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## AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

### Output rises at slowest pace in 87 months

#### Key Findings

New business growth at lowest in over seven years

Fastest increase in employment in four months

Sentiment improves from September's near eight-year low

Activity growth among Irish service providers was marginal and eased to the slowest in the current 87-month sequence of expansion during October. This was also the case with regards to new orders. In contrast to the fractional rises in activity and total new business, Irish service providers took on additional staff at the fastest pace in four months in order to bolster capacity and work through customer orders.

Looking forward, business confidence towards output over the coming year improved from September's almost eight-year low but was nonetheless subdued amid reports of Brexit uncertainty weighing on sentiment.

The headline seasonally adjusted Business Activity Index posted 50.6 in October, down from 53.1 in September and signalled the slowest increase in business activity in the current sequence of expansion stretching back to August 2012. At the sector level, Financial Services firms posted the fastest rise in business activity of the four monitored categories for the fifth consecutive month.

Underpinning the slower rise in business activity was a weakening of customer demand conditions. Overall new order growth was marginal and eased to the slowest in the current 87-month sequence of expansion. Some panellists commented that they had seen a decrease in customer orders due to Brexit uncertainty. Of the four monitored sub-sectors, Business Services firms recorded the sharpest increase in new business, whilst Transport & Leisure companies observed a slight fall during October.

Inflows of new business from abroad, meanwhile, returned to growth in October, driven by greater demand from customers based in Oceania and the Netherlands. The rate of increase, though modest, was the fastest since June.

Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

A number of firms stated that they had seen an increase in orders from UK-based clients ahead of the Brexit deadline.

Employment across the Irish service sector continued to increase during October. Moreover, the rate of job creation was marked and the quickest in four months. Service providers stated that they had taken on additional staff as a result of increased customer orders and investments in capacity. All observed sectors recorded a rise in workforce numbers, with the strongest increase at Financial Services companies.

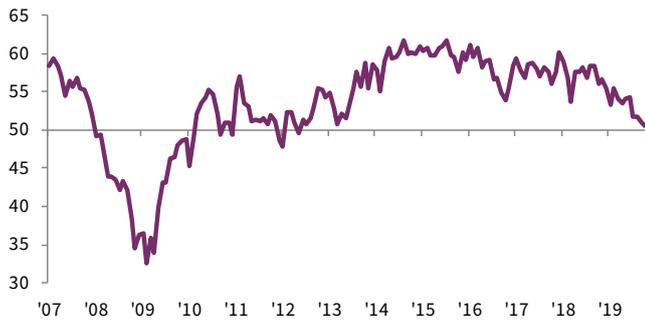
Further increases in new orders contributed to another rise in outstanding business during October. That said, the rate of backlog accumulation was modest and the softest in over six years. Work outstanding has now increased on a monthly basis since June 2013.

On the price front, the rate of input cost inflation dipped slightly, but nonetheless was marked. Panellists attributed the latest rise in cost burdens to greater fuel, insurance and staffing costs. With input prices increasing at a slower pace, the rate of output charge inflation softened to a three-month low.

Looking ahead, business confidence picked-up to the highest in three months from September's almost eight-year low during October. Despite this, the overall degree of optimism was subdued, amid reports of Brexit uncertainty weighing on sentiment. Just under 37% of surveyed firms were confident of a rise in business activity from present levels in 12 months' time, linked to expectations of higher sales activity and planned promotions.

# Weakest increase in output in almost seven-and-a-half years

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



Sources: AIB, IHS Markit.

The Composite Output Index\* posted 50.6 in October, down from 51.0 in September, and signalling the weakest increase in business activity in the current 89-month sequence of growth.

Underpinning the softer rise in Irish private sector output was a slowdown in services business activity growth. Manufacturers, on the other hand, recorded the first increase in production since June, though the rate of growth was marginal.

A return to growth of manufacturing order book volumes contributed to a faster expansion of private sector new business. However, as with output, service providers recorded a softening of overall new order growth, with new work increasing at the slowest pace in the current 87-month sequence of expansion.

Capacity pressures in the Irish economy eased in October, with backlogs falling for the fourth consecutive month. A further sharp reduction in manufacturing unfinished orders outweighed a modest increase in service sector work-in-hand.

On the employment front, composite workforce expansion was the fastest in four months, amid a return to growth of manufacturing staffing levels and a faster increase in service sector headcounts.

Rates of both input cost and output charge inflation quickened in October, with cost burdens rising at the fastest pace in three months. The rate of selling price inflation was solid and the quickest since May.

Looking forward, Irish companies were confident that output would increase over the coming year. Despite picking up to a three-month high from September's record low, the overall degree of optimism was subdued.

\*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 latest AIB Services PMI survey shows that the business activity index for the sector fell to 50.6 in October, down sharply from 53.1 in September and 54.6 in August, to hit its lowest level since August 2012. It was the fifth consecutive monthly decline in the index. The October reading points to just a small rise in business activity in the month. There has been a similar weakening in new business activity in recent months, with again just a small increase being recorded in October.*

*"However, other components of the October survey were more positive. New export orders picked up their best level since June. Employment growth was strong, again rising at its fastest pace in four months. There was also a good improvement in business confidence following two months of lower figures, while backlogs of outstanding orders continued to rise, albeit modestly.*

*"The impact of on-going Brexit uncertainty was evident, with some firms saying it has caused a fall in customer orders, with reports it is weighing on business sentiment. In terms of the four sectors covered in the survey, two recorded declining activity in October – Business Services and Transport/Tourism/Leisure - while a third, Tech/Media/Telecoms, saw growth slow to its weakest pace in seven years. Only Financial Services firms reported continuing strong growth.*

*"Overall, the slowdown evident in manufacturing this year would now appear to have spread to the services sector. The data point to an appreciable deceleration in the pace of activity in the Irish economy in recent months as it is buffeted by uncertainty over Brexit 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.

October 2019 data were collected 11-28 October 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### About AIB

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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 business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

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