple of months. Their rate of growth accelerated to a 19-month high in February.

"Robust growth in new business was seen in all four of the service sectors covered in the survey. Business activity grew particularly strongly in Financial Services, Business Services and Technology/Media/Telecoms.

"Buoyant business conditions would appear to be leading to increasing cost pressures in all service industries, including the Transport/Tourism/Leisure sector. Rising salaries and fuel prices were cited as the main factors pushing input price inflation to a 12-month high. By contrast, the rate of inflation in prices charged for services has remained more subdued, pointing to growing pressure on margins.

"The strong growth in activity in February saw a further rise in the back-log of outstanding business and another solid increase in employment. However, expectations for business activity over the coming 12 months eased back from the 18-month high seen in January."
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.

February data were collected 12-25 February 2020.

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

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AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

About IHS Markit
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

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