



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Irish service sector moves toward stabilisation in June

Key Findings

Much slower retrenchment in activity

Expectations for activity turn positive

Rate of job shedding remains strong

Data were collected 12-25 June 2020.

PMI® data from AIB tracking trends in the Irish services sector provided signs that the most severe phase of the hit to business had passed in June. All six non-price indices registered record month-on-month gains, recovering further from April's record lows. Activity and new business continued to decline overall, but at the slowest rates since the downturn began in March. Employment continued to fall sharply, but expectations with regards to activity over the year ahead turned positive.

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.

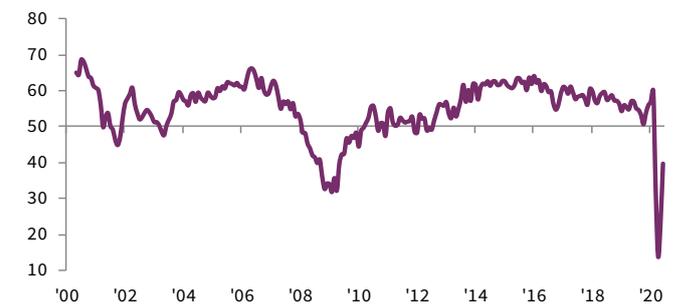
The Business Activity Index rose to 39.7 in June, from 23.4 in May and up further from April's record low of 13.9. The month-on-month increase in the headline figure was a new record at 16.3 points. The index continued to signal falling activity in June, albeit at a much slower rate than in March, April and May as the lockdown began to be lifted.

Three of the four sub-sectors monitored by the survey continued to record declining business activity in June. The transport, tourism & leisure sector again registered the steepest rate of contraction, followed by financial services and business services respectively. Activity in the technology, media & telecoms sector rose for the first time since February, albeit only marginally.

The overall reduction in services activity in June mainly reflected a sustained slump in incoming new work, with demand remaining subdued while many lockdown restrictions still in place. That said, the respective index posted a record monthly rise of 20.3 points, bigger than that seen for activity and leaving it above the headline figure. Latest data signalled that international new business weighed on demand, falling at a faster rate than total new work. As was the case

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

for activity, only the technology, media & telecoms sector registered growth of new business in June, and at a marginal pace.

Service sector capacity remained severely under-utilised in June, as signalled by a further marked reduction in the volume of outstanding business. That said, the rate of backlog depletion was the slowest in three months, and the respective index posted a record month-on-month gain of 9.9 points.

With both new and outstanding business declining further in June, and great uncertainty surrounding the severity and length of the hit to demand from the lockdown, service providers continued to shed staff. The rate of reduction was the slowest in three months, however. One-quarter of respondents reported lower workforces, compared with 37% in May and 41% in April.

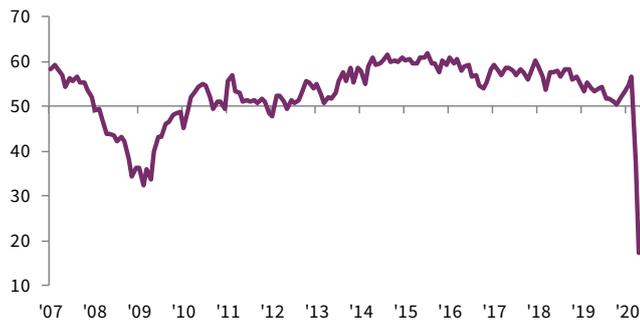
The forward-looking expectations data for June signalled that firms were confident of growth over the next 12 months, following especially marked pessimism in March and April in particular. Nearly half (47%) of firms expect growth of activity at their units by June 2021, around double the proportion expecting a decline (24%). That said, the Future Activity Index remained well below its long-run trend level, reflecting uncertainty around the length and severity of downturns sparked by the coronavirus crisis.

Inflationary pressures continued to weaken in June. Average input prices fell for the third successive month, linked to lower labour costs as firms utilised the government wage subsidy scheme. The rate of deflation in input prices was sharp, but slower than in April and May. Meanwhile, prices charged for services rendered fell for the fourth consecutive month, as firms reported special offers to stimulate sales as the economy began to reopen. The rate of discounting was weaker than in April and May, however.

AIB Ireland Composite PMI®

Irish private sector downturn shows signs of easing in June

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



Sources: AIB, IHS Markit.

The Ireland Composite Output Index* posted a fresh record month-on-month rise of 18.6 points in June, more than doubling May's then-record gain of 8.4 points. This signalled a move towards recovery in private sector output, although at 44.3, the latest figure still signalled an overall slump in activity.

The overall drop in output reflected a further decline in services activity, albeit at the weakest rate in the current four-month sequence. Manufacturing output rose for the first time since February, although the increase was only modest.

The Composite New Business Index also saw a record monthly gain in June and was at a higher level than the output indicator, indicating a much slower reduction in new work at private sector companies. Manufacturing new orders rose, while services new business continued to fall.

Data for employment showed a less marked rebound, however. Job shedding continued at a marked pace, especially in the service sector, albeit at a rate that was weaker than in April and May.

The 12-month outlook for private sector output was positive in June, following pessimism in March, April and May. That said, the Composite Future Output Index remained below its long-run average since the series was first compiled in 2012.

*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:

"With large parts of the economy still in lockdown as a result of the measures taken to contain the spread of the coronavirus, the AIB Irish Services PMI staged only a partial recovery in June. The business activity index rose to 39.7 from 23.4 in May, a level consistent with ongoing weak activity in the sector. The index stood at 59.9 as recently as February."

"The June reading for Ireland is below the flash Services PMIs for the same month in the Eurozone, UK and US of circa 47. This reflects the much more cautious approach of the Irish authorities to lifting lockdown restrictions compared to elsewhere. The July Service PMI data should capture the later re-opening of the Irish economy, especially in the hospitality industry. The Transport/Tourism/Leisure sector recorded a very low reading of 26.9 in June."

"With activity still at depressed levels, employment in services continued to contract at a sharp pace in June. Order levels remained weak, leading to a further decline in outstanding business volumes as backlogs continued to fall. Both input and output prices remained under downward pressure."

"The June PMI report, though, did see good month-on-month gains for all sub-components, suggesting the most severe phase of the contraction in business activity is behind us. Encouragingly also, there was a marked improvement in the 12-month outlook, which turned decisively positive, having been at subdued levels over the previous three months. We expect stronger PMI data from July onwards as the economy re-opens following the lifting of most lockdown restrictions."

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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 12-25 June 2020.

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

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