

AIB Ireland Services PMI®

Services activity increases at strongest rate since pandemic began

Key Findings

New business growth accelerates

Fastest increase in outstanding work since May 2018

Business expectations at three-year high

Ireland Services Business Activity Index



The Irish service sector economy gained momentum as some restrictions were eased in April, according to latest PMI® survey data from AIB. Total activity and new business both increased at the fastest rates since February 2020. Levels of incomplete work built up at the strongest rate in nearly three years despite a faster rise in employment. The outlook improved, with sentiment the strongest in three years. Meanwhile, input price inflation remained strong but eased slightly since March.

Commenting on the survey results, Oliver Mangan, AIB Chief Economist, said:

"The AIB Irish Services PMI for April points to accelerating growth in the sector, with the business activity index rising to 57.7 from 54.6 in March. This is well up from its depressed levels of 41.2 in February and 36.2 in January. It signals, though, a further improvement in business conditions rather than activity returning to more normal levels."

"Although much of the services sector remains in lockdown, the data are encouraging as all the main components of the survey showed significant improvements. In particular, there was a further pick-up in new business in the month, including new export business, with firms reporting increased market activity as restrictions start to be eased."

"The pick-up in new business resulted in a marked rise in the volume of outstanding work, with widespread increases in

order backlogs. Meanwhile, employment expanded strongly for the second month running, having been in decline for most of the past year."

"The sub-sector data show improving conditions in the four industries covered in the survey. They all saw a pick-up in new business for the first time since the pandemic began, including in the hard hit Transport, Tourism & Leisure sector. However, all four continue to experience a severe margin squeeze, with further sharp increases in input costs, but only limited ability to pass these on in higher prices."

"Finally, firms in all four sectors are very optimistic on the 12-month outlook, with the Future Activity index hitting a three year high on the view that the expected lifting of lockdown restrictions will trigger a strong rebound in business activity."

Services Business Activity Index

sa, >50 = growth since previous month



Overview

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 increased to 57.7 in April, from 54.6 in March, pointing to an accelerating rate of growth in Irish services output at the start of the second quarter of 2021 as some COVID-19 restrictions were eased. The pace of expansion was the strongest since February 2020 and well above the rebound seen during the summer of 2020 following the first lockdown. The Business Activity Index registered above its long-run trend level of 54.8 in the latest period.

All four sub-sectors registered higher activity in April, the first broad-based expansion since February 2020. The strongest growth was in Technology, Media & Telecoms (TMT) followed by Business Services, Financial Services and Transport, Tourism & Leisure respectively.

Total workloads were boosted by a much sharper rise in new business in April. Having expanded solidly in March, the rate of growth in the latest period was the fastest since February 2020 and the second-strongest in two-and-a-half years. As was the case for total activity, new business growth was broad-based by sub-sector in April. International

demand supported inflows of new work, as exports of services rose at the joint-fastest rate since July 2018, with demand notably strong in the Financial Services sub-sector. Firms reported increased business from the UK and mainland European markets.

Incoming new business placed additional pressure on service providers' capacity in April, with the level of incomplete work rising for the second month running and at the fastest rate since May 2018.

The upturn in demand and workloads filtered through to the labour market in April as firms expanded operations. Employment rose for only the third time since the pandemic began over a year ago, and at the strongest rate since February 2020. The overall rate of job creation was limited somewhat by broadly no change in employment in the Transport, Tourism & Leisure sector.

Recruitment also reflected rising confidence in the outlook. The forward-looking Future Activity Index, tracking expectations over the next 12 months, rose to a three-year high in April and was above its long-run trend level. Sentiment improved in all four sub-sectors, most notably in the TMT sector.

Cost pressures remained strong in April, linked by survey respondents to labour, insurance, fuel, shipping and UK customs. The rate of input price inflation eased slightly from March's 13-month high, however. To protect profit margins, service providers raised their charges for the second month running. The rate of charge inflation was the strongest since February 2020, albeit modest overall.



New Business Index



The volume of new business received by Irish service providers rose for the second month running in April. Moreover, the rate of growth accelerated to the strongest since February 2020. Firms widely reported increased enquiries and greater market activity as some restrictions were eased. New business rose across all four sub-sectors for the first time since February 2020.

New Business Index

sa, >50 = growth since previous month



New Export Business Index



International demand for Irish services surged in April, with the seasonally adjusted New Export Business Index rising sharply to a 14-month high. It also signalled the joint-fastest rate of growth in new work from abroad since July 2018 and was well above its long-run average of 54.8. Firms reported increased business from the UK and mainland Europe, with demand for Financial Services notably strong.

New Export Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Service providers in Ireland reported a further build-up in incomplete work in April. Firms linked higher backlogs to rising demand as market conditions began to recover. The rate of growth in outstanding business was the strongest since May 2018. Moreover, backlogs rose across all four sub-sectors for the first time since February 2020.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



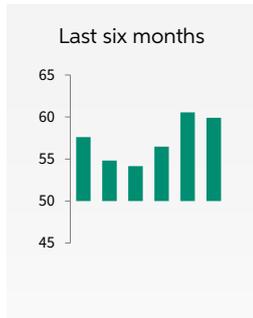
Service sector companies added to their workforces for the second consecutive month in April, the first back-to-back rise in employment since early-2020. The rate of job creation was the strongest since February 2020, but weaker than the pre-pandemic trend. By sub-sector, workforce growth was strongest in Business Services, followed by Financial Services.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



Cost pressures facing Irish service providers remained strong in April. Average input prices rose for the tenth successive month, and the rate of inflation was only slightly down on March's 13-month high.

Anecdotal evidence linked rising costs to labour, insurance, fuel, shipping and UK customs.

Input Prices Index

sa, >50 = inflation since previous month



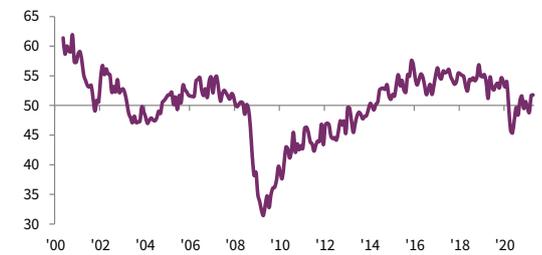
Prices Charged Index



Average charges levied for services rose for the second month running in April. Firms widely linked increased charges to higher cost burdens, especially for shipping and customs. The rate of charge inflation was the highest since February 2020, but still weaker than the trend over the preceding five years.

Prices Charged Index

sa, >50 = inflation since previous month



Future Activity Index



Irish service providers were increasingly optimistic in April about growth prospects over the next 12 months. The Future Activity Index rose for the fifth time in six months to a three-year high, with 57% of firms expecting higher business levels at their units by April 2022. In comparison, only 10% of companies predicted a decline.

Future Activity Index

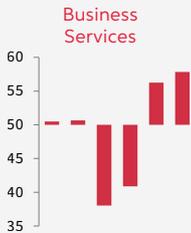
>50 = growth expected over next 12 months



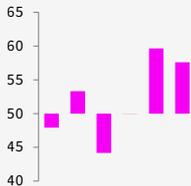
Services Sub-sectors

Business Activity Index

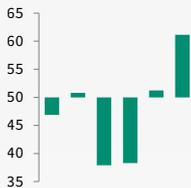
Last six months



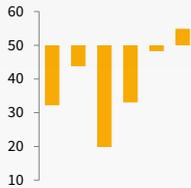
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Business service providers registered the fastest rise in activity since February 2020 in April. A similar trend was evident for new business, boosted by the fastest rise in export contracts since December 2018. Outstanding work continued to rise strongly, albeit at a slower rate than in March as firms continues to expand workforces at a sharp rate. Cost pressures remained strong while charges rose the most in six months.

Financial Services

Financial services activity rose strongly in April, albeit at a slightly weaker rate than March's 13-month high. New contracts, however, grew at the fastest rate since February 2020, spurred by the fastest expansion in international demand in nearly three years. Consequently, outstanding business rose the most in nearly three years despite a solid rise in staffing, the first job creation in the sector for over a year.

Technology, Media & Telecoms

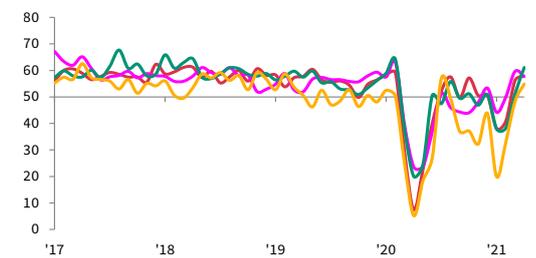
Companies operating in the Technology, Media & Telecoms sector registered marked increases in business activity and new work in April. For both metrics the rate of growth was the fastest across the four monitored sub-sectors. Moreover, the 12-month outlook was the strongest since February 2018. Employment rose for the seventh successive month, but at the weakest rate in this sequence.

Transport, Tourism & Leisure

Business activity in the Transport, Tourism & Leisure sector rose for the first time since July 2020 in April. New business followed the same trend, while employment stabilised following a 13-month period of job shedding. Input price inflation remained strong but eased to a three-month low, while charges were unchanged following a strong rise in March.

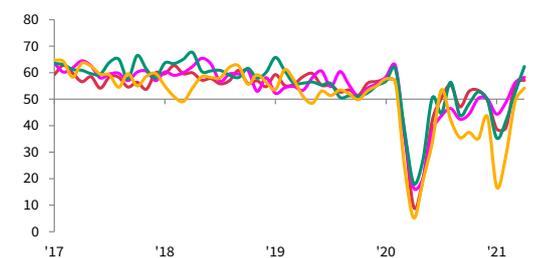
Business Activity Index

sa, >50 = growth since previous month



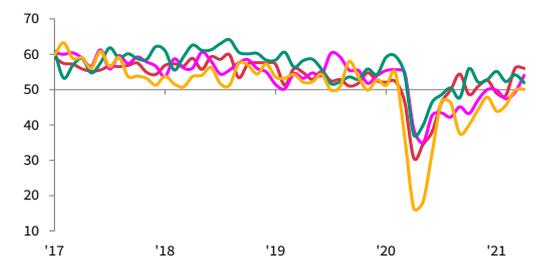
New Business Index

sa, >50 = growth since previous month



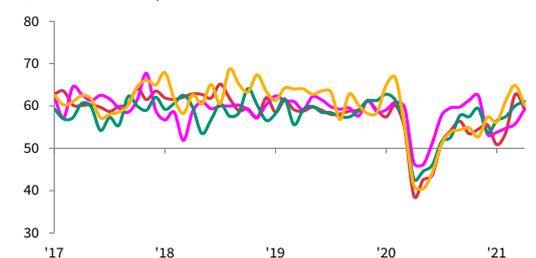
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Irish private sector output grows at fastest pace since September 2018

Composite Output Index

Last six months



Economic growth in Ireland gained notable momentum in April, as private sector output rose the most since September 2018. Moreover, a faster rise in new business led to the strongest increase in backlogs since the series began in 2002.

The Ireland Composite Output Index registered 58.1, up strongly from 54.5 in March and signalling the fastest rate of growth since September 2018. Growth was broad-based across manufacturing and services, with the rates of expansion hitting nine- and 14-month highs respectively. Manufacturing production increased at a slightly stronger rate than services output.

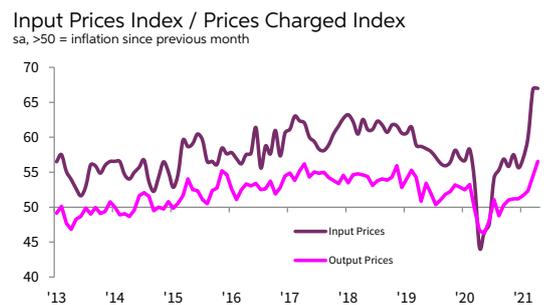
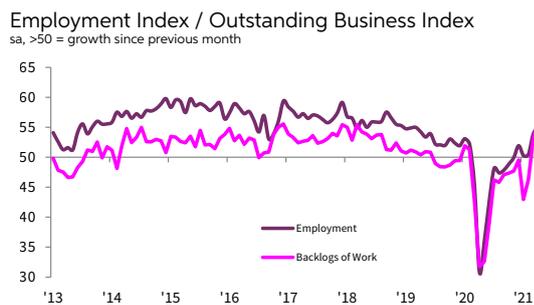
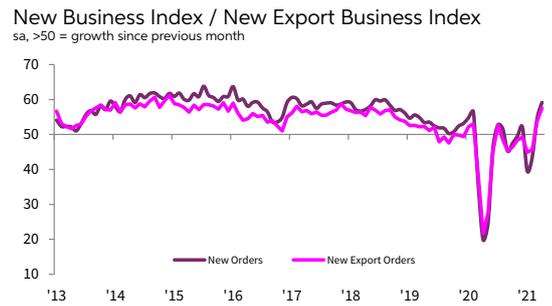
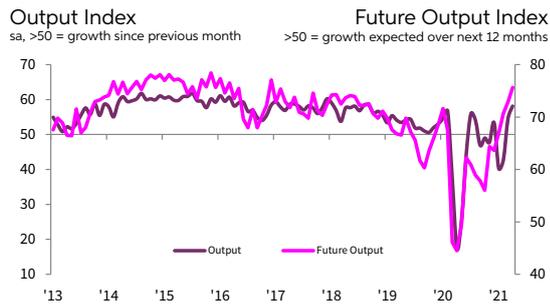
Underlying demand improved in April, with new business increasing at the strongest rate since August 2018. Moreover, the volume of incomplete business increased at a series-record pace (data on backlogs were first compiled in September 2002).

Looking ahead 12 months, firms were the most optimistic on growth since December 2016. Sentiment improved in both sectors, with manufacturing output expectations the strongest on record (since 2012).

Private sector employment rose for the fifth successive month in April, and at the fastest rate since March 2019. Hiring was notably strong in manufacturing.

Input prices rose at the fastest rate since July 2008, although there were signs of inflationary pressure peaking as the Input Prices Index rose only fractionally since March.

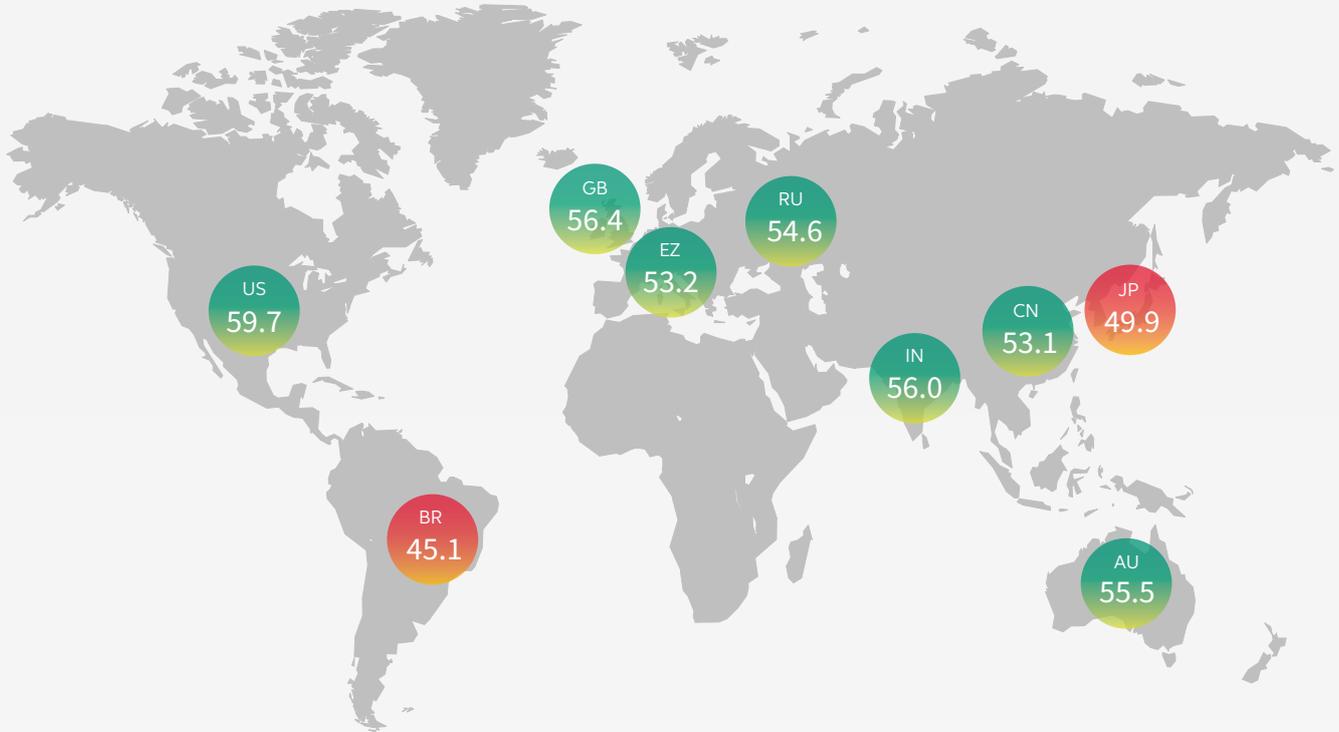
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.



International PMI

Composite Output Index, Mar '21

sa, >50 = growth since previous month



Composite Output Index

sa, >50 = growth since previous month



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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 12-27 April 2021.

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

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