

AIB Ireland Services PMI®

Service sector growth accelerates in May as restrictions ease

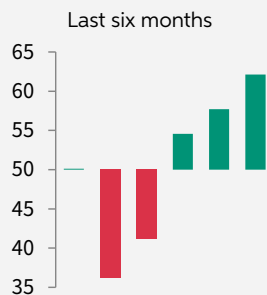
Key Findings

Sharpest rise in business activity since March 2016

Strongest input price inflation since July 2008

Outlook for activity brightens for fourth straight month

Ireland Services Business Activity Index



The latest PMI® survey data from AIB signalled a marked pick-up in growth across the Irish services economy in May, as pent-up demand was released with the loosening of lockdown restrictions. Total activity increased at the fastest rate since March 2016 following the fastest rise in new work for over four years. Employment growth strengthened and the 12-month outlook was the brightest since September 2017. The latest survey also revealed the strongest cost pressures for nearly 13 years.

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

"The AIB Irish Services PMI for May shows that growth in the sector accelerated further. The business activity index rose to 62.1 from 57.7 in April, its highest level in over five years, driven by a release of pent-up demand as lockdown restrictions were eased. This is in line with trends elsewhere, with the flash Services PMIs for May rising to 61.8, 55.1 and 70.1 in the UK, Eurozone and US, respectively.

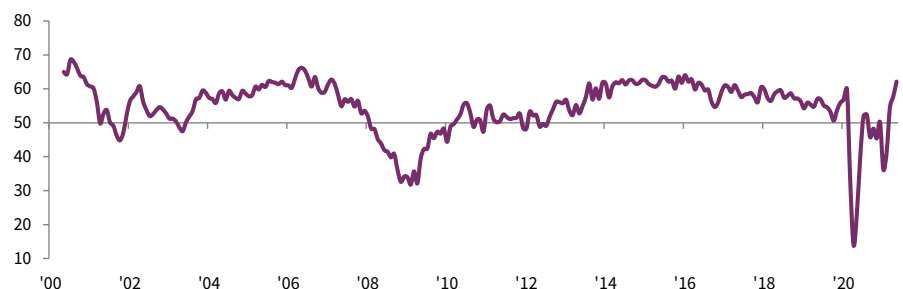
"The May data signalled surging demand in the Irish economy, with new business increasing at its fastest pace since early 2017. By contrast, growth in new export business slowed, held back in particular by a contraction in business from overseas in the Transport and Tourism sector, no doubt due to continuing restrictions on international travel.

"That said, it was encouraging to see that the growth in overall activity was broad-

based across all four sub-sectors in the survey for the second consecutive month. Exceptionally strong growth was recorded in the Technology/Media/Telecoms and Business Services sectors. The pick-up in new business resulted in a marked rise in the volume of outstanding work for the third month in a row. Meanwhile, employment also expanded strongly for the third month running.

"Cost pressures continue to build, with input price inflation hitting its highest level since 2008 on a broad range of price increases. Prices charged to customers increased at a more moderate pace, pointing to a continuing margin squeeze in the sector. Firms in all four sub-sectors, though, are very optimistic on the 12-month outlook, with the Future Activity index hitting its highest level since September 2017."

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



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.

The Services Business Activity Index increased sharply for the fourth successive month to 62.1 in May, from to 57.7 in April, pointing to an accelerating rate of growth in Irish services output as COVID-19 restrictions were further eased. The pace of expansion was the strongest since March 2016. In comparison, the Index has trended at 54.8 since its inception in May 2000.

Activity growth was broad-based across all four sub-sectors for the second successive month in May. The fastest expansions were recorded in Technology, Media & Telecoms (70.6) and Business Services (64.3), with both sub-sectors achieving much stronger growth than in April. Financial Services (56.3) also recorded strong growth, albeit the weakest in the current three-month upturn. Transport, Tourism & Leisure (55.8) registered the fastest rise in activity since July 2020, but still the weakest growth among the four sub-sectors.

The loosening of lockdown restrictions resulted in the release of pent-up demand in May, translating into the sharpest rise in new business since February 2017. This was clearly driven by the domestic market as new export business growth slowed notably since April. All

four sub-sectors registered higher new work in May, led by the Technology, Media & Telecoms sub-sector.

Irish service providers were increasingly bullish regarding the 12-month outlook in May, as they expect a boost to business as lockdown restrictions are lifted further and the COVID-19 pandemic recedes. Overall sentiment was the strongest since September 2017.

Capacity pressures continued to build in May as new business growth accelerated, with the rate of expansion in outstanding work unchanged from April's near-three year high. Incomplete work rose especially sharply in the Technology, Media & Telecoms and Business Services sub-sectors, while backlogs were broadly unchanged in Transport, Tourism & Leisure.

The stronger rise in outstanding business occurred despite a faster expansion in service sector employment in May. Jobs were created for the third successive month, and at the sharpest rate since February 2020. Employment rose sharply in Technology, Media & Telecoms and Business Services. Transport, Tourism & Leisure registered only a marginal increase in staffing while job levels were largely unchanged in Financial Services.

May data signalled a notable acceleration in cost inflationary pressures at Irish service providers in May. The rate of input price inflation hit the highest since July 2008, driven by range of sources including labour, fuel, insurance, Brexit, energy and freight charges. Higher costs were partially passed on to customers, as charges levied by service providers rose at the fastest rate since November 2019.



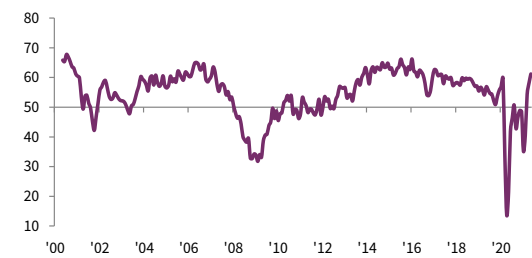
New Business Index



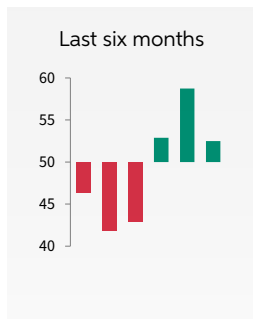
May data signalled surging demand in the Irish service sector. New business rose for the third month running, and at the fastest rate since February 2017. Many firms reported the release of pent-up domestic demand as COVID-19 related restrictions were eased and the economy began to reopen. All four sub-sectors registered growth of new work, led by Technology, Media & Telecoms and Business Services.

New Business Index

sa, >50 = growth since previous month



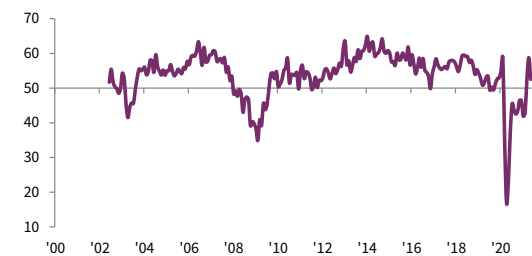
New Export Business Index



The volume of work received from international markets rose for the third consecutive month in May, following a 12-month downturn. A number of firms linked higher export business to new customers as a result of Brexit. That said, the rate of growth slowed markedly from April's 14-month record and was broadly in line with March's moderate pace.

New Export Business Index

sa, >50 = growth since previous month



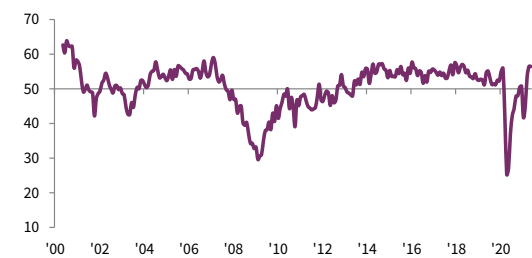
Outstanding Business Index



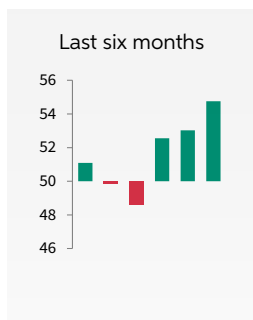
Outstanding business increased for the third month running in May, and for only the fifth time since the start of the pandemic. The rate of growth in backlogs at service providers was unchanged from April's 35-month high, and well above the long-run survey average. Outstanding business rose in all sub-sectors except Transport, Tourism & Leisure, where no change was registered.

Outstanding Business Index

sa, >50 = growth since previous month



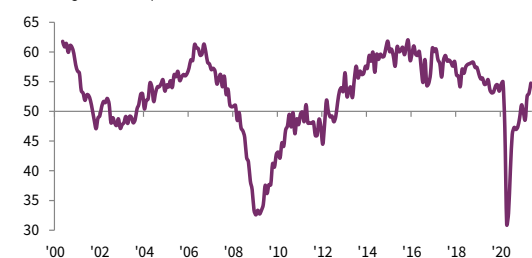
Employment Index



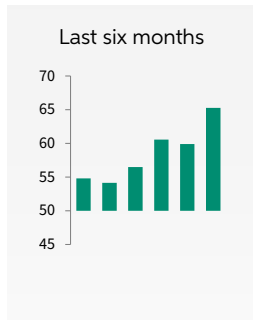
Service providers in Ireland stepped up their hiring activity in May as lockdown restrictions were eased further and more sectors opened up. Overall services employment rose for the third month running, and at the fastest rate since February 2020. Notably strong job creation was registered in Business Services, while broadly stagnant workforce numbers in Financial Services weighed on the overall increase in staffing.

Employment Index

sa, >50 = growth since previous month



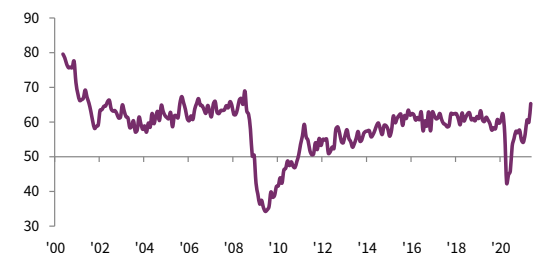
Input Prices Index



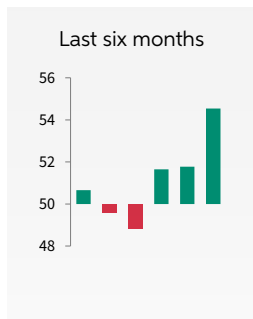
Cost pressures faced by Irish service sector companies intensified in May. Firms reported a wide range of contributory factors, including labour, fuel, insurance, Brexit, energy and freight charges. The rate of input price inflation accelerated for the third time in four months to the highest since July 2008. Moreover, the 5.4-point rise in the seasonally adjusted Input Prices Index was the third-largest on record.

Input Prices Index

sa, >50 = inflation since previous month



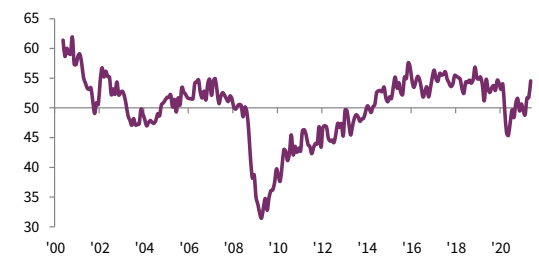
Prices Charged Index



Prices charged by Irish service providers rose for the third month running in May, as companies passed on higher costs to customers. Moreover, the rate of charge inflation accelerated to the highest since November 2019, and was well above the long-run series average. By sub-sector, charges rose most in Business Services, followed by Transport, Tourism & Leisure.

Prices Charged Index

sa, >50 = inflation since previous month



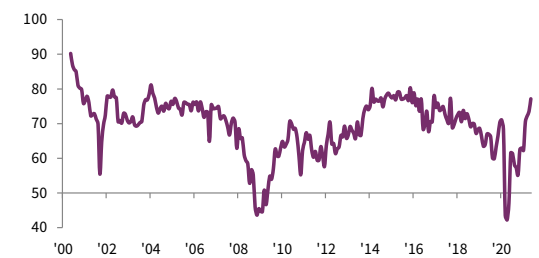
Future Activity Index



The 12-month outlook for Irish services activity strengthened further in May, as signalled by a fourth successive monthly rise in the Future Activity Index. Overall sentiment was the brightest since September 2017. Firms widely expect a boost to business as lockdown restrictions are lifted further and the COVID-19 pandemic recedes.

Future Activity Index

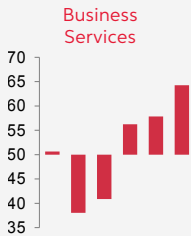
>50 = growth expected over next 12 months



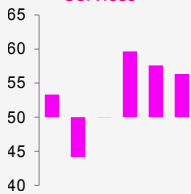
Services Sub-sectors

Business Activity Index

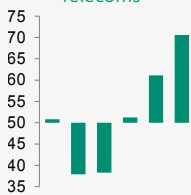
Last six months



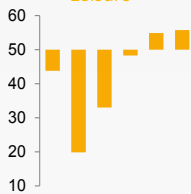
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Activity in the Business Services sub-sector increased at the sharpest rate since the start of 2016 in May, and one that was above that registered for the total services sector. New business expanded at the fastest pace since early-2018, driven by the domestic market as new export work increased more slowly in May. Meanwhile, jobs were created at the sharpest rate in nearly three years, while price pressures intensified.

Financial Services

Financial Services posted growth of both total activity and new business for the third month running in May. That said, in both cases the rates of growth eased since April. Outstanding business expanded for the eighth month running, but at a much slower rate than in April. Employment was broadly stable in May while charges were increased at the fastest rate in 21 months.

Technology, Media & Telecoms

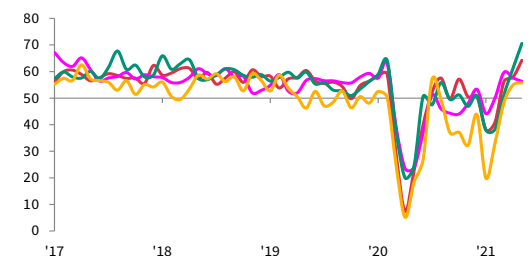
May data signalled a near-record increase in activity in the Technology, Media & Telecoms sub-sector. The rate of expansion was only fractionally slower than the all-time high posted in August 2000. Similarly, new business increased at the third-fastest rate on record. On both metrics, TMT was the fastest-growing sub-sector in May. It also recorded the strongest rate of input price inflation.

Transport, Tourism & Leisure

Activity in the Transport, Tourism & Leisure sub-sector rose for the second month running in May, the first back-to-back growth since early-2020 prior to the pandemic. The same trend was evident for new business, while the 12-month outlook was the second-strongest among the four sub-sectors, behind Technology, Media & Telecoms.

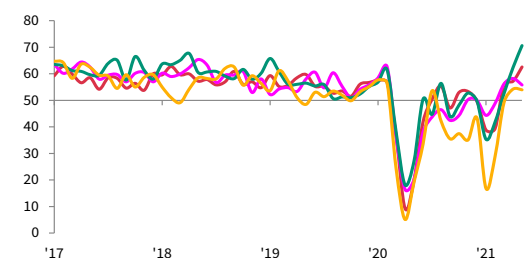
Business Activity Index

sa, >50 = growth since previous month



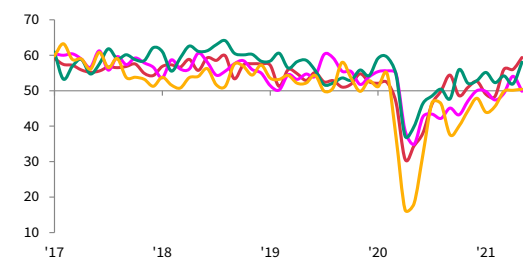
New Business Index

sa, >50 = growth since previous month



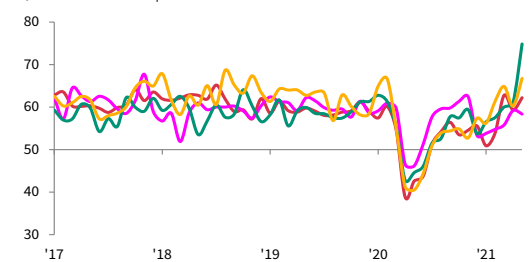
Employment Index

sa, >50 = growth since previous month



Input Prices Index

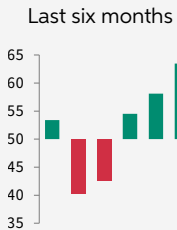
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Irish private sector output grows at fastest pace on record in May

Composite Output Index



Ireland's growth rate surged in May, with the combined output of the manufacturing and service sectors rising at the fastest rate since data were first available in 2000.

The Ireland Composite Output Index registered 63.5 in May, up from April's 58.1 and signalled the fastest rate of growth since the series began in May 2000. Goods production increased at a record pace, while services activity expanded the most since March 2016. Manufacturing production continued to grow at a stronger rate than services output.

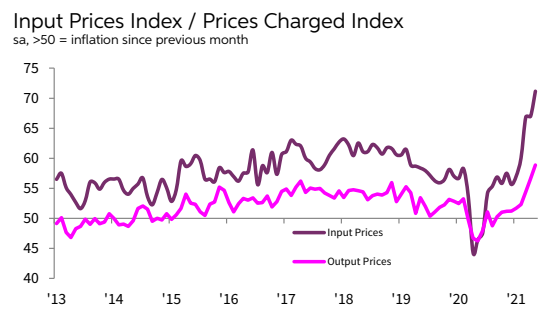
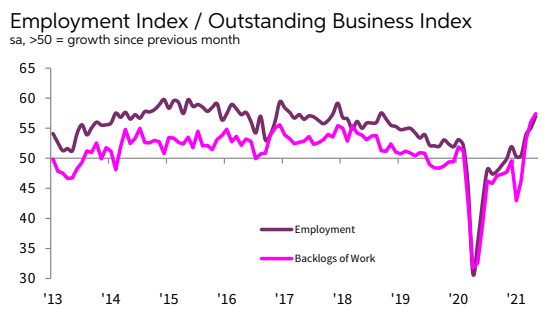
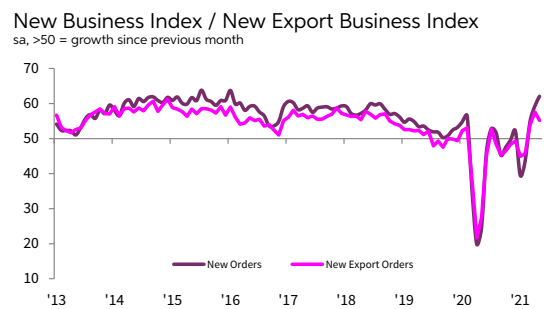
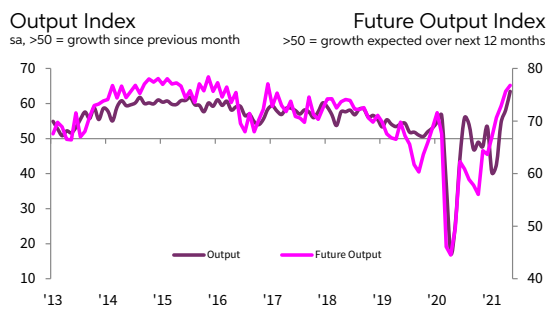
New business increased at the fastest pace since January 2016, and the fourth-strongest on record. Moreover, outstanding business grew at a record rate for that series (since September 2002).

The recovery in Ireland's private sector labour

market continued in May, with employment rising for the sixth consecutive month and at the fastest rate since September 2018. Manufacturers continued to drive the pace of job creation.

Input price inflation accelerated for the fifth successive month in May, reaching the highest since July 2008. Manufacturers continued to see much steeper increases in input prices than service providers, although the differential narrowed in the latest period. Companies passed on higher costs to customers, with output prices increasing at a record pace in May (since September 2002).

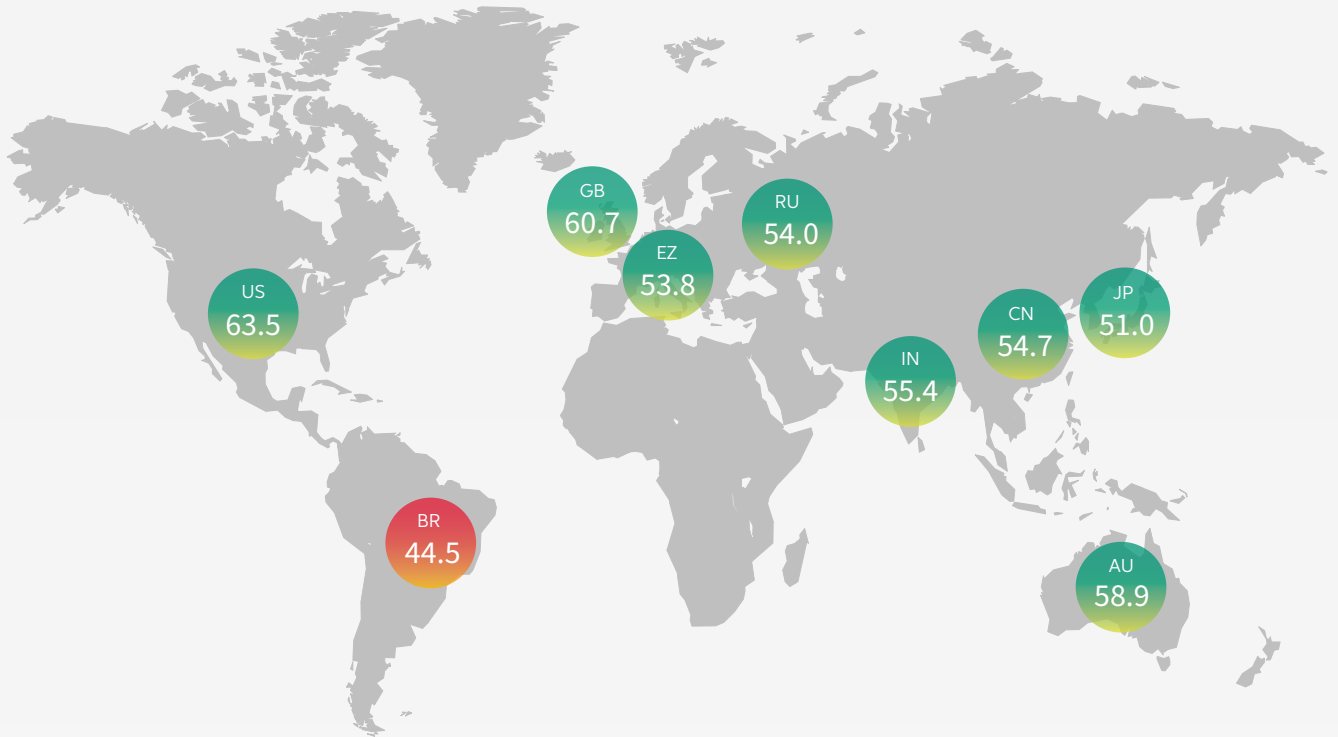
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services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



International PMI

Composite Output Index, Apr '21

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 12-25 May 2021.

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

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