



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Sharp drop in new work drives total activity down in September

Key Findings

Fastest decline in new business since June

Activity falls, but at slower rate than March-June period

Rate of job losses stabilises, ending period of slowing cuts

Data were collected 11-25 September 2020.

The latest PMI® data from AIB signalled that the recovery in the Irish services economy petered out in September amid rising virus cases and economic uncertainty. Total activity fell sharply following two months of modest expansion. Moreover, new business declined at the fastest rate since June. A combination of weakening demand and higher labour costs linked to the end of the temporary COVID-19 wage subsidy scheme (TWSS) led the rate of job shedding to level off, following a four-month period of slowing cuts.

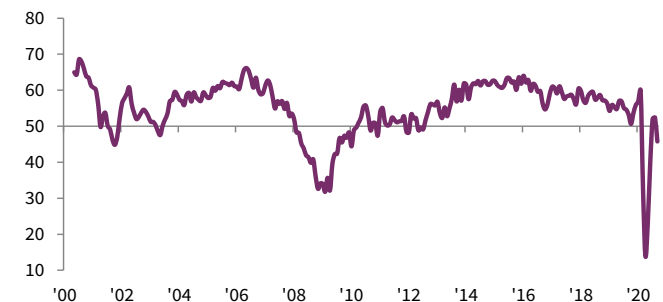
The Business Activity Index fell sharply into contraction territory in September, declining from August's 52.4 to 45.8. The month-on-month decline in the headline figure of 6.6 points was the third-largest ever recorded, behind the double-digit plunges seen in March and April. The latest figure signalled a sharp decline in output by the survey's historical standards, albeit one much less severe than those registered from March through June. Over the third quarter as a whole, the Index trended at exactly 50.0, compared with 25.7 in Q2 and 49.8 in Q1. The next-lowest quarterly figure was 49.7 in Q4 2010.

Business activity declined across all four sub-sectors monitored in September. The fastest decline was in transport, tourism & leisure, which had seen strong growth in July and only a slight fall in August. Financial intermediation registered a drop in activity for the sixth time in seven months, while only marginal declines were seen in business services and the technology, media & telecoms (TMT) sectors. Over the third quarter as a whole, business services registered the strongest performance.

Total activity was weighed down by a renewed fall in incoming new business in September, following only a marginal increase in August. Companies linked weak demand to COVID-19 restrictions, economic uncertainty and difficulty in completing new sales due to

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

longer decision-making by clients. Export demand also weakened, linked to COVID-19-related uncertainty and, to a lesser extent, Brexit. The rate of decline in new export sales was the fastest in three months.

Latest data signalled a seventh consecutive drop in the volume of outstanding business at Irish service sector companies. Firms mainly linked lower backlogs to a lack of incoming new work. The rate of depletion was the weakest in the current sequence, however.

With new and outstanding business both falling, service sector employment in Ireland declined further in September. Companies mentioned redundancies, reduced working hours and the non-replacement of leavers. By sector, the decline was most marked in transport, tourism & leisure, followed by financial intermediation and TMT respectively. That said, the rate of job shedding was little-changed from August, remaining much less severe than those registered during the second quarter. This partly reflected solid workforce growth at business services firms.

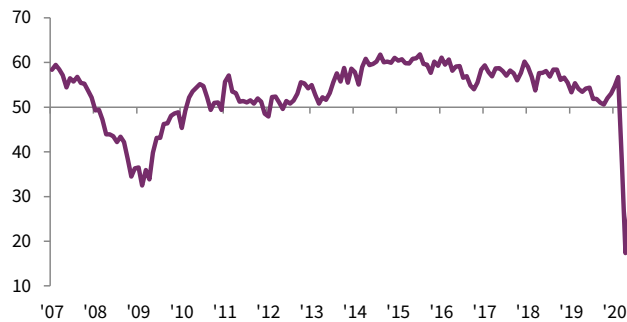
Average input prices rose for the third month running, linked to increased labour costs due to the end of TWSS, PPE costs and higher shipping charges. Prices charged increased for the first time in seven months, albeit only slightly. The financial intermediation sector registered the strongest rates of both input and output price inflation in September.

Service providers' expectations for activity over the next 12 months remained positive in September, though the strength of confidence slipped for the third successive month following June's rebound. Excluding the March to May period, sentiment in September was the weakest since November 2010.

AIB Ireland Composite PMI®

Output falls across manufacturing and services sectors in September

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



Sources: AIB, IHS Markit.

The Irish private sector economy contracted in September, heralding an abrupt end to a two-month recovery in output growth following the first wave of coronavirus. The seasonally adjusted Composite Output Index fell from 54.0 in August to 46.9, a three-month low. While the rate of decline signalled was weaker than those seen during the March to June period, it was stronger than in any prior month since January 2010.

Manufacturing output and services activity both declined at the end of the third quarter, with the steeper contraction registered in the latter sector. Both sectors also saw lower intakes of new work on the month, with service providers again posting the steeper rate of decline.

Private sector backlogs of work fell for the seventh month running in September, with the decline broad-based for the second consecutive period. This lack of pressure on capacity contributed to a further round of job shedding, albeit at the second-slowest rate in the current seven-month sequence.

Firms cut headcounts partly to reduce costs, though overall cost pressures continued to rise. Average input prices increased at the fastest rate since February. Output prices rose for the second time in three months, albeit only slightly.

The 12-month outlook for business activity moderated for the third month running, reflecting rising COVID-19 cases and economic uncertainty partly linked by panellists to Brexit.

*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 September shows a renewed decline in business activity in the sector in line with the trend seen elsewhere in the Euro area. The Irish business services activity index fell to 45.8 from 52.4 in August, moving well into contraction territory below the 50 level. The flash services PMI reading for the Eurozone also saw the activity index drop below 50 in September to 47.6.

"The recent marked rise in new cases of Covid-19 in Europe and resulting re-imposition of restrictions on activity is being most clearly felt in services sectors that depend on discretionary consumer spending. In particular, the Transport, Tourism and Leisure sector posted very weak readings in September, although business activity declined across all four sub-sectors covered in the PMI survey.

"Weakening demand was manifested in declining sales both at home and abroad, with a marked fall in the volume of incoming new business in September. Firms linked the weakness of demand to Covid-19 restrictions and uncertainty about the economic outlook. Falling orders saw backlogs decline again for a seventh consecutive month. With demand weakening, spare capacity rising and margins being squeezed with input costs rising more quickly than output prices, firms continued to cut their workforces.

"The 12-month outlook for the services sector remained positive, although it continues to ease back from its recent high in June and remains below its long term trend. Overall, the PMI data show that business conditions are very challenging for many firms operating in the services sector of the economy owing to the continuing Covid-19 pandemic."

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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 11-25 September 2020.

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

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