News Release

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AIB Ireland Services PMI®

Service sector growth remains solid in October but outlook worsens

Key findings

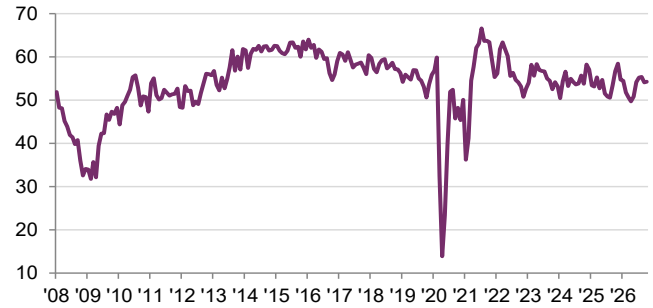
Further solid increases in activity and new business

Input price inflation jumps, weighing on outlook

Employment rises only modestly as outstanding work declines

AIB Ireland Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, S&P Global PMI.

AIB PMI® survey data revealed further solid increases in total activity and new business in the Irish services economy at the start of the fourth quarter. But other survey indicators were less positive, with outstanding business falling and the 12-month outlook deteriorating sharply. Weaker expectations were partly linked to concerns over inflation, with a jump in cost pressures in October mainly due to fuel and energy. This led to the steepest increase in charges for services since February 2023.

The AIB Ireland Services Business Activity Index is 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 seasonally adjusted AIB Ireland Services Business Activity Index signalled higher activity for the sixth month running in October. The latest figure of 54.3 was little-changed from September's 54.1, indicating solid overall growth. That said, the pace of expansion remained below the long-run survey average since 2001.

Technology, Media & Telecoms (TMT, 55.9) again topped the growth rankings despite seeing a slowdown compared with September. Transport, Tourism & Leisure (54.5) and Business Services (54.2) both registered solid increases while Financial Services (52.6) posted another subdued rate of expansion - the first time the sector has been at the foot of the growth rankings in two successive months since the end of 2018.

Irish service providers reported a further solid increase in new work in October, albeit at a softer rate than in September and one just below the long-run survey trend. Demand growth was again driven by TMT, followed by Transport, Tourism & Leisure. Relatively modest increases were seen in Business Services and Financial Services.

The overall slowdown in the rate of growth in total new work was partly driven by a broad stagnation in international new business. Growth in TMT and Transport, Tourism & Leisure was offset by declines in Business Services and Financial Services.

Irish service providers reduced the level of outstanding business for the first time in five months in October. That said, the rate of depletion was only marginal. At the sub-sector level, rates of decline were modest or marginal except for Transport, Tourism & Leisure which posted a moderate rise.

Services employment continued to grow in October, despite the fall in outstanding business. The rate of job creation remained subdued, however, weighed down by a slight decline in staffing in Financial Services and only a marginal rise in TMT. Transport, Tourism & Leisure and Business Services recorded solid and moderate rates of job creation, respectively.

Inflationary pressures rose in October, heavily linked to fuel and energy prices but also due to wages and supply shortages. The rate of input price inflation jumped to a five-month high and was the third-strongest since February 2023, below the peaks in April and May this year following the outbreak of war in the Middle East. Transport, Tourism & Leisure continued to record the steepest rate of input price inflation, and Financial Services the weakest.

To counter rising costs, service providers increased their own charges at the sharpest rate since February 2023. At the sub-sector level, Transport, Tourism & Leisure recorded the strongest increase, and one of the largest month-on-month gains in the series history.

Concerns over rising inflation weighed on the 12-month outlook for activity in October. Overall expectations were positive but the softest since April, with the Future Activity Index posting the biggest month-on-month drop since March 2022. Forecasts moderated in all four sub-sectors, with the steepest drop-off since September in Business Services.

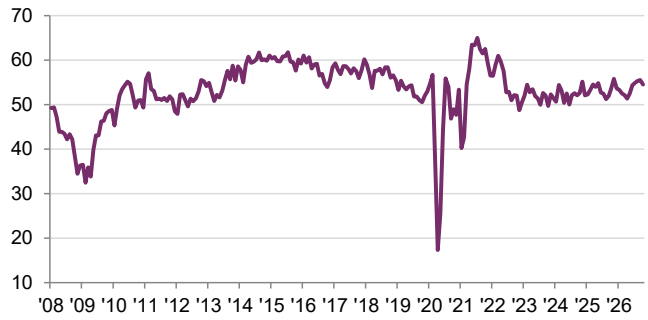
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AIB Ireland Composite PMI®

Weakest rise in output for four months

AIB Ireland Composite PMI Output Index
sa, >50 = growth since previous month



*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.
Sources: AIB, S&P Global PMI.

Private sector output growth in Ireland slowed in October, with the pace of expansion the softest since June. The AIB Ireland Composite PMI® Output Index* fell to 54.5 in October, from 55.6 in September. The latest figure signalled a solid expansion that was above the long-run series average (53.8), however. The rate of growth in services activity was little-changed from September, while manufacturing production increased at the weakest rate since July.

The rate of new business expansion eased to a three-month low but remained strong, while employment growth picked up further in October.

Input prices and charge inflation accelerated to five- and six-month highs, respectively. Inflationary pressures contributed to a weaker 12-month outlook for output.

Comment

Commenting on the survey results, David McNamara, AIB Chief Economist, said:

"The AIB Irish Services PMI for October shows continued growth in the sector, with the headline index rising to 54.3 from 54.1 in September. Activity levels were boosted by rising new business, alongside gains in employment. The rate of growth in the Irish services sector was ahead of the flash Eurozone and UK PMIs at 51.7 and 53.1, respectively; but below the US PMI at 57.9.

"New business continued to grow solidly in October, albeit activity was mixed across the sub-sectors. New export business growth eased on the month, with little change in volumes due to a softening in international demand. Amid this demand backdrop, employment expanded at a similar pace to that observed in September. That said, the rate of growth was modest compared to historic trends.

"The four sub-sectors covered in the survey all registered growth during October. Technology, Media & Telecoms continued to outpace other sectors, with more modest gains in Financial Services, Business Services, and Transport, Tourism & Leisure.

"On the inflation front, input price inflation accelerated again in October. Cost hikes were driven by wage pressures, as well as energy and supply shortages. The rate of increase in prices charged also picked up to the highest level in over three-and-a-half years, as services firms managed to pass on costs and protect margins.

"In terms of the outlook, business sentiment dipped notably in October, reaching a 6-month low. A number of survey respondents mentioned that high inflation and uncertainty were undermining the outlook."

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Contact

David McNamara
AIB Chief Economist
T: +353-(0)87-4071825
david.g.mcnamara@aib.ie
AIBeconomics.Unit@aib.ie
www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353-87-739-0743
paddy.x.mcdonnell@aib.ie

Louise Kelly
AIB Press Office
T: +353 87 216 1545
louise.Y.Kelly@aib.ie

Trevor Balchin
Economics Director
S&P Global Market Intelligence
T: 44-1491-461-065
trevor.balchin@spglobal.com

Hannah Brook
EMEA Communications Manager
S&P Global Market Intelligence
T: +44-7483-439-812
hannah.brook@spglobal.com
press.mi@spglobal.com

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Survey 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. Data collection began in May 2000.

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.

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

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