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AIB Ireland Services PMI®

Stronger service sector growth at start of 2023

Key Findings

Activity and new business increase at faster rates

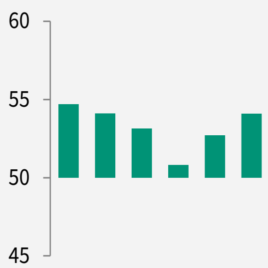
Sentiment strengthens to 11-month high

Sustained easing in inflationary pressures

Ireland Services Business Activity Index

JAN
54.1
DEC: 52.7

Last six months



Ireland's service sector started 2023 in a relatively positive fashion, according to the latest AIB PMI® survey data. Expansions in activity and new business were the fastest in four and three months, respectively, and accompanied by a further increase in staffing numbers. Other positive news came from a sustained easing in cost pressure with rates of input price and output charge inflation easing to 19- and 16-month lows, respectively. Overall business sentiment also brightened as firms were hopeful that the current market trajectory would continue.

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

"The AIB Irish Services PMI for January showed faster growth in activity for the sector in a strong start to 2023. The Business Activity Index rose for the second month running, climbing to 54.1 from 52.7 in December and 50.8 in November. By contrast, the flash Services PMIs for the UK and US remained well into contraction territory in January at 48.0 and 46.6, respectively, with the index for the Eurozone standing at a subdued 50.7.

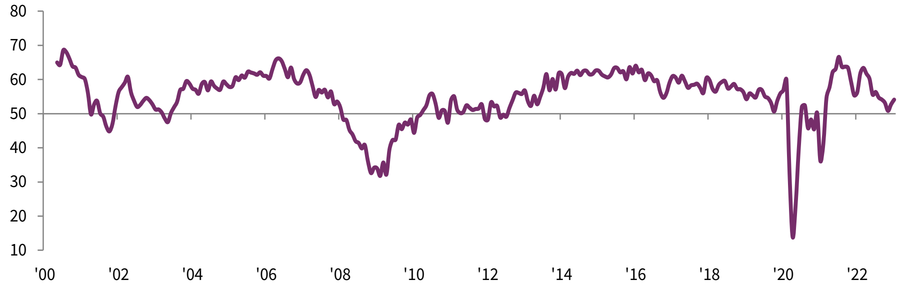
"There was a marked pick up in new business volumes here in January, including in new export business, reflecting an improvement in demand. This resulted in a significant increase in backlogs of outstanding business, with signs of growing capacity constraints. There was a further rise in employment, but at a modest pace, amid indications of tightness in the labour market. Meanwhile, firms' confidence about the outlook for the next 12 months rose to its highest level since last February.

"As has been the case for the past six months, the Services PMI in January continued to be weighed down by a very weak performance in the Transport/Tourism/Leisure sector. It registered a very low reading of 40.1 for business activity. By contrast, the other three sectors covered in the survey expanded strongly in the month.

"Meanwhile, inflationary pressures in the services sector, while still strong, eased further in January. Businesses continued to report upward pressure on wages and energy costs, but the rate of increase in input prices fell to a 19-month low. Higher costs are still being passed on to customers, but the rate of increase in selling prices eased to its lowest level in 16 months."

Services Business Activity Index

sa, >50 = growth since previous month



PMI® by S&P Global

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.

At 54.1 in January, up from 52.7 at the end of last year, the latest Services Business Activity Index reading was indicative of a further expansion in service sector output that was the twenty-third in as many months. Notably, growth was solid overall and the strongest since last September. By sector, growth in three of the four monitored industries offset a contraction in Transport, Tourism & Leisure. The Technology, Media, and Telecoms sub-sector topped the growth rankings for the third month in a row.

Faster growth in activity was largely linked to a similar sized increase in new business. In fact, volumes of new business expanded at a strong pace that was the fastest in three months. Anecdotal evidence from panellists indicated that they had seen an improvement in underlying demand conditions and an increase in the number of new projects being undertaken. Demand from overseas also increased at the start of the year and at a moderate rate overall.

Against a backdrop of higher activity and increased orders, Irish service sector firms added to their workforces in January. That said, the rate of job creation was the second-weakest in the current 23-month positive sequence amid reports of voluntary leavers and talent shortages.

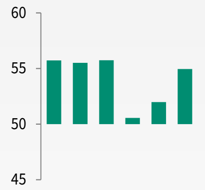
Spare capacity across Ireland's service sector remained evident during January, as signalled by a further accumulation in backlogged work. Growth in outstanding orders was solid and reportedly reflective of strong demand growth. Staff shortages also contributed to the latest accumulation, said survey respondents.

Irish service providers became more optimistic about their future in January and registered the strongest degree of confidence since last February. That said, it remained below its historical average. Firms that were more positive about their future cited hopes for better market conditions and stronger demand. Other firms mentioned concern about the long-lasting effects of the current global economic downturn.

January survey data was indicative of a sustained easing in cost pressures across Ireland's service sector. Average cost burdens faced by Irish service providers increased at the weakest pace in 19 months while firms raised their selling prices at a rate the least pronounced in 16 months. When listing the key sources of cost pressures, survey participants mentioned higher energy prices and increasing staff costs. As such, firms reportedly continued to partly pass on increasing operating expenses to their clients in the form of higher selling prices.

New Business Index

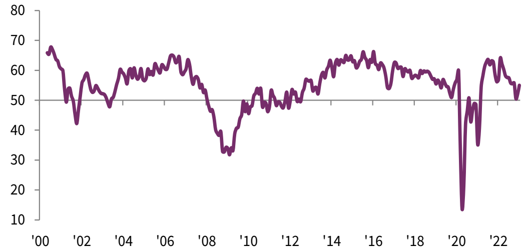
Last six months



Once again, the seasonally adjusted New Business Index posted above the neutral 50.0 threshold at the start of 2023, thereby stretching the current sequence of expansion to just short of two years. Notably, the rate of growth picked up from December and was the strongest since last October. Higher volumes of new business reportedly reflected stronger demand conditions and the undertaking of new projects. Growth in new business was apparent across three of the four sub-sectors. The strongest was seen in Technology, Media & Telecoms. Transport, Tourism & Leisure bucked the wider trend.

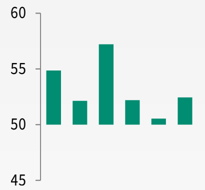
New Business Index

sa, >50 = growth since previous month



New Export Business Index

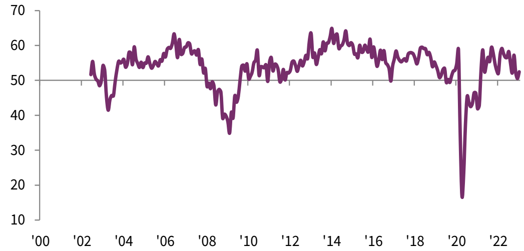
Last six months



As has been the case since March 2021, foreign demand for Irish services increased in January. The upturn, though weaker than the average over the current sequence of expansion, was the strongest since last October. Anecdotal evidence suggested that demand in some of Ireland's key export markets had improved, particularly in Europe. The increase was broad-based across all four sectors.

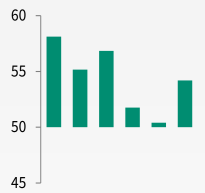
New Export Business Index

sa, >50 = growth since previous month



Outstanding Business Index

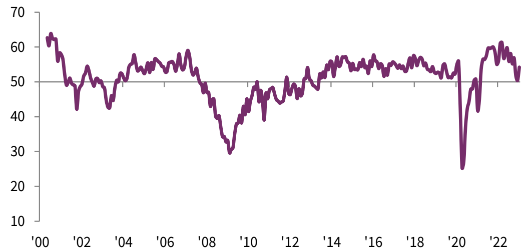
Last six months



Irish service providers registered a twenty-third consecutive month of growth in levels of outstanding work in January. An upsurge in demand was noted by survey participants as a key contributor to the rise in backlogged work. Notably, the latest accumulation was strong overall and the sharpest in three months. All four sectors registered growth in outstanding orders with the strongest seen at Technology, Media & Telecoms firms.

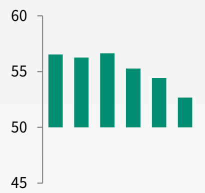
Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

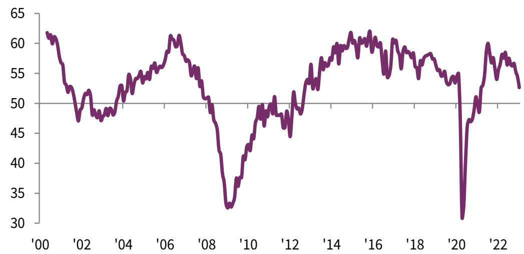
Last six months



January data marked another monthly expansion in staffing numbers across Ireland's service sector. Where an increase was reported, this was linked to company efforts to boost activity over the coming months. The rate of job creation, however, was softer than the long-run survey average and the second-weakest in the current 23-month positive sequence. Employment grew in three of the four monitored sectors and was broadly flat at Financial Services companies.

Employment Index

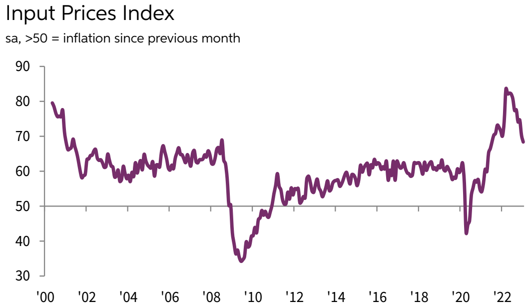
sa, >50 = growth since previous month



Input Prices Index

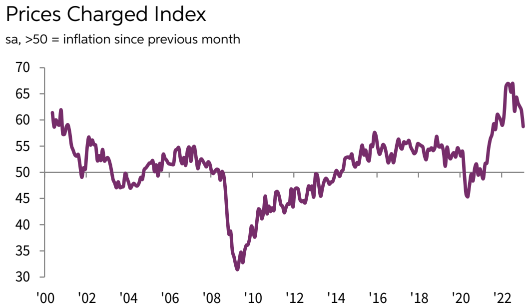
Average operating expenses at Irish services firms rose further at the start of 2023. Companies linked the uptick to increasing wage costs, higher energy prices, and general inflation across the board. The overall rate of inflation remained historically sharp, despite easing to a 19-month low.

Business Services faced the most pronounced rates of inflation while Technology, Media & Telecoms experienced the least.



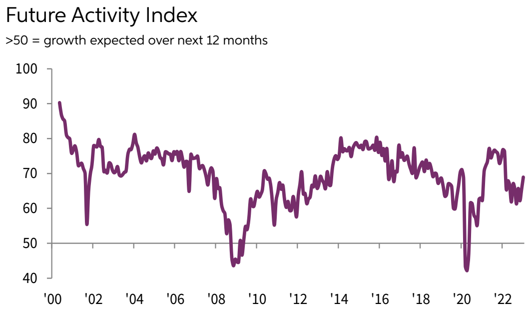
Prices Charged Index

There was another monthly increase in charges levied by Irish service providers during January, thereby stretching the current sequence of inflation to just short of two years. Anecdotal evidence suggested that firms raised their selling prices in line with higher input cost burdens. That said, the rate of output charge inflation was the weakest in 16 months. By sector, Technology, Media & Telecoms firms hiked prices at the fastest rate.



Future Activity Index

Irish service providers remained upbeat towards growth prospects over the coming year and registered the strongest degree of confidence in 11 months. Reportedly, hopes were centred around stronger demand, development plans and a general improvement in market conditions. That said, the respective index continued to post below its historical average amid ongoing concerns about the longevity of the current global economic slowdown.

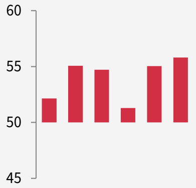


Services Sub-sectors

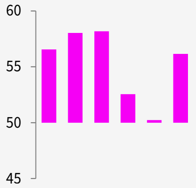
Business Activity Index

Last six months

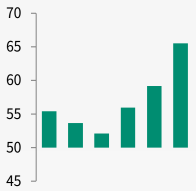
Business Services



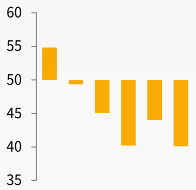
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Activity in the Business Services sector increased further in January and at the sharpest pace in nine months. New work expanded at a solid pace and firms subsequently added to their workforces for the twenty-third month in a row. Average cost burdens rose at the strongest pace of the four sectors and at a faster rate than in December. Meanwhile, firms raised their selling prices at weakest pace in five months.

Financial Services

Activity at Financial Services firms expanded at the start of 2023 and at a significantly stronger rate than in December. There was fresh and marked growth in incoming business. Levels of outstanding business increased at a historically sharp pace but staffing numbers declined for the first time since May 2021, albeit fractionally. Rates of input cost and output price inflation slowed notably from December, and both eased to 12-month lows.

Technology, Media & Telecoms

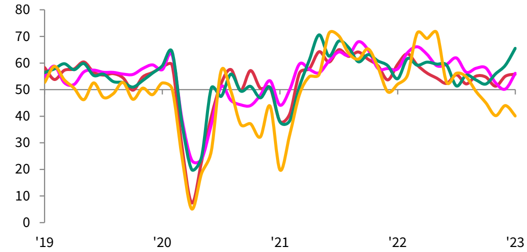
Activity levels at Technology, Media & Telecoms firms remained firmly in expansion territory in January and topped the sector growing rankings for the third month in a row. New business increased markedly. Employment and backlogged work increased significantly in January and business sentiment strengthened to a 13-month high. Input price inflation slowed but selling price inflation accelerated.

Transport, Tourism & Leisure

Firms within the Transport, Tourism & Leisure sector registered a fifth successive month of declining activity. Moreover, the rate of reduction was steep and the sharpest in almost two years. New business fell for the third time in as many months, albeit marginally. More positively, employment levels grew solidly, and sentiment strengthened to an 11-month high. In terms of prices, cost burdens increased at an accelerated pace while the rate of output price inflation eased to a 20-month low.

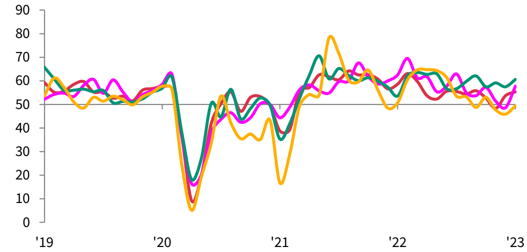
Business Activity Index

sa, >50 = growth since previous month



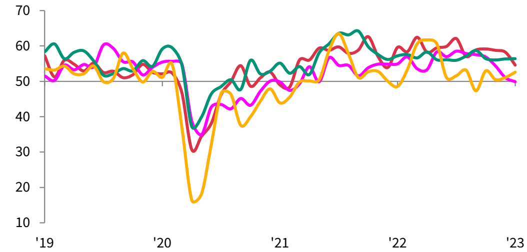
New Business Index

sa, >50 = growth since previous month



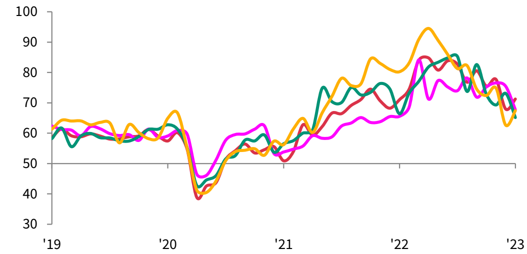
Employment Index

sa, >50 = growth since previous month



Input Prices Index

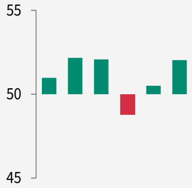
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Service sector expansion continues to offset manufacturing contraction

Irish private sector output increased for the second successive month at the start of 2023, amid stronger growth of services activity and a softer decline in manufacturing production. The AIB Ireland Composite PMI® Output Index* rose to 52.0 in January, up from 50.5 in December and the strongest reading since last October.

A similar picture was painted in terms of demand across the private sector. Service providers registered a strong increase in new business while the reduction in factory orders was the softest in the current eight-month downturn.

In terms of employment levels, the increase was broad-based across the manufacturing and service economies with the rates of job creation at each broadly matching one another. The same cannot be said for backlogged work. While service providers registered a faster accumulation in backlogs, their manufacturing counterparts recorded the steepest reduction since June 2020.

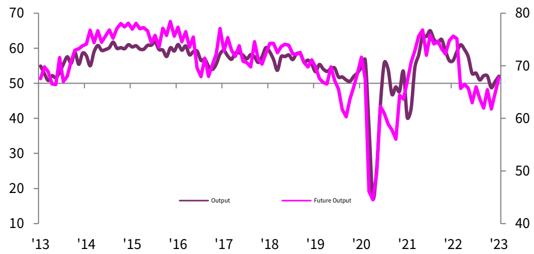
Inflationary pressures eased across the private sector. Rates of cost and charge inflation dipped to 23- and 20-month lows, respectively.

Looking to the future, sentiment across the private sector was the strongest in 11 months with optimism improving for both service providers and manufacturing firms.

*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.

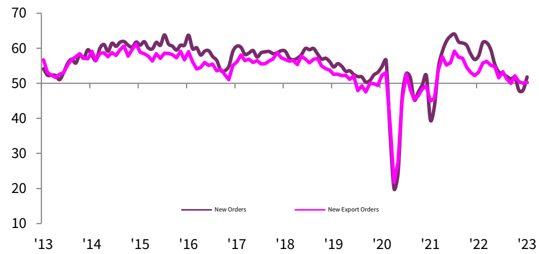
Output Index | Future Output Index

sa, >50 = growth since previous month | >50 = growth expected over next 12 months



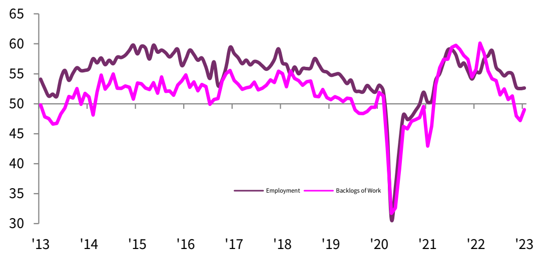
New Business Index / New Export Business Index

sa, >50 = growth since previous month



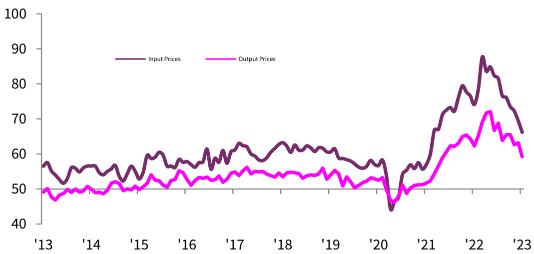
Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index

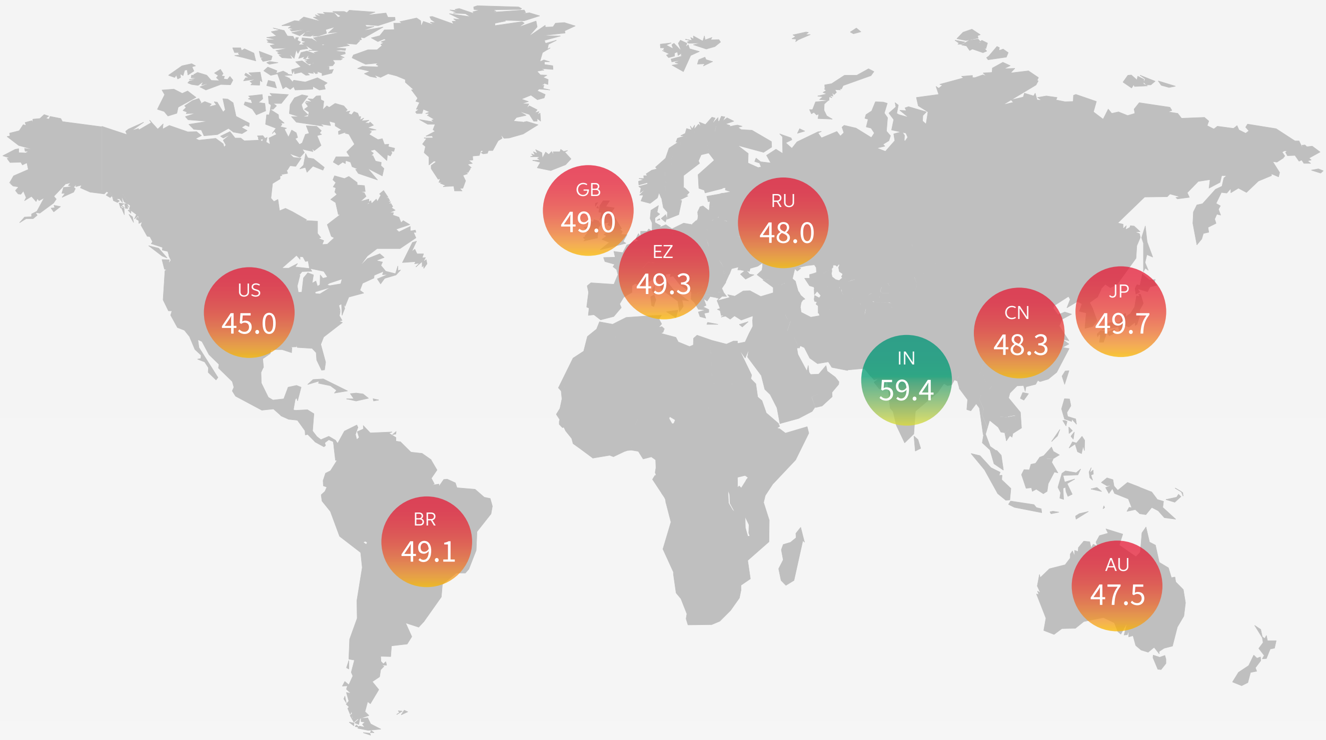
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Dec '22

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 S&P Global 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 12-26 January 2023.

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

About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. https://ihsmarkit.com/products/pmi.html