

AIB Ireland Services 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

Ireland Services Business Activity Index



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.

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

"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."

Services Business Activity Index
sa, >50 = growth since previous month



Overview

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 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.

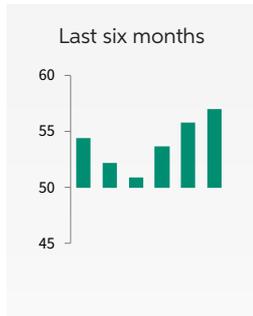
The greater build-up in outstanding work occurred despite a stronger rise in employment. The rate of job creation at service providers was faster than the long-run survey trend, but remained weaker than the average over the current sequence of workforce growth that began in September 2012. Gains in staffing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



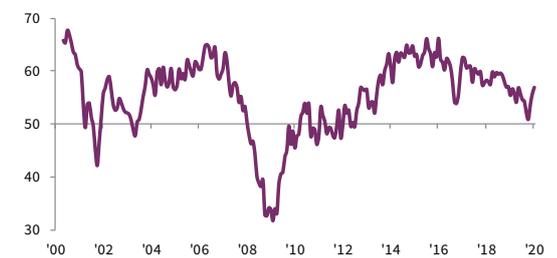
New Business Index



The rate of growth in new business received by Irish service providers accelerated further from last October's marginal pace at the start of 2020. The seasonally adjusted New Business Index rose for the third successive month to a 13-month peak, and was above its long-run trend level of 55.4. Firms reported an uplift in new enquiries and customers during the month.

New Business Index

sa, >50 = growth since previous month



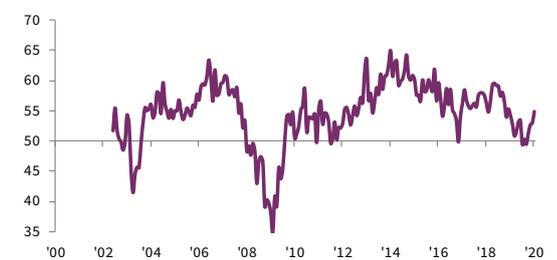
New Export Business Index



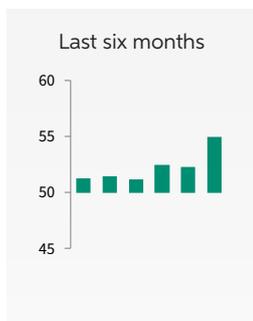
The seasonally adjusted New Export Business Index rose for the fourth successive month in January, following a series of readings close to the neutral mark of 50.0 during the third quarter of 2019. The latest figure signalled the strongest growth in international business since December 2018. A number of firms mentioned stronger UK business following the removal of Brexit uncertainty.

New Export Business Index

sa, >50 = growth since previous month



Outstanding Business Index

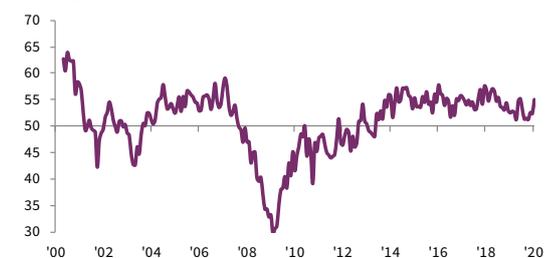


January data signalled a greater build-up of outstanding business at Irish service providers. The rate of growth was the fastest since last June, and the second-strongest since July 2018.

Firms linked higher backlogs to improving demand at the start of 2020.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



There was a solid rise in service sector employment in Ireland in January, linked by survey respondents to new business.

The seasonally adjusted Employment Index was in line with the annual trend registered for 2019, although this was below those registered each year between 2013 and 2018.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



Average input prices at Irish service providers continued to rise in January. The rate of inflation was strong overall, accelerated slightly since December and was above the long-run survey average.

Labour costs and fuel were the main reported sources of cost pressures at the start of 2020.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Service providers continued to increase their prices charged in January. The rate of inflation remained historically strong, despite easing for the second month running. Firms mainly linked higher charges to increased costs.

Prices Charged Index

sa, >50 = inflation since previous month



Future Activity Index



Sentiment in the Irish services economy continued to rebound from September's multi-year low at the start of 2020. The Future Activity Index rose for the fourth month running to the highest since July 2018, and was also above its long-run trend level of 70.1.

Firms widely linked positive forecasts for activity to the removal of Brexit uncertainty following the UK General Election in December.

Future Activity Index

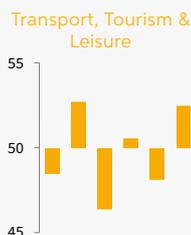
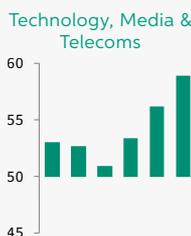
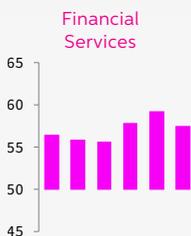
>50 = growth expected over next 12 months



Services Sub-sectors

Business Activity Index

Last six months



Business Services

Providers of business services reported the strongest rise in activity since last May. Concurrently, new business growth was at an eight-month high, although this was driven by domestic demand as new export business rose only slightly. Employment growth was weaker than the trend for the service sector as a whole, and business services had the weakest sentiment of the four monitored sub-sectors.

Financial Services

Growth of financial services activity in Ireland eased from December's 16-month high, but remained marked overall.

The rate of new business growth accelerated further, however, and was the strongest of the four monitored sub-sectors. There was a notably marked increase in new international business.

Technology, Media & Telecoms

The Technology, Media & Telecoms (TMT) sector registered the fastest growth in output since last May at the start of 2020, and the strongest expansion of the four sub-sectors. Concurrently, the sector also topped the employment growth rankings.

New work rose at the fastest rate in 11 months, although at the slowest rate of the four sub-sectors.

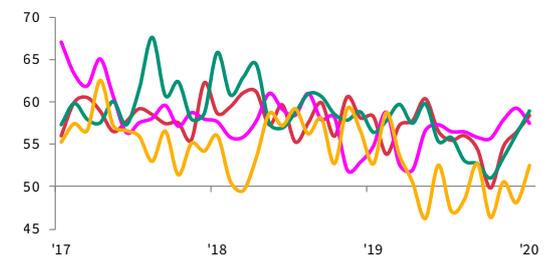
Transport, Tourism & Leisure

The Transport, Tourism & Leisure sector posted a renewed increase in activity in January, but growth remained weaker than the other areas of the services economy. It registered the slowest rise in employment of the four sub-sectors.

Transport, Tourism & Leisure also recorded the steepest rates of input price and charge inflation, which hit 14- and 11-month highs respectively.

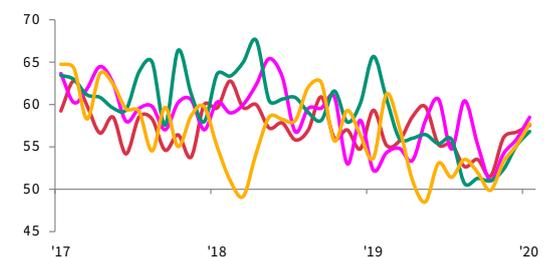
Business Activity Index

sa, >50 = growth since previous month



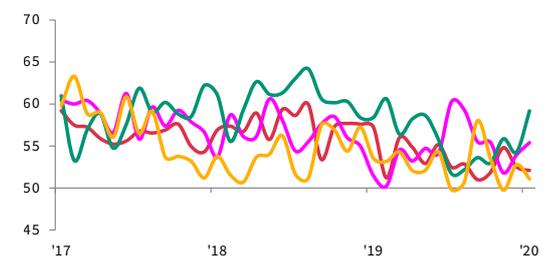
New Business Index

sa, >50 = growth since previous month



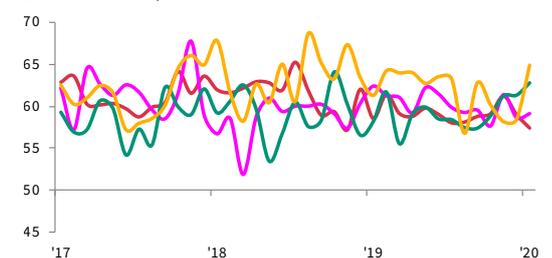
Employment Index

sa, >50 = growth since previous month



Input Prices Index

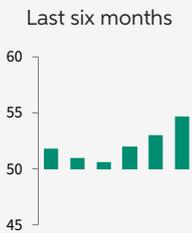
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Private sector output growth continues to build momentum in January

Composite Output Index



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.

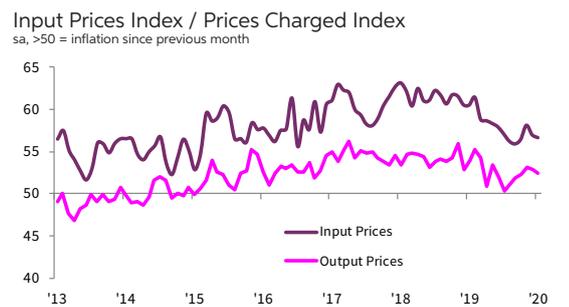
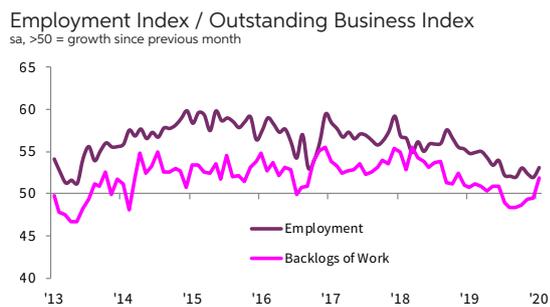
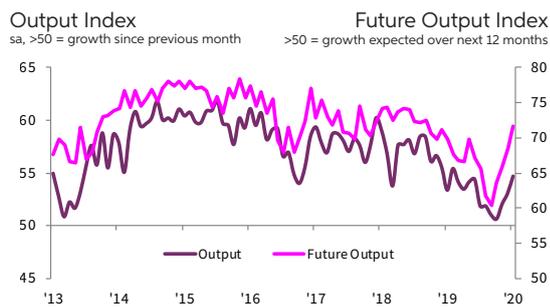
Export demand was boosted by the removal of

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.

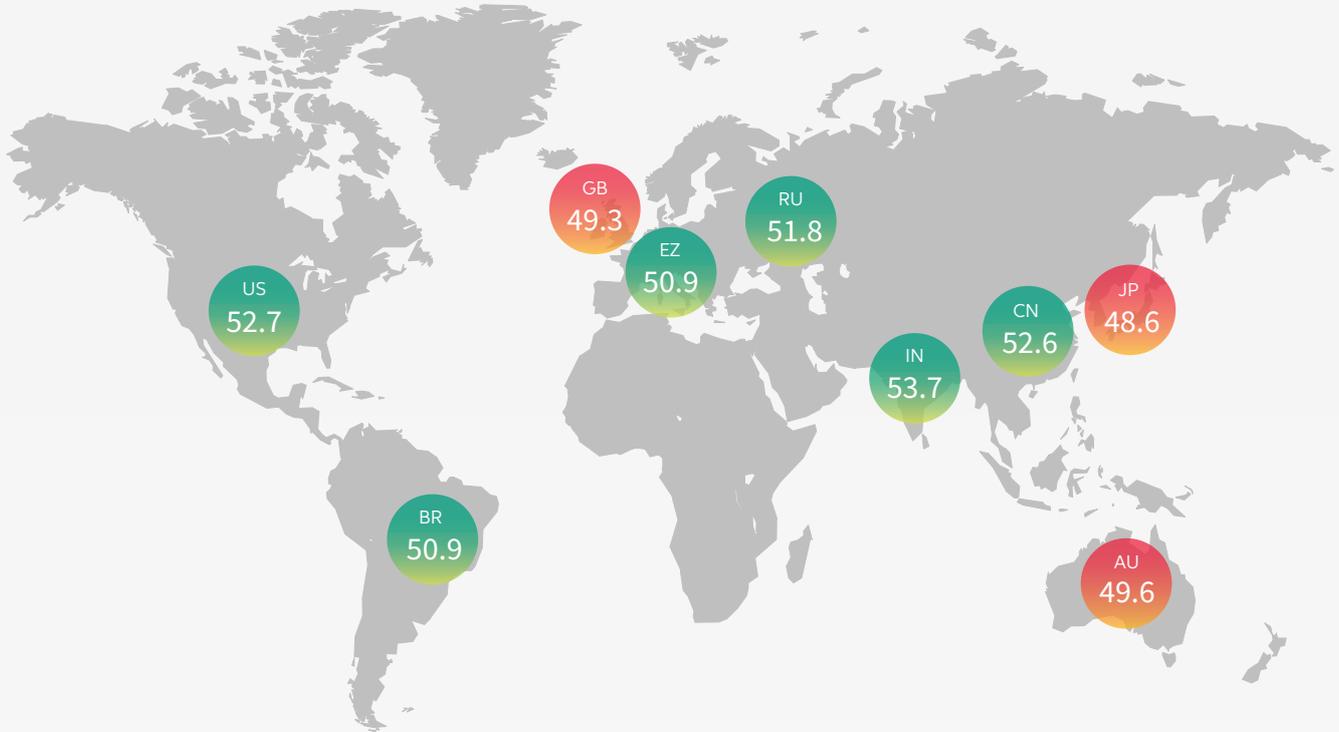
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services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



International PMI

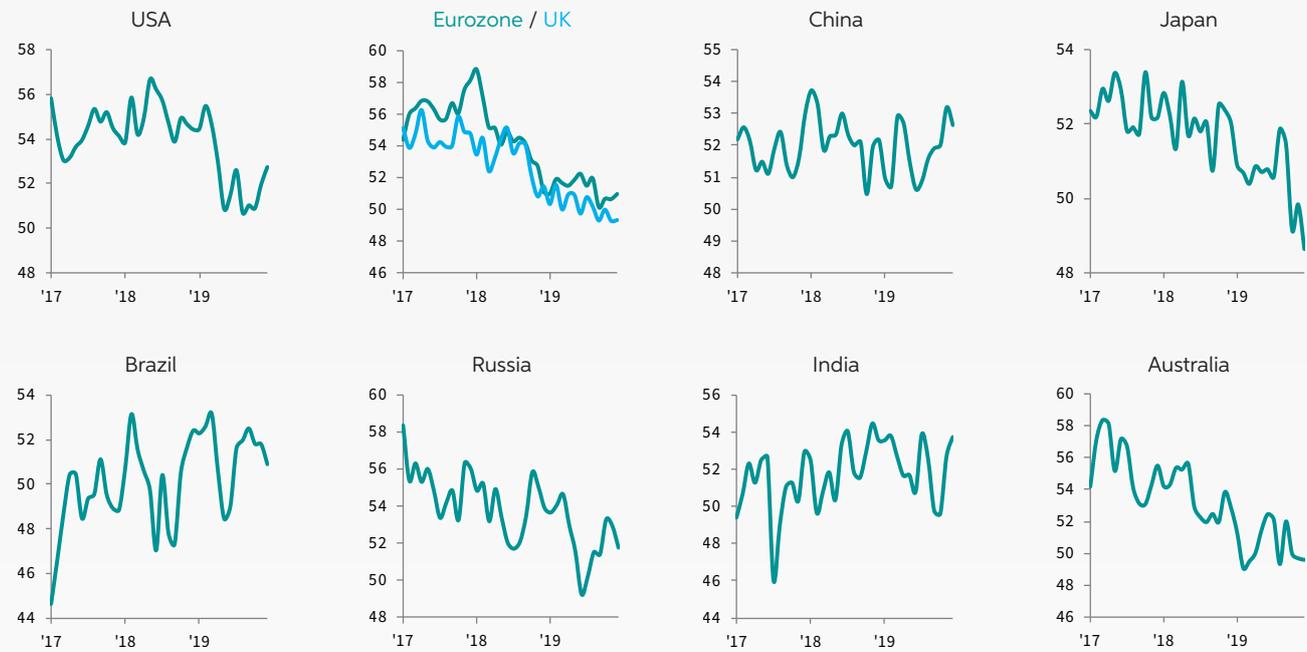
Composite Output Index, Dec '19

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.

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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