

AIB Ireland Services PMI®

Business activity continues to expand sharply during June

Key Findings

Export orders rise at fastest pace since January

Employment growth at three-month high

Business sentiment strongly positive

Ireland Services Business Activity Index



Irish service providers recorded a further sharp increase in business activity during June, as inflows of new business expanded markedly. Export sales rose solidly and at the fastest pace since the start of 2019. Driven by stronger demand conditions, Irish service providers expanded their payrolls sharply and at the strongest pace in three months. Meanwhile, business confidence continued to be highly optimistic, amid predictions of greater sales activity and stronger economic conditions.

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

"Business activity in the services sector continued to expand at a very strong pace in June according to the latest AIB PMI data. The index came in at 56.9 for the month, very close to the level of 57.0 posted in May. The Irish reading was well above the flash services June PMIs of 50.7 and 53.4 recorded for the US and Eurozone, respectively, pointing to much stronger growth in the Irish economy.

"New orders growth remained very strong, while export sales rose to a five month high. Volumes of unfinished orders rose at their fastest rate since July 2018 as backlogs increased amid growing capacity constraints. Employment growth quickened in the month as firms took on more staff to cope with strengthening demand.

"In terms of the four sectors covered in the survey, firms in Business Services and

Financial Services continued to register robust growth, with sharply rising new orders. Technology/Media/Telecoms firms posted their slowest growth in business activity since December 2016, but still continued to expand at a strong pace. Meanwhile, activity in the Transport/Tourism/Leisure sector recovered after a weak performance in May.

"Overall, the strong AIB Services PMI reading of 56.9 for June is very welcome given that the manufacturing PMI fell to 49.8. It suggests that the Irish economy is continuing to expand at a good pace, driven by strong growth in the large services sector. Furthermore, firms in the sector remain very optimistic on the outlook for their businesses in the coming 12 months."

Services Business Activity Index

sa, >50 = growth since previous month



Overview

The headline seasonally adjusted Business Activity Index posted 56.9 in June, down only fractionally from 57.0 in May and signalling a further sharp increase in business activity. Firms in the Financial Services sector posted the quickest rise in business activity of the four monitored categories.

Central to the rise in business activity was an increase in new orders. The pace of new business growth was sharp, but eased slightly from May. As with output, Financial Services companies posted the steepest rise of all monitored categories. Meanwhile, new export business expanded at the fastest pace in five months.

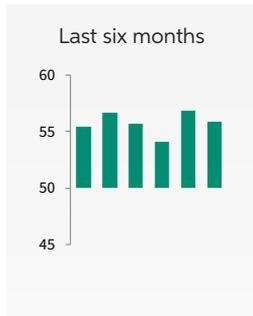
Employment across the Irish service sector continued to increase during June. The rate of job creation was marked and quickened to a three-month high. Service providers commented that they had added staff in order to cope with greater customer demand. Employment growth was recorded across all four broad sectors, led by TMT firms.

Further sharp increases in new orders contributed to another increase in outstanding business during June. The rate of backlog accumulation was marked and the fastest in 11 months. Work outstanding has now increased on a monthly basis since June 2013.

On the price front, the rate of input cost inflation dipped slightly from May, but nonetheless was steep. Higher fuel, staffing and utility costs were mentioned by panellists. The rate of output charge inflation also softened from May.

Looking ahead, sentiment among Irish service providers regarding future activity was broadly unchanged from May. Just under 41% of panellists predict a rise in output over the coming year. Optimism was based on forecasts of stronger customer demand, company expansion efforts and business investment plans.

New Business Index



For the eighty-third consecutive month, incoming new business at Irish service providers increased during June. The rate of growth, though sharp, dipped slightly from May. Anecdotal evidence from panellists indicated that they had experienced an increase in orders due to stronger economic conditions and more successful marketing efforts.

New Business Index

sa, >50 = growth since previous month



New Export Business Index



Irish services companies continued to record increases in export sales at the end of the second quarter. The rate of expansion was solid and quickened to a five-month high. Panellists recorded an overall increase in foreign demand, with some firms noting improved tourism numbers.

New Export Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Capacity pressures among Irish service providers continued to build in June, extending the current sequence of rising backlogs to 73 months. The rate at which outstanding business accumulated was sharp and the fastest since July 2018. Anecdotal evidence from panellists attributed the rise in unfinished business to greater demand levels.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



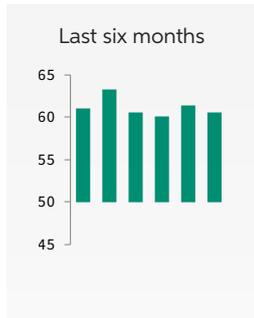
Employment growth quickened in June, as panellists raised staffing levels to cope with busier market conditions. The pace of job creation was sharp and quickened from May to a three-month high. Service sector employment levels have now increased on a monthly basis since September 2012.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



Amid reports of greater prices paid for utilities and fuel, average cost burdens increased further during June. Additionally some panellists linked greater input prices to higher staff costs. The rate of input price inflation was steep, but dipped slightly from May's three-month high.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Output charge inflation eased in June and was much softer than the rise in input costs. However, the rate of inflation was solid and quicker than the long-run series average. Panellists sought to raise their selling prices in response to continued increases in their cost burdens. Inflation has now been recorded on a monthly basis since April 2014.

Prices Charged Index

sa, >50 = inflation since previous month



Future Activity Index



Irish service providers remained optimistic during June that business activity will increase over the coming 12 months, with sentiment broadly unchanged from May. Just below 41% of panellists predict a rise in activity from present levels, with expectations of greater sales activity, company expansion plans and further improvements in the Irish economy cited as reasons to be optimistic.

Future Activity Index

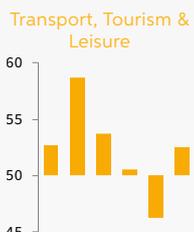
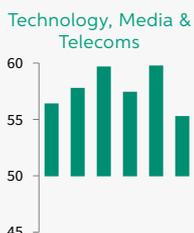
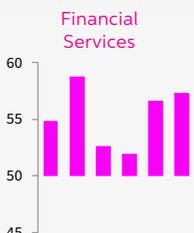
>50 = growth expected over next 12 months



Services Sub-sectors

Business Activity Index

Last six months



Business Services

Activity growth among Business Services companies weakened in June to a four-month low, amid the slowest rise in overall new business since February and second contraction in export sales in the past four months. Contrastingly, employment growth was marked and quickened to a three-month high. On the price front, rates of both input price and output charge inflation eased from May. Sentiment towards activity over the coming 12 months increased in June and was the highest in six months.

Financial Services

Financial services companies posted the fastest increase in activity of all four broad sectors during June on the back of the strongest rise in new business since October 2018. Export sales grew markedly and at the quickest pace in ten months, whilst employment growth dipped slightly from May. The rate of input cost inflation eased, but nonetheless was sharp, whilst selling prices declined at the steepest pace since August 2013. Confidence regarding activity in the year ahead was the highest in eight months.

Technology, Media & Telecoms

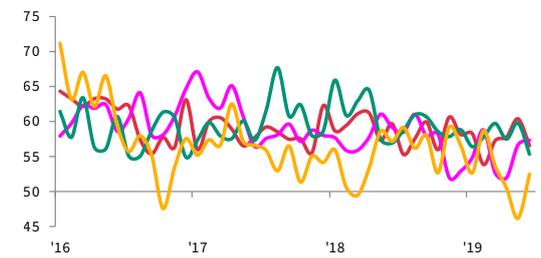
Technology, Media & Telecoms (TMT) firms posted the slowest rise in business activity since December 2016 in June, amid the weakest expansion of total new business in almost six years. The rate of job creation, though marked, eased to a 16-month low. Both input cost and output charge inflation eased in June, with the latter rising at the softest pace in the current 12-month sequence of rising prices. Optimism towards future activity dipped to the lowest level in three months.

Transport, Tourism & Leisure

Transport & Leisure firms posted the slowest rise in activity of the four broad sectors covered by the survey in June, amid the fourth consecutive monthly decline of export sales. In contrast, overall new order growth rebounded from May's fall to post a solid increase. Employment growth was sharp and quickened to the fastest in three months. The rate of input cost inflation was steep and quickened slightly from May, whilst selling prices rose marginally. Sentiment towards activity over the coming year slipped slightly from May.

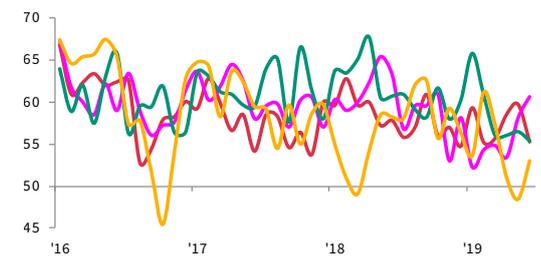
Business Activity Index

sa, >50 = growth since previous month



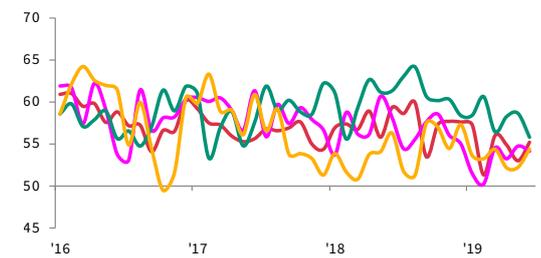
New Business Index

sa, >50 = growth since previous month



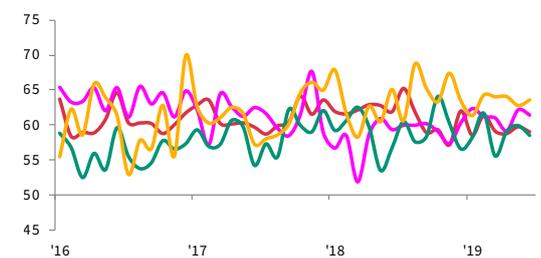
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index



Output rises at fastest pace since February

The Composite Output Index* posted 54.4 in June, up from 54.1 in May and signalling the fastest rise in business activity since February.

Central to the upturn of Irish private sector output growth was a rise in manufacturing output, which increased in June after declining for the first time since the aftermath of the UK's EU referendum in July 2016 during May. The resumption of manufacturing production growth outweighed a slight dip in the pace of service sector activity expansion.

In contrast to output, the rate of increase of private sector new business eased to the slowest in just over six years during June. Growth of new work at service providers softened from May, but nonetheless was marked, whilst manufacturing order books declined for the second consecutive month and at the fastest pace since January 2012.

Capacity pressures in the Irish economy eased slightly as backlogs of work grew at a slower pace in June.

Job creation among both manufacturers and

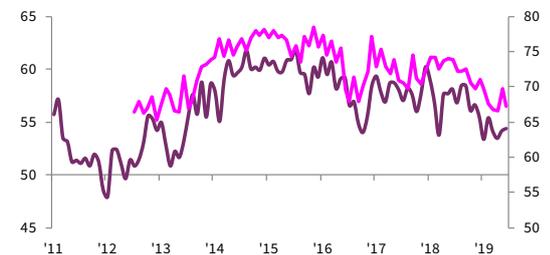
service providers quickened in June, with service sector employment rising at the fastest pace in three months. As such, the rate of composite workforce expansion was solid and accelerated from May.

Rates of both input cost and output charge inflation weakened in June, with cost burdens rising at the slowest pace since November 2016. Meanwhile, selling price inflation dipped slightly from May.

Looking forward, Irish companies were confident that output would increase over the coming year. Service provider optimism was broadly unchanged from May, whilst manufacturing sentiment dropped to the lowest since August 2016 in June.

**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 Ireland Composite Output Index is a weighted average of the Ireland Manufacturing Output Index and the Ireland Services Business Activity Index.*

Output Index / **Future Output Index**
 sa, >50 = growth since previous month / >50 = growth expected over next 12 months



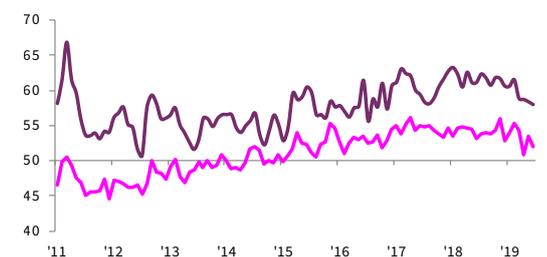
New Business Index / New Export Business Index
 sa, >50 = growth since previous month



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



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



Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353-1-6417176
E: AIBeconomics.Unit@aib.ie
W: www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353-1-641-2869
M: +353-87-739-0743
E: paddy.x.mcdonnell@aib.ie

IHS Markit

Amritpal Virdee
Economist
T: +44-207-064-6460
E: amritpal.virdee@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
E: joanna.vickers@ihsmarkit.com

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.

June 2019 data were collected 12-25 June 2019.

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

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