



# AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

## Weak consumer demand weighs on Irish service sector growth

### Key Findings

Slowest increases in activity and new work since March

Transport, Travel & Leisure sector contracts

Price pressures ease slightly but remain elevated

Data were collected 6-20 December 2021.

The last batch of AIB PMI® survey data for 2021 revealed a slowing rate of growth in the Irish service sector in December, linked to weaker consumer demand as the country grappled with a new wave of COVID-19 infections. Activity, new work and outstanding business all increased strongly, but at the slowest rates since March. Employment growth eased to a eight-month low, although the 12-month outlook picked up since November. Inflation of both input prices and charges eased slightly, but remained among the steepest on record.

The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The index therefore varies 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 Services Business Activity Index registered 55.4 in December, down sharply for the second month running from 59.3 in November and 63.4 in October. The Index has shed over 11 points since hitting a near-21 year high in July, and the latest figure signalled the weakest rise in service sector output since March. That said, growth has been maintained for ten successive months and the rate of expansion in December was slightly above the long-run survey average (Index average of 55.0 since May 2000).

For the first time since March, growth of business activity was not broad-based among the four sub-sectors monitored. There was a decline in activity in the Transport, Tourism & Leisure sector, albeit at only a marginal pace (49.2). This marked a turnaround from October when the sector had registered the sharpest expansion. The decline reflected a fall in new business as consumer demand

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

faltered with a new wave of COVID-19 infections.

Elsewhere, activity rose strongly in Technology, Media & Telecoms (59.0), albeit at the weakest rate since March. Financial Services also registered a sharp increase (58.0), albeit at a rate unchanged from November's six-month low. Growth slowed sharply in Business Services (53.7) to a pace below the long-run series average.

Overall new business continued to rise sharply in December, with growth still above the long-run average despite easing to the slowest since March. Financial Services registered the fastest increase, and was the only sector to post a steeper rate of growth than in November. Growth in new export contracts moderated to a seven-month low. Companies remained strongly optimistic about growth prospects in 2022, and sentiment picked up slightly.

The trend in outstanding business followed that for new work in December, rising for the tenth month running but at the weakest rate since March. A number of respondents linked higher incomplete business to supplier delays and staff shortages. Backlogs rose in three out of four sub-sectors, the exception being Transport, Tourism & Leisure.

Irish service providers continued to expand their workforces in December to meet rising workloads and prepare for new projects in 2022. The rate of job creation remained much stronger than the long-run average, but moderated to the slowest since April. Solid gains were seen in three sub-sectors, while no change was reported in Transport, Tourism & Leisure.

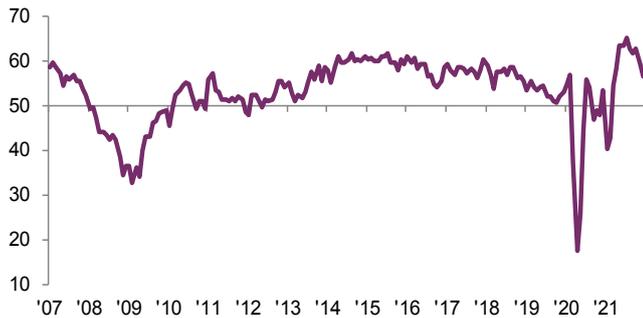
Cost pressures remained severe in December, linked to fuel, energy, labour, insurance and bought-in goods. The rate of inflation eased, but was among the sharpest on record. Similarly, charges were increased at the softest rate in three months, but nevertheless one of the strongest since the series began in 2000.

## AIB Ireland Composite PMI®

# Irish private sector output expands at slowest rate since March

Composite Output Index

sa, &gt;50 = growth since previous month



Sources: AIB, IHS Markit.

The combined output of Ireland's manufacturing and services sectors rose further in December, extending the current recovery to ten months. That said, the rate of expansion slowed further to the weakest since March, when growth of activity resumed as the sector reopened. The services sector registered a notable loss of momentum in December as consumer demand weakened in light of the spread of the Omicron variant.

The Ireland Composite Output Index, which tracks activity in the combined manufacturing and services sectors, registered 56.5 in December, down sharply from 59.3 in November. The latest figure signalled the slowest growth since March, although it remained above its long-run survey average of 54.0 (since 2000).

Growth rates for output slowed at both manufacturers and service providers. Activity in both sectors increased at the weakest rates since March, though it was the service sector that registered the more notable loss of momentum, expanding at a slower pace than manufacturing for the first time in the second half of 2021.

Indicators for employment, new work and outstanding business also signalled the slowest increases since March at the end of 2021, while expectations for output were the strongest in five months.

Inflationary pressures remained severe in December, despite both input prices and output charges showing the softest increases since September.

\*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 Irish Services PMI for December showed a marked slowing in the pace of growth in the sector as consumer demand faltered in the face of high COVID case numbers. The business activity index fell to 55.4, well down from 59.3 in November and 63.4 in October. However, this index level is still consistent with solid growth in the sector. It is also above the flash December Services PMI readings for the UK and Eurozone, of 53.2 and 53.3, respectively.*

*"The moderation in the pace of growth was evident across all the main sub-components of the Irish survey. There was a slowdown in the rate of growth of new business, including exports, with firms reporting that the rising COVID infections were dampening demand. Job creation, while still strong, eased to its softest rate of expansion since April.*

*"The slowdown in the growth in activity was most pronounced in the Transport, Tourism & Leisure sector, which as before, saw the biggest hit to demand from the latest wave of the pandemic. Activity contracted marginally, with the sector experiencing a sharp fall-off in new export business. Financial Services and Technology/Media/Telecoms, though, both registered further strong growth in business activity. Meantime, firms in all sectors remained very optimistic on the 12 month outlook for business.*

*"Capacity pressures remained evident in December, with the level of outstanding work increasing again, though at a slower pace than in previous months. Businesses also continued to experience severe upward pressure on costs for fuel, wages, energy, insurance and purchased goods. This is translating into higher prices being charged to customers, which increased at their sixth quickest rate on record."*



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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 6-20 December 2021.

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

### About AIB

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