



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Irish service sector continues to build momentum at start of 2020

Key Findings

Business Activity Index rises for third straight month

Fastest gain in new business since December 2018

Business confidence strongest for a year-and-a-half

The January AIB PMI® survey data for the Irish service sector signalled a positive start to 2020. Total business activity growth quickened for the third straight month to a seven-month high, spurred by the fastest rise in new work since December 2018. Employment growth also strengthened, and firms were the most optimistic regarding the 12-month outlook since July 2018.

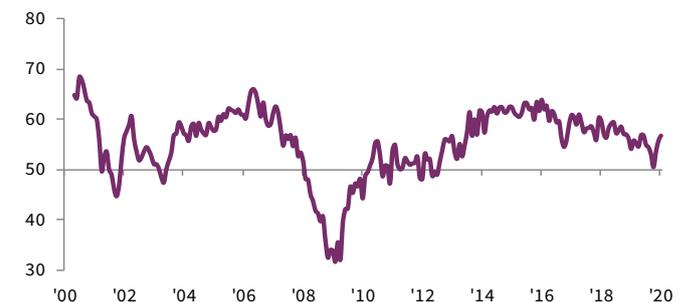
The headline figure from the survey is the Ireland Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Business Activity Index rose further from last October's 87-month low of 50.6 to 56.9 in January. The latest reading signalled the fastest rise in services output since last June, and was above the 20-year long-run survey average of 55.5. That said, growth remained softer than the trend over the current sequence of expansion, which began in August 2012.

The latest data by sub-sector showed that Business Services and the Technology, Media & Telecoms (TMT) sub-sectors drove the uplift in activity growth at the start of 2020. Financial Services activity also rose sharply, albeit at the slowest rate in three months, while Transport, Tourism & Leisure activity increased moderately following a decline in December.

The volume of new business received by Irish service providers rose at the fastest rate since December 2018 in January, with growth accelerating for the third consecutive month. Firms reported an uplift in new enquiries and customers at the start of the year. All four sub-sectors registered sharp increases in new work, led by Financial Services, which posted a marked rise in international business. Overall new export sales across the services sector rose at the strongest pace since December 2018. There were reports of stronger UK business following the

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

removal of Brexit uncertainty.

The sustained rebound in new business growth raised pressure on operating capacity in the services sector at the beginning of 2020. Outstanding work rose at the fastest rate in seven months, with all four sub-sectors registering stronger increases.

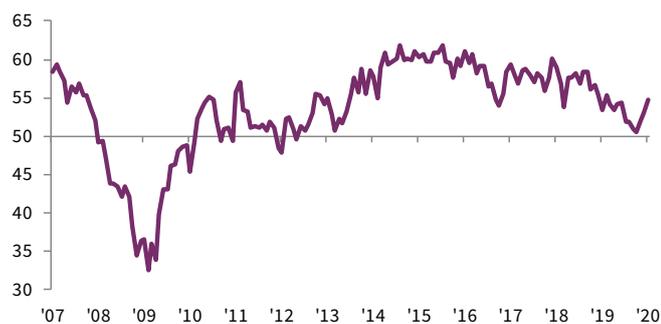
The greater build-up in outstanding work occurred despite a stronger rise in employment. The rate of job creation at service providers was faster than the long-run survey trend, but remained weaker than the average over the current sequence of workforce growth that began in September 2012. Gains in staffing remained subdued in the Business Services and Transport, Tourism & Leisure sub-sectors.

Firms' expectations for activity in 12 months' time strengthened for the fourth successive month in January. Having been the weakest in nearly eight years back in September, sentiment at the start of 2020 was the strongest since July 2018. Companies widely linked positive forecasts to the removal of Brexit uncertainty following the decisive UK General Election.

Cost pressures in the services sector remained strong in January, with the Input Prices Index above its long-run trend level. Labour and fuel were the main reported sources of rising input costs. Firms subsequently increased their own prices charged in January, at a rate that remained well above the long-run survey average despite easing since December. The Transport, Tourism & Leisure and TMT sub-sectors registered the fastest increases in both input prices and charges in the latest period.

Private sector output growth continues to build momentum in January

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



Sources: AIB, IHS Markit.

The Composite Output Index rose for the third month running from last October's 89-month low of 50.6 to 54.7 in January. The latest figure signalled the fastest rate of private sector activity growth in 11 months at the start of 2020, and one stronger than the 20-year series average.

January heralded the fastest rise in services business activity since last June, and a renewed increase in manufacturing output. Though modest overall, growth of goods production was the highest since March 2019.

Private sector new business increased at the fastest rate since March 2019. This reflected a marked rise in new work at service providers, and only the third increase in manufacturing new orders in the past nine months.

Export demand was boosted by the removal of Brexit uncertainty. Service providers reported the strongest rise in international work since December 2018, while manufacturing exports stabilised following a six-month downturn.

Private sector employment rose at the fastest rate since June 2019, as manufacturers added staff for the first time in three months and job creation in the services economy quickened.

The strengthening private sector labour market reflected a brighter outlook at the start of 2020. Output expectations were the strongest in 16 months, with manufacturing seeing a notable boost in sentiment since December.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Services PMI business activity index rose to a 7-month high of 56.9 in January, signalling a strong start to the year. Hence, services sector activity continues its rapid rebound from the seven year low of 50.6 hit in October.

"The recovery in activity has been driven by strong growth in new business. Total new orders in January rose at their fastest pace since end 2018, with the index reaching 57.0. Most encouragingly, new exports orders, which had weakened a lot in 2019, regained momentum over the winter and in January rose at their fastest pace since December 2018. Stronger UK orders were cited following an abatement of uncertainty around Brexit.

"Robust growth in new business was seen in all four of the service sectors covered in the survey. As a result, business activity grew very strongly in Financial Services, Business Services and Technology/Media/Telecoms in January. Meanwhile, Transport/Tourism/Leisure, registered a moderate increase in activity following a decline in December.

"The strong growth in activity in January saw a marked rise in the back-log of outstanding business, as well as a further solid increase in employment. Meanwhile, business confidence continues to improve, with expectations for business activity over the coming year climbing to an 18-month high. The improving confidence was linked by many firms to reduced Brexit uncertainty.

"This report, combined with the marked improvement in the manufacturing PMI in January, indicates that the Irish economy got off to a good start in 2020, helped by less uncertainty around Brexit."

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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.

January data were collected 13-28 January 2020.

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

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