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AIB Ireland Services PMI®

Irish service sector activity expands in July, but outlook stalls

Key Findings

First rise in overall business activity since February

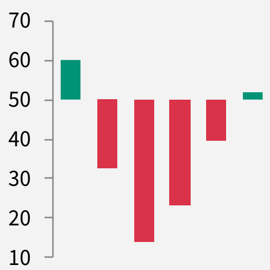
But growth only modest as new work declines further

Expectations for activity remain positive, but momentum stalls

Ireland Services Business Activity Index

JUL
51.9
JUN: 39.7

Last six months



Total service sector activity grew for the first time since the economy was locked down in late February to contain the COVID-19 outbreak, according to the July PMI® data from AIB. That said, the rate of expansion was only modest, as the volume of incoming new sales fell further and firms supported workloads by completing outstanding business. Employment continued to decline, and firms' expectations for activity stalled following June's rebound.

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

"With the economy having largely reopened by July, the AIB Irish Services PMI for the month moved back above 50 into expansion territory for the first time since February. The business activity index rose strongly to 51.9 from 39.7 in June and 23.4 in May. While this is a very welcome development, it is still a relatively low reading for the Irish Services PMI - the index stood at 59.9 as recently as February, indicating that the sector is still far from being back to normal.

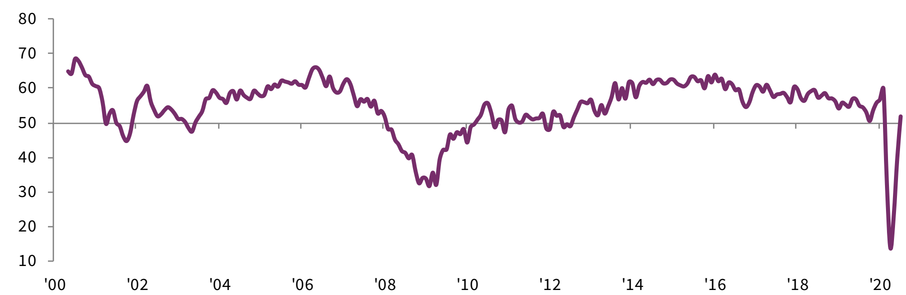
"Indeed, the July reading for Ireland continued to lag elsewhere in Europe, with the flash Services PMIs for the Eurozone and UK coming in at 55.1 and 56.6, respectively. This reflects the much more cautious approach of the Irish authorities to lifting lockdown restrictions compared to elsewhere, where businesses have been reopened for a longer time.

"The sub-components of the survey also show that the recovery in activity still has some way to go. New orders remained at subdued levels, while backlogs continued to decline. With demand still soft and spare capacity rising, firms continued to cut their workforces, with employment in the sector contracting for a fifth consecutive month.

"Not surprisingly, at a sector level, the biggest improvement was recorded in Transport/Tourism/Leisure which had seen the largest declines in recent months, while both business and financial services also saw activity expand. The 12-month outlook for the services sector remained positive, although it failed to add to the strong rise recorded in June. Overall, the July services report shows activity is picking up momentum, but at a cautious pace."

Services Business Activity Index

sa, >50 = growth since previous month



PMI® By IHS Markit

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 posted another steep rise in July, from 39.7 in June to 51.9. The month-on-month increase in the headline figure was less than June's record 16.3 points, but took it above the crucial 50.0 no-change mark which divides expansion from contraction for the first time since February.

That said, the rate of growth signalled was modest, and below the pre-crisis trend. Discounting the four-month downturn from March to June, July's Index reading was the second-lowest since August 2012. It was also well below the long-run survey average of 55.0 since May 2000.

Three out of four sub-sectors registered growth of total activity in July. The strongest expansion was in Transport, Tourism & Leisure, which had previously seen the strongest declines in each of the previous four months. Conversely, the Technology, Media & Telecoms sector recorded a decline in activity in July, having been the only sector to post an increase in June. Meanwhile, activity rose only modestly in Financial Services and Business Services.

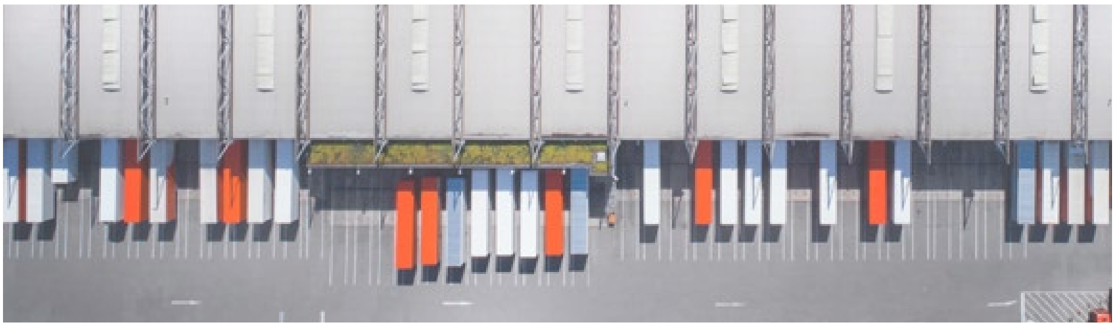
The modest expansion in total service sector activity reflected a lack of incoming new work. New business declined for the fifth month running, albeit at the slowest rate in this sequence. Consequently, total output rose due to a further reduction in outstanding business. That said, backlogs also declined at the slowest rate in the current five-month sequence.

With demand continuing to weaken and amid further indications of spare capacity, service providers cut workforces for the fifth month running in July. The rate of job shedding was strong in the context of historic survey data, but the slowest since March. Sub-sector data signalled that all four monitored areas recorded further reductions in July. The strongest decline in jobs in July was in Financial Services, following a three-month period where Transport, Tourism & Leisure had seen the worst losses. Technology, Media & Telecoms posted the slowest fall in staffing, despite being the only sector to see lower total activity in July.

July data signalled returning cost inflationary pressure in the Irish service sector economy. Average input costs rose for the first time since March, albeit at a relatively weak rate. Companies reported higher labour and shipping costs, and general price increases from suppliers. Financial Services posted the steepest increase in cost burdens during the month, with modest rises elsewhere.

Although input prices rose during the month, firms continued to reduce their charges in an effort to stimulate sales as the lockdown eased. Prices charged fell for the fifth month running, albeit at the joint-weakest rate in this sequence. Business Services was the only sub-sector to register a rise in charges.

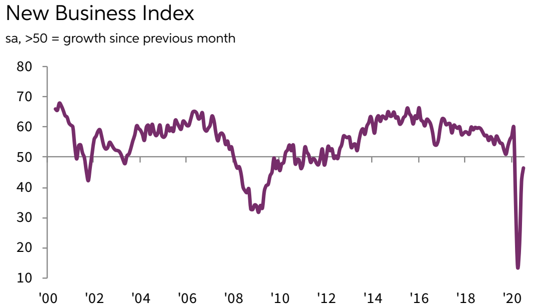
Sentiment regarding the 12-month outlook for activity remained positive in July, but failed to gain momentum since June and was well down on the pre-crisis trend. A number of firms expected business to remain weak during the COVID-19 pandemic.



New Business Index

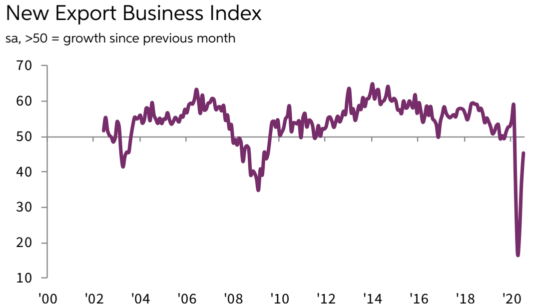
The volume of new work received by Irish service providers continued to decline overall in July, extending the current downturn to five months.

That said, the rate of contraction slowed further from April's series record pace, and was marginal. Some firms reported a pick-up in demand as lockdown restrictions continued to be lifted.

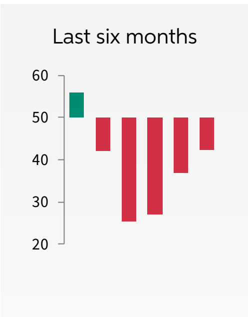


New Export Business Index

International demand remained weak in July, with the seasonally adjusted New Export Business Index remaining below 50.0 for the fifth consecutive month. Firms continued to report cancelled and delayed business due to COVID-19. The rate of decline was, however, the weakest in the current sequence, and only fractional overall.

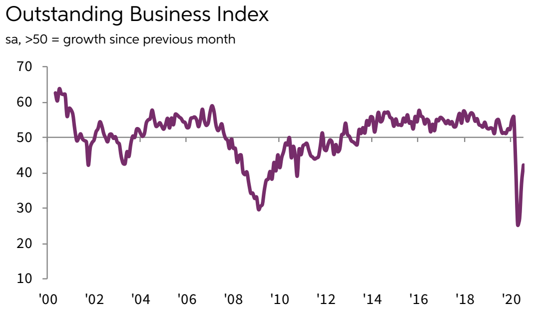


Outstanding Business Index

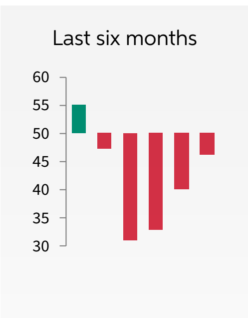


With new business falling further, the volume of incomplete work held by Irish service providers continued to shrink in July. The rate of decline slowed further from April's survey record, and was broadly comparable with the fall seen in March.

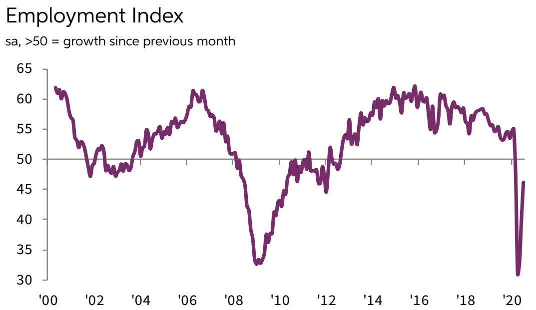
The current downturn in outstanding work is now the longest observed since 2012.



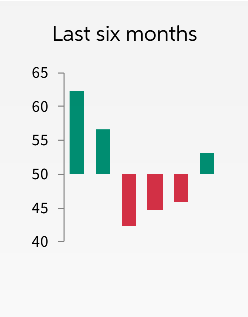
Employment Index



Service providers in Ireland continued to cut jobs in July, continuing the trend shown since March when the economy locked down to contain the spread of COVID-19. The rate of job shedding was strong overall, but weaker than those seen in April, May and June. Around 17% of firms cut staff in July, compared with a peak of 41% in April.

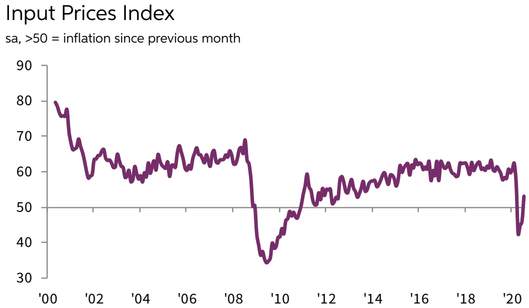


Input Prices Index



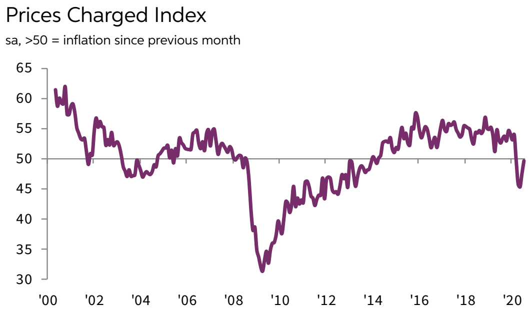
Average input costs in the Irish private sector services economy rose for the first time in four months in July. Companies reported higher labour and shipping costs, and general price increases from suppliers.

That said, the rate of input price inflation was modest, and well below the long-run survey average.

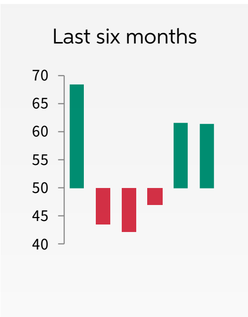


Prices Charged Index

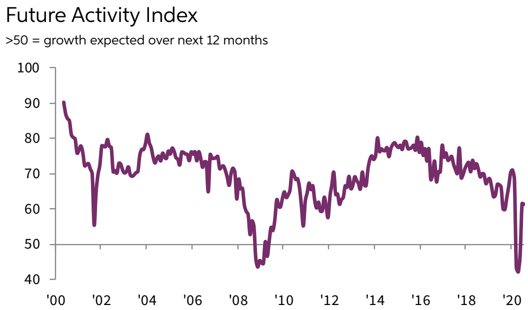
Average prices charged by service sector companies in Ireland fell for the fifth month running in July. While some firms reported passing on increased costs to customers, this was offset by discounting elsewhere aimed at boosting competitiveness. The overall rate of reduction was only marginal, however.



Future Activity Index



The 12-month outlook for Irish service sector activity remained positive at the start of the second half of 2020. That said, sentiment failed to build momentum since June, with the Future Activity Index broadly unchanged and remaining well below its long-run trend level of 69.7. Only business service providers registered stronger expectations during the month, offsetting softer sentiment in the remaining three monitored sub-sectors.

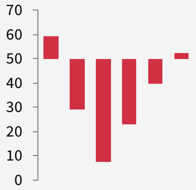


Services Sub-sectors

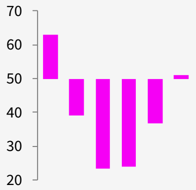
Business Activity Index

Last six months

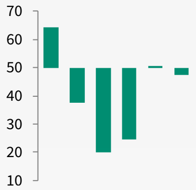
Business Services



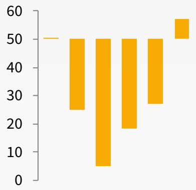
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure

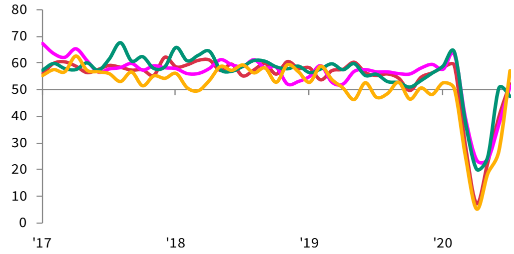


Business Services

Business services activity rose for the first time since February in July, as did new work. That said, growth rates were weaker than their pre-crisis trends. The volume of outstanding business continued to decline sharply and employment fell further, albeit at the slowest rate in four months. Input prices and charges both increased modestly in July.

Business Activity Index

sa, >50 = growth since previous month

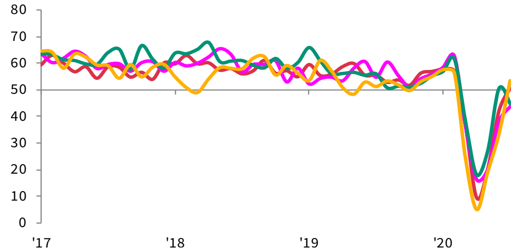


Financial Services

Financial services activity increased in July, although the rate of expansion was historically weak. Firms in the sector were less confident regarding future activity, and the least optimistic among the four sub-sectors monitored. This reflected a further sharp fall in new business during July. Consequently, employment fell at the fastest rate among the four sectors.

New Business Index

sa, >50 = growth since previous month

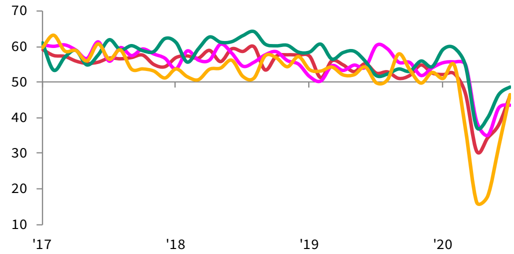


Technology, Media & Telecoms

The technology, media & telecoms sector registered a fall in output in July, having previously been the only sub-sector to record growth in June. This mainly reflected a renewed fall in new business at the start of the third quarter. That said, the TMT sector remained the most confident regarding future growth, and posted the slowest rate of job shedding among the four sub-sectors.

Employment Index

sa, >50 = growth since previous month

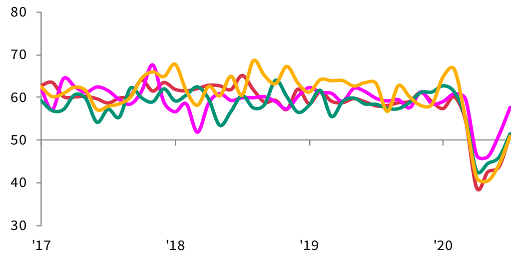


Transport, Tourism & Leisure

The transport, tourism & leisure sector recorded a steep rebound in activity in July, following severe declines in the preceding four months. The volume of new business rose by less than total activity, however, and backlogs fell sharply. Job shedding continued, but at the weakest rate of the current five-month sequence. Input prices rose, but charges continued to decline.

Input Prices Index

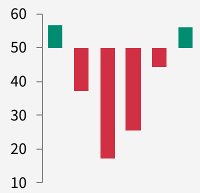
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Irish private sector output returns to growth in July

The Ireland Composite Output Index* posted a another strong month-on-month rise from 44.3 in June to 55.9 in July, signalling a rebound in private sector output following the severe declines from March through to June as the economy locked down to contain the COVID-19 outbreak. The rate of growth was not as sharp as in February, but stronger than in any previous month stretching back to November 2018.

The rebound in activity was broad-based across the manufacturing and service sectors. Manufacturing production in particular surged, with the fastest month-on-month growth rate since December 1999. Service sector activity rose at a much slower pace in comparison, with the increase softer than the pre-crisis trend.

The volume of new business rose for the first time in five months in July, as pent-up demand was released as lockdown restrictions were lifted. New work rose more slowly than total activity, however, as firms continued to complete existing business. Backlogs declined for the fifth straight month, albeit at the slowest rate in this period.

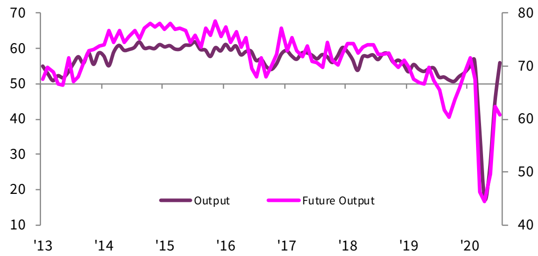
Private sector employment in Ireland declined for the fifth month running in July, albeit at the slowest rate in this sequence. The manufacturing workforce expanded, but only slightly.

July data signalled returning inflationary pressure in the private sector. Input prices rose for the first time in four months, while charges increased for the first time since February.

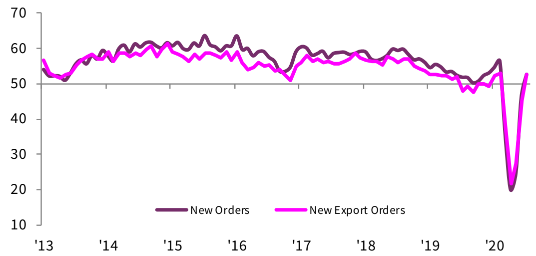
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services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

Output Index
sa, >50 = growth since previous month

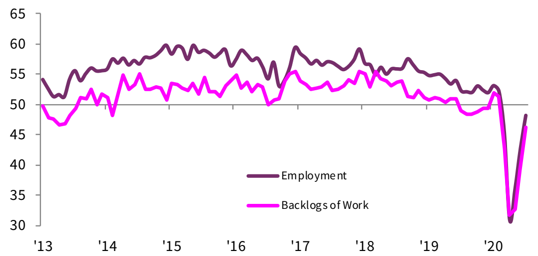
Future Output Index
>50 = growth expected over next 12 months



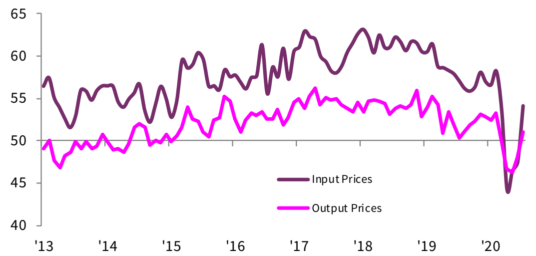
New Business Index / New Export Business Index
sa, >50 = growth since previous month



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



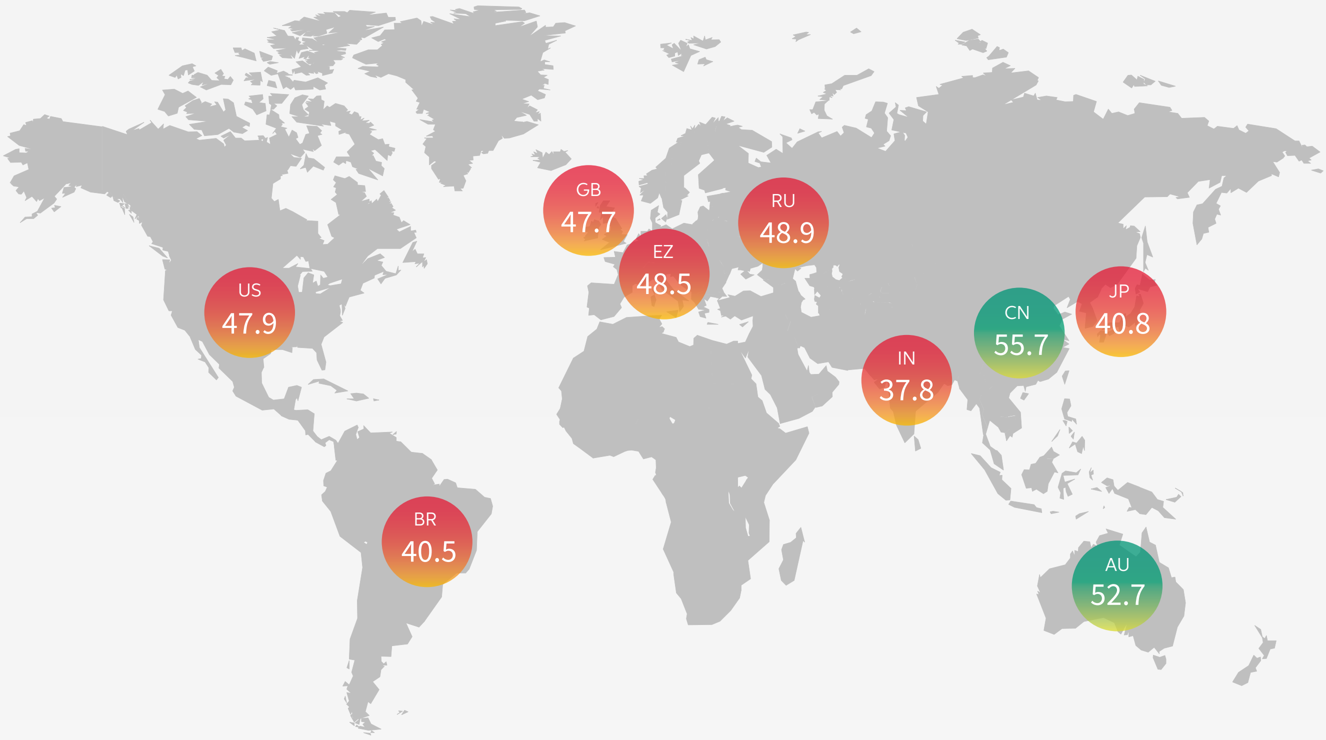
Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Jun '20

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 13-28 July 2020.

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 IHS Markit
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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