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AIB Ireland Services PMI®

Irish service sector growth remains sharp in August

Key Findings

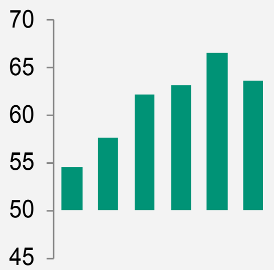
Rate of expansion in activity eases for first time in current six-month sequence of growth

Jobs growth remains strong

Inflationary pressures highest in over 20 years

Ireland Services Business Activity Index

Last six months



The latest AIB PMI® survey data signalled further rapid increases in both new and outstanding business in August. Total services output expanded at a slower rate than in July, but one that was the second-strongest since the start of 2016. Companies continued to grow capacity with another marked rise in employment, as the outlook for activity brightened further. Cost pressures continued to build, with input price inflation the highest since December 2000. This led to the sharpest rise in charges levied for services since October 2000.

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

"The AIB Irish Services PMI for August indicates that the sector continues to experience very strong growth. The business activity index was at 63.7 in August, below the previous month's reading of 66.6, although the level for August was still the second highest since January 2016. The index has now been above 60 for four consecutive months, highlighting the very sharp rebound in activity for the sector as pent-up demand continued to be released amid the easing of Covid-19 restrictions.

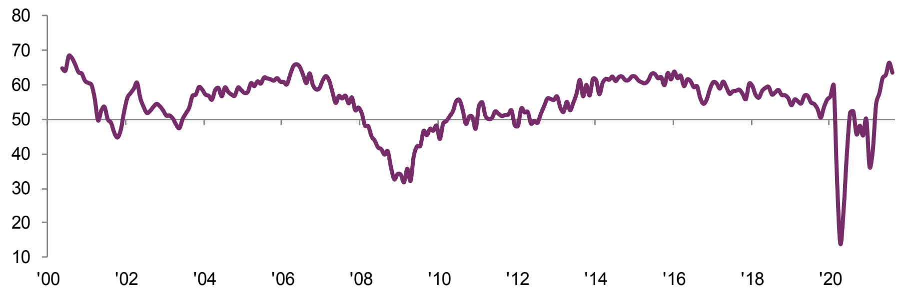
"Indeed, against this backdrop, new business rose for a sixth month running, with the rate of growth representing its third fastest in the last four-and-a-half years. There was also another solid performance from external demand. New export orders continued to expand, with part of this attributed to opportunities arising from Brexit, as well as the lifting of restrictions in other countries.

"The rebound in business activity in the services industry continued to be broad-based, with all four sub-sectors recording very solid growth in the month. The strongest growth was recorded in the Technology, Media and Telecoms sector. Continued strong inflows of new work saw another marked increase in outstanding business for the services sector. Meantime, the sector posted another sturdy rise in employment levels, for a sixth consecutive month.

"Cost pressures continue to build. Input price inflation rose to its highest level since December 2000 on a broad range of price rises. This saw prices charged to customers increase at their fastest pace since October 2000. Meanwhile, firms optimism on the 12 month outlook improved, attributed to better confidence and more 'normal' trading conditions."

Services Business Activity Index

sa, >50 = growth since previous month



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PMI® By IHS Markit

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 registered 63.7 in August, down from 66.6 in July and signalling another marked increase in Irish services output. The month-on-month rate of expansion slowed for the first time in the current six-month growth sequence, but was still the second-strongest since January 2016.

All four sub-sectors registered marked rates of expansion in August. Technology, Media & Telecoms (65.8) overtook Transport, Tourism & Leisure (63.8) as the fastest-growing area, with the latter seeing a steeper slowdown in growth than any other sector in August. That said, Transport, Tourism & Leisure continued to expand at a sharper rate than Financial Services (62.9) and Business Services (62.5).

New business rose for the sixth month running in August as pent-up demand continued to be released with the lifting of COVID restrictions. The rate of expansion slowed to a three-month low but was still the third-fastest in the past four-and-a-half years. Growth of new business slowed notably in the Transport, Tourism & Leisure sector, in a further correction from June's record expansion, though this was partly offset by a sharper rise in Business Services.

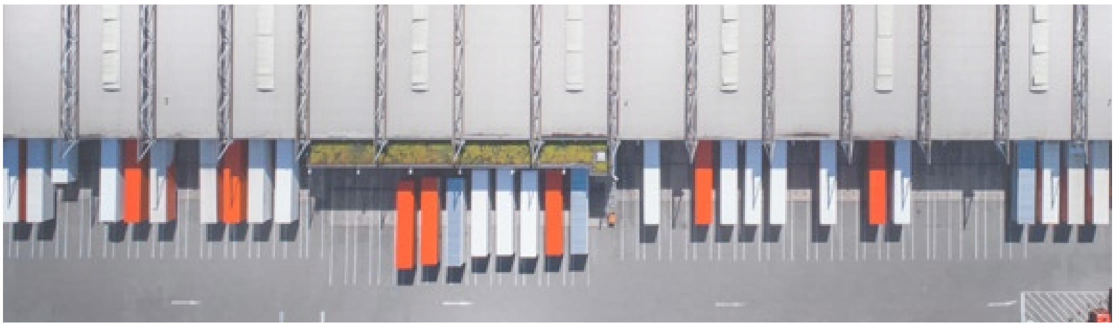
Strong inflows of incoming new work resulted in another substantial increase in outstanding business in August. Incomplete workloads at services providers rose for the sixth month running, and at a rate unchanged from July's 249-month record. The strongest increase in outstanding contracts was recorded in Business Services, and the weakest in Transport, Tourism & Leisure.

Service sector employment rose for the sixth month running in August as firms sought to boost capacity to meet demand. The rate of job creation eased in line with the trend seen for new business and total activity, but remained strong overall and well above the long-run survey average. Jobs growth was fastest in Technology, Media & Telecoms and weakest in Financial Services.

Cost pressures in the Irish service sector continued to grow in August. Input price inflation accelerated for the fourth month running to the highest since December 2000. Anecdotal evidence from survey respondents linked higher costs to salaries, fuel, Brexit, travel, insurance premiums and freight charges. The Transport, Tourism & Leisure sector continued to see the strongest cost inflation.

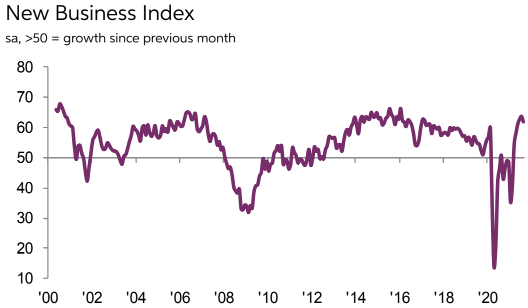
Service providers continued to pass on higher costs to customers in August, as charges rose for the sixth month running. Moreover, the rate of inflation was the highest since October 2000.

The 12-month outlook for business activity in the Irish services economy improved in August. Around 58% of firms expect higher activity by August 2022, linked to returning confidence and more 'normal' trading conditions with the full removal of COVID restrictions.



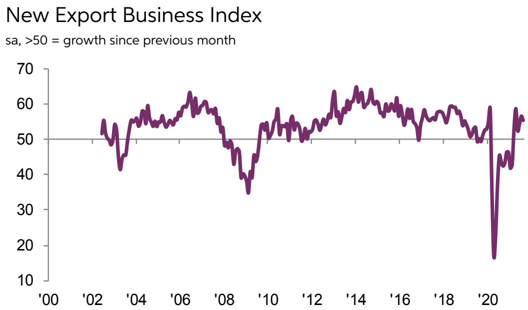
New Business Index

New business at Irish service providers rose for the sixth consecutive month in August. The rate of expansion remained marked, but eased for the first time in the current growth sequence to a three-month low. There was a notable slowdown in growth of new business in the Transport, Tourism & Leisure sector in a further correction from June's record expansion. In contrast demand for business services accelerated since July.

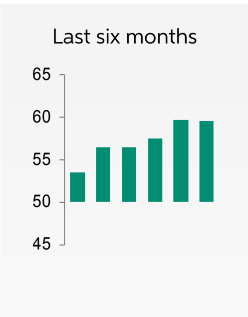


New Export Business Index

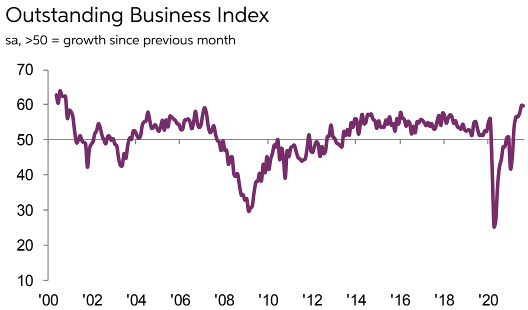
New business from export markets continued to expand in August, extending the current growth sequence to six months. Firms partly linked international demand to business opportunities arising from Brexit, and also the easing of restrictions. The rate of growth in exports eased since July, but remained stronger than the long-run series average.



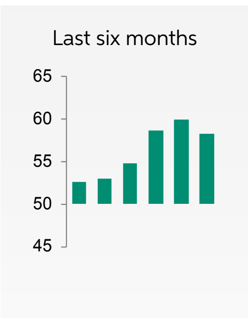
Outstanding Business Index



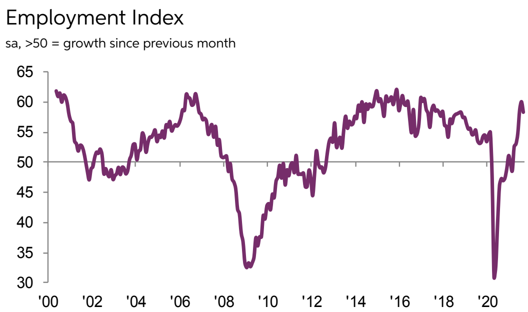
August survey data signalled a further build-up in outstanding business in the Irish services economy. The rate of expansion in incomplete work was unchanged on July's more than 20-year high, despite the slight moderation in growth of new business. By sub-sector, stronger growth in backlogged work in Business Services and Transport, Tourism & Leisure was offset by slower increases in Financial Services and Technology, Media & Telecoms.



Employment Index



Service providers continued to expand workforces to support rising workloads in August. Employment in the sector rose for the sixth month running, and the rate of job creation remained strong despite easing for the first time in the current sequence. The seasonally adjusted Employment Index remained well above its long-run trend level of 52.7. Jobs growth was strongest in Technology, Media & Telecoms and weakest in Financial Services.



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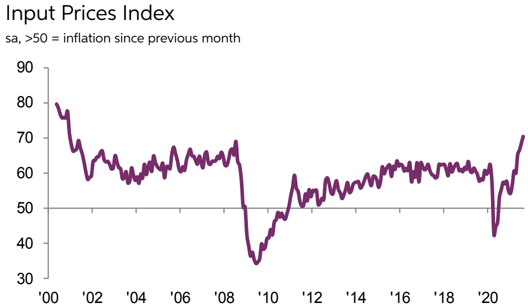
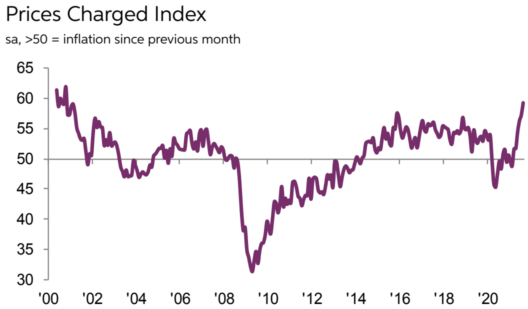
Input Prices Index

Cost pressures continued to build in August, as input prices rose for the fourteenth successive month. Moreover, the rate of inflation accelerated for the sixth time in seven months to the fastest since December 2000. Higher costs were linked to salaries, fuel, Brexit, travel, insurance premiums and freight charges. The Transport, Tourism & Leisure sector continued to see the strongest cost inflation, followed by Technology, Media & Telecoms.



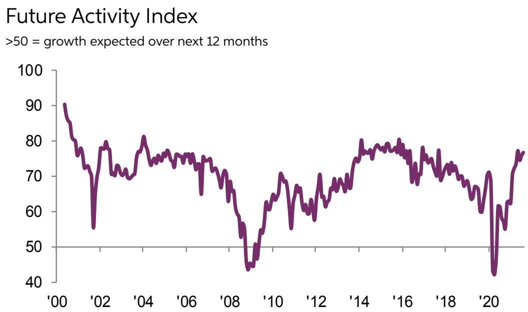
Prices Charged Index

Service providers continued to pass on greater cost burdens to clients in August. Average charges rose for the sixth consecutive month, and at the fastest rate since October 2000. The Transport, Tourism & Leisure sector continued to see the strongest charge inflation, followed by Business Services.



Future Activity Index

The 12-month outlook for services activity improved further in August, with the Future Activity Index rising for the sixth time in seven months to the second-highest since September 2017. Around 58% of firms expect higher activity by August 2022, linked to returning confidence and more 'normal' trading conditions with the full removal of COVID restrictions. Business expectations were strongest in the Technology, Media & Telecoms and Financial Services sub-sectors.



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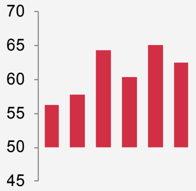
Services Sub-sectors

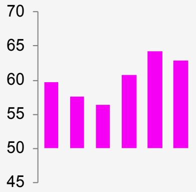
Business Activity Index

Last six months

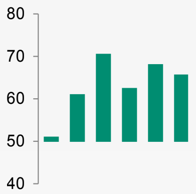
Business Services



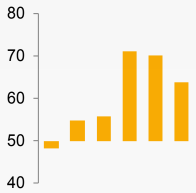
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Growth of activity at business service providers continued to rise sharply in August, albeit at a slower rate that was the weakest among the four sub-sectors. New business increased at the fastest rate in over five-and-a-half years, however, resulting in a near-record rise in outstanding work. Employment growth remained sharp despite easing since July. Charges rose the most since May 2000, the first month of data collection.

Financial Services

Financial Services registered another marked increase in activity in August, albeit a slower rate of expansion. New business growth reached an 18-month high, however, and incomplete work continued to rise sharply. Employment growth was solid, albeit the weakest among the four sub-sectors. Financial Services continued to see the weakest inflationary pressures among the four monitored areas.

Technology, Media & Telecoms

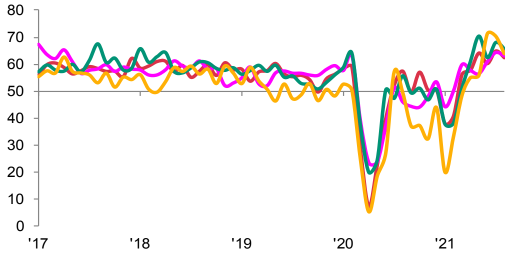
The Technology, Media & Telecoms sector registered the strongest rise in activity of all four sectors in August, despite a slight moderation in growth since July. The sector also remained the most optimistic on future growth, and continued to post the steepest gain in employment. Average input prices increased at sharper rate in August, leading to a record rate of charge inflation.

Transport, Tourism & Leisure

Business activity in the Transport, Tourism & Leisure sub-sector continued to rise sharply in August. The rate of growth slowed the most among the four sectors since July, however, as growth of new business continued to correct from June's record high. Firms in the sector were also the least optimistic on growth among all four sectors. The TTL sector registered the strongest inflationary pressures in August.

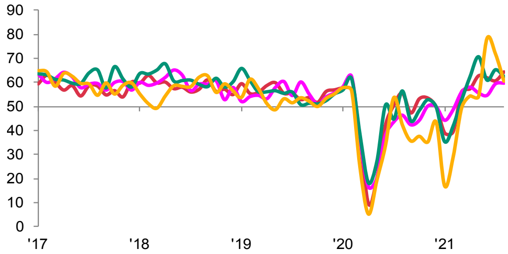
Business Activity Index

sa, >50 = growth since previous month



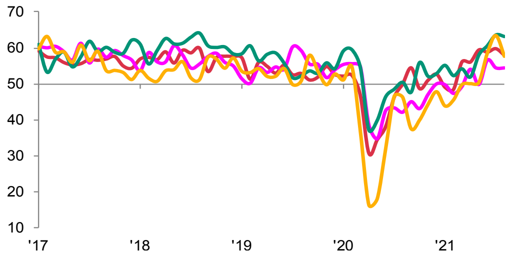
New Business Index

sa, >50 = growth since previous month



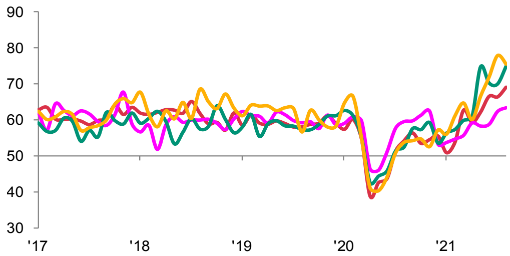
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month



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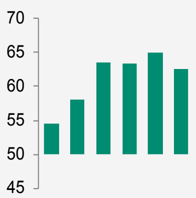
AIB Ireland Composite PMI®

Composite Output Index

Last six months



Backlogs rise at record rate in August despite further marked growth in output

Irish private sector output increased at one of the fastest rates in the 21-year series history in August, but this was insufficient to prevent a record expansion in outstanding business. Cost pressures remained severe, leading to a further round of charge inflation.

The Ireland Composite Output Index signalling a sixth consecutive month-on-month increase in activity in August. At 62.6, down from July's record high of 65.0, the latest figure indicated the slowest expansion in four months, but one that was still the fifth-highest since the series began in 2000.

The overall slowdown in growth was reflected in both the manufacturing and service sectors, with the latter continuing to record the stronger expansion.

New business rose at the slowest rate in four months, albeit one that remained among the fastest on record. Similar rates of expansion were seen across manufacturing and services.

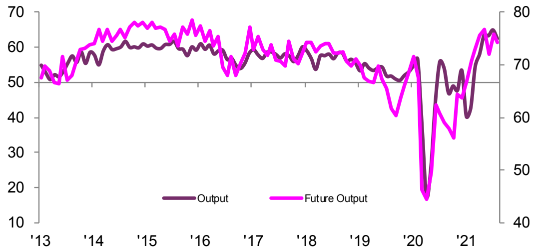
The volume of outstanding business increased at an unprecedented rate in August, confirming the underlying strength of demand. Companies responded by increasing employment at a marked rate, albeit one slightly weaker than in June and July.

Input price inflation eased to a three-month low in August but remained elevated, resulting in charge inflation holding close to July's record high.

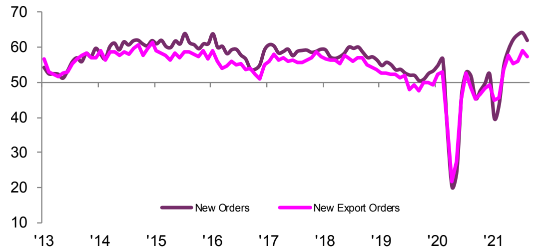
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services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

Output Index
sa, >50 = growth since previous month

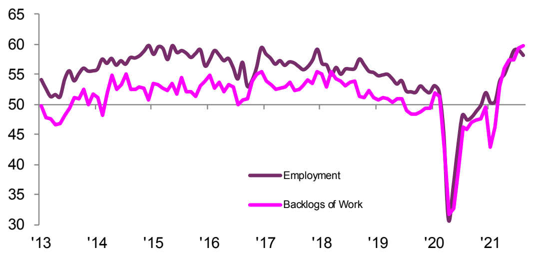
Future Output Index
>50 = growth expected over next 12 months



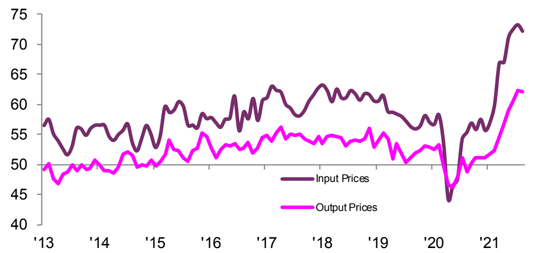
New Business Index / New Export Business Index
sa, >50 = growth since previous month



Employment Index / Outstanding Business Index
sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



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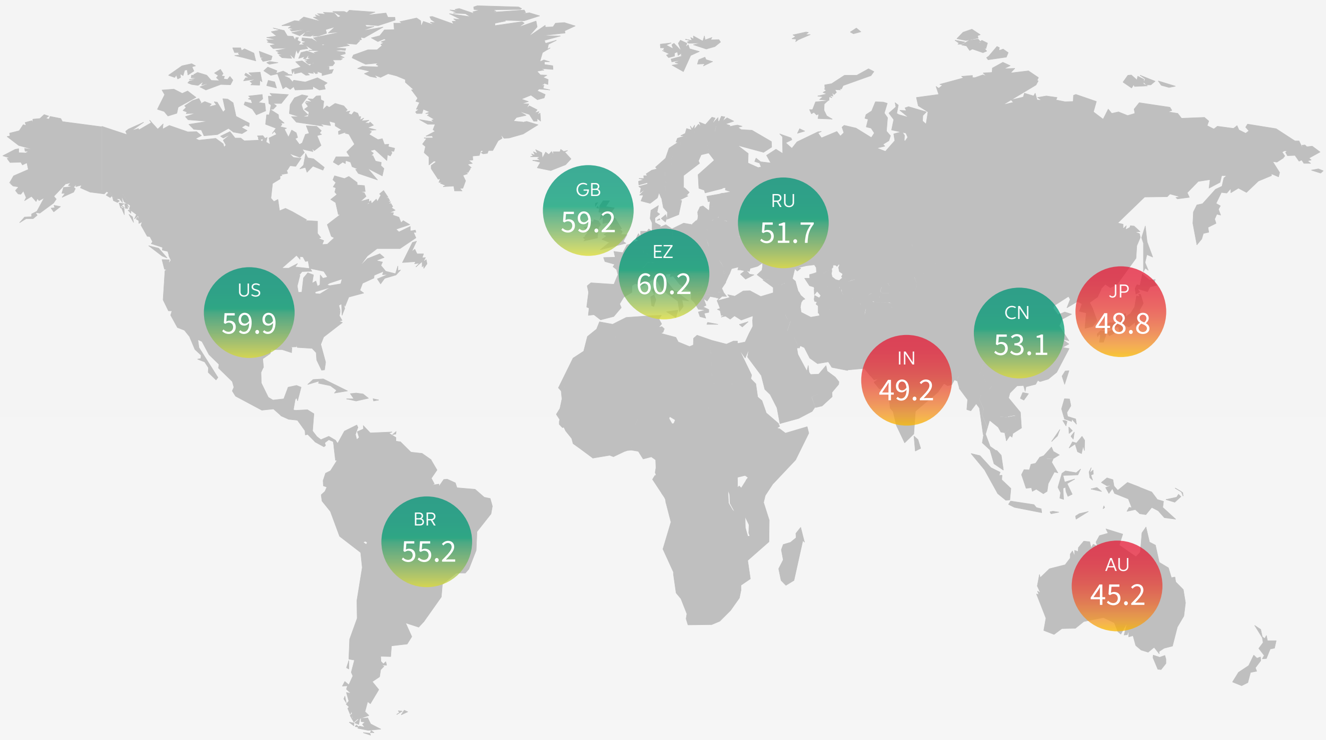
International PMI

Composite Output Index, Jul '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 12-25 August 2021.

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

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