

AIB Ireland Services PMI®

Service sector activity rises at fastest pace since November 2018

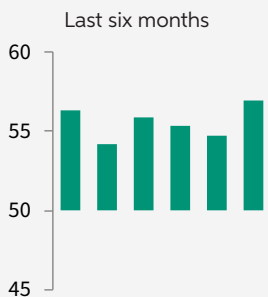
Key Findings

New business growth at five-month high

Job creation quickens

Business confidence highest since January

Ireland Services Business Activity Index



Business activity in Ireland's service sector expanded sharply and at the fastest pace since November 2018 during May, in line with a marked increase in overall new business. The rate of new order growth quickened to a five-month high, amid improving economic conditions and more successful marketing efforts. As a result of firmer demand conditions, Irish service providers recorded a sharper workforce expansion. Meanwhile, sentiment towards activity over the coming year was the highest since January, as expectations of stronger future economic conditions boosted confidence.

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

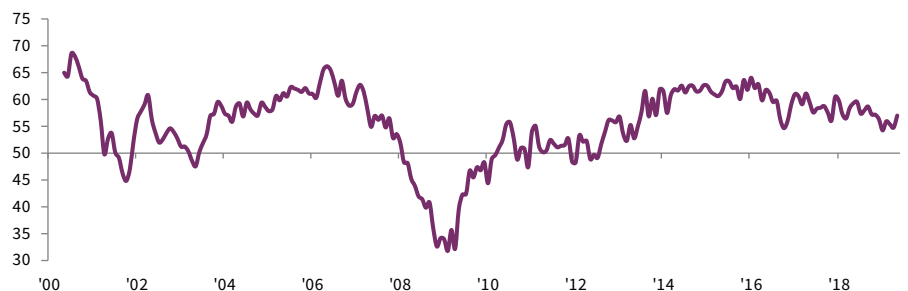
"There was a marked strengthening in business activity in the services sector in May according to the latest AIB PMI data. The index jumped to 57.0 for the month, up from 54.7 in April. This was the fastest pace of expansion recorded since November 2018. It was far above the flash PMI readings of 50.9 and 52.5 recorded in the US and Eurozone, respectively, for May, pointing to much stronger growth in the Irish economy."

"New order growth was very strong, growing at its fastest pace in five months. Panellists reported rising order demand from both at home and abroad. As a result, volumes of unfinished orders rose at their fastest rate since July 2018 as backlogs increased amid growing capacity constraints. Employment growth in services remained solid."

"In terms of the four sectors covered in the survey, firms in Business Services, Technology/Media/Telecoms and Financial Services registered robust growth in activity, with sharply rising new orders. The one disappointment was that the Transport/Tourism/Leisure sector posted its first decline in activity since May 2018."

"Overall, the strong AIB Services PMI reading of 57.0 for May is very welcome given that the manufacturing PMI fell to 50.4. This suggests that the Irish economy is continuing to expand at a good pace, driven by strong growth in the large services sector. It is also encouraging that business confidence in the services sector in May about the outlook for the year ahead, rose to its highest level in four months."

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



Overview

The headline seasonally adjusted Business Activity Index posted 57.0 in May, up from 54.7 in April and signalling the fastest rise in business activity since November 2018. Moreover, the rate of growth was marked and faster than the long-run series average. At the sector level, Business Services companies registered the quickest rise in business activity during May, while a fall was signalled in the Transport & Leisure sector.

Underpinning the faster rise in business activity was a quickening of new order growth in May. The rate of expansion was marked and the fastest in five months, amid reports from panellists of improving economic conditions and more successful marketing efforts. As with output, Business Services companies posted the fastest increase in overall new business.

Volumes of new work from abroad also rose during May and at the fastest pace since the start of 2019. Service providers stated that they had observed an improvement in demand conditions from the UK, European and Middle Eastern markets. Among the monitored sectors, firms in the Technology, Media & Telecoms (TMT) category led export growth, whilst Transport & Leisure companies posted a third consecutive monthly decline in foreign demand.

Faster new order growth contributed to another increase in outstanding business in May. Moreover, the rate of backlog accumulation was sharp and the fastest since July 2018. Work outstanding has now risen on a monthly basis for exactly six years.

Employment growth was solid and quickened slightly from April's recent low. Anecdotal evidence from panellists attributed the rise in headcounts to greater levels of activity and new business. Companies operating in the TMT sector posted the strongest expansion in staffing levels.

On the price front, the rate of input price inflation quickened in May to a three-month high, driven by reports of greater fuel and staff costs. Output charges also rose in May, with the rate of inflation the fastest in three months.

Predictions of higher new orders and business investment supported optimism that activity will continue to rise over the coming year. Sentiment picked up in May and was the sharpest since January. Around 41% of panellists predicted a rise in output over the next 12 months.

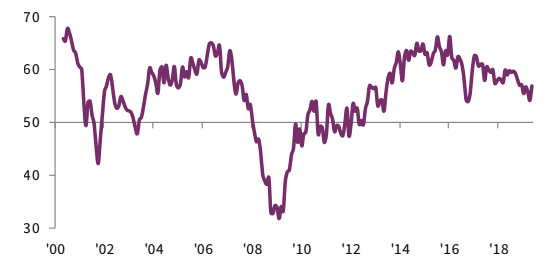
New Business Index



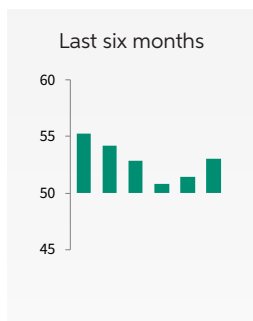
As has been the case since August 2012, Irish service providers posted a rise in new orders during May. Moreover, the rate of expansion was sharp and the fastest in five months. Anecdotal evidence from panellists indicated that they had experienced an increase in orders due to an improving Irish economy and marketing efforts.

New Business Index

sa, >50 = growth since previous month



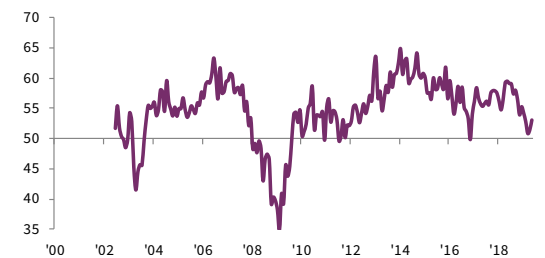
New Export Business Index



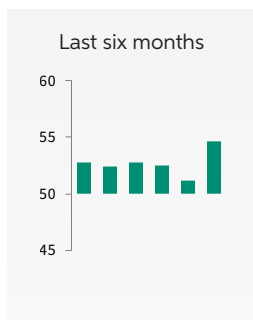
Amid reports of greater demand from UK, European and Middle East customers, Irish service sector export sales rose in May. The solid expansion was the fastest in four months. At the sector level, Transport & Leisure companies recorded a decline in new business from abroad, for the third month running.

New Export Business Index

sa, >50 = growth since previous month



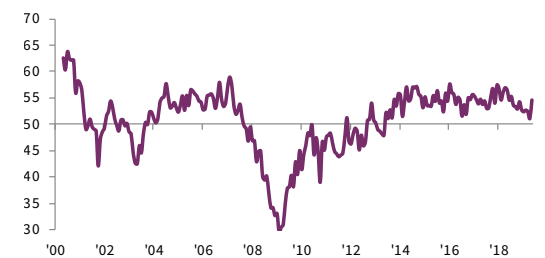
Outstanding Business Index



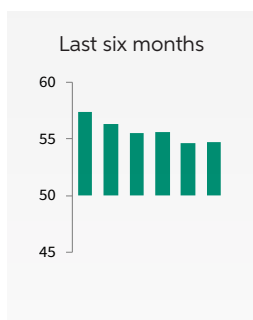
Volumes of unfinished orders increased during May, indicating growing capacity pressures among Irish service providers. Furthermore, the rate of backlog accumulation was marked and the fastest since July 2018. Anecdotal evidence from panellists indicated that increased customer orders contributed to greater amounts of work outstanding. Backlogs have now risen on a monthly basis for exactly six years.

Outstanding Business Index

sa, >50 = growth since previous month



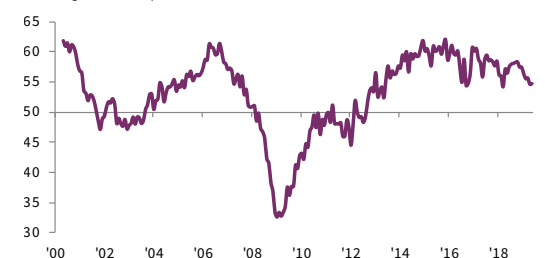
Employment Index



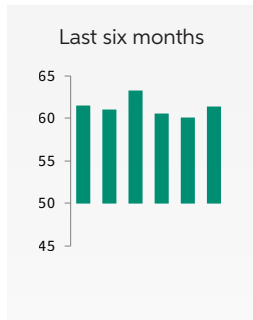
Irish service providers recorded an increase in workforce numbers during May, extending the current sequence of job creation to 81 months. The rate of expansion quickened, but was only slightly sharper than April's 13-month low. Anecdotal evidence from panellists attributed the rise in headcounts to increased levels of activity and new business.

Employment Index

sa, >50 = growth since previous month



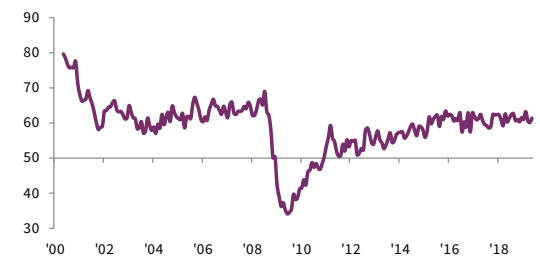
Input Prices Index



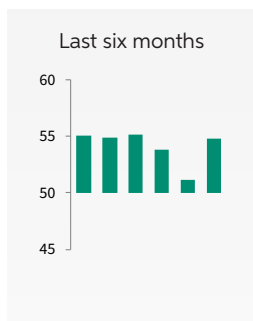
Irish service providers recorded a further marked increase in input prices during May. Moreover, the rate of inflation was marked and the fastest in three months. Rising staff costs was the main driver of higher input prices, according to panellists, with greater fuel costs also mentioned. Cost burdens have risen on a monthly basis since December 2010.

Input Prices Index

sa, >50 = inflation since previous month



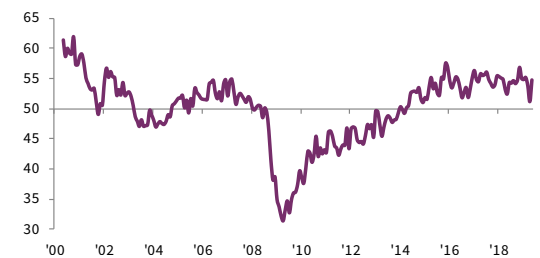
Prices Charged Index



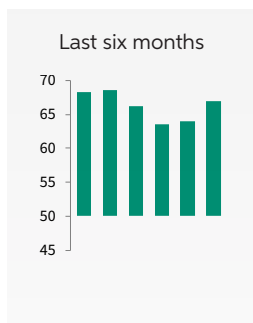
In line with a faster rise in cost burdens, output charge inflation quickened to a three-month high during May. Moreover, the rate of inflation was sharp and above the series average. According to panellists, increases in output charges were driven by rising input costs, with greater wage and fuel bills cited.

Prices Charged Index

sa, >50 = inflation since previous month



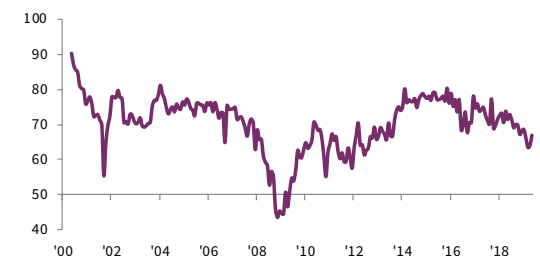
Future Activity Index



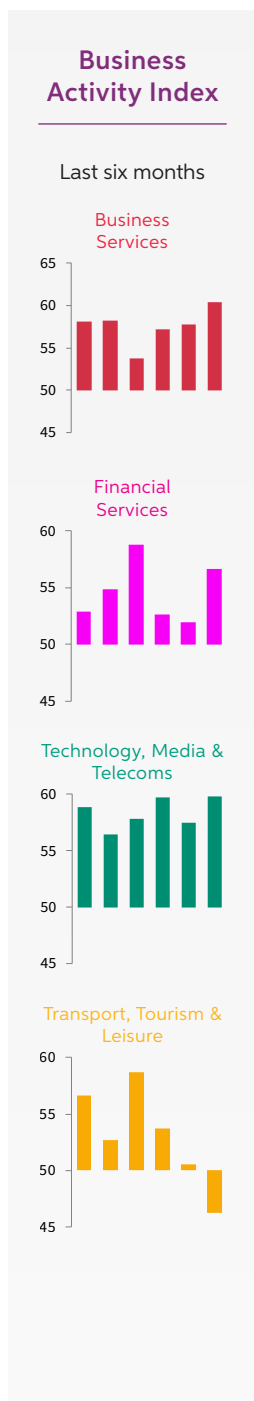
Business confidence ticked up to its highest in four months during May as service providers remained optimistic that business activity will increase over the coming 12 months. Just over 41% of panellists predict a rise in activity over the coming year with expectations of greater customer orders, new product initiatives and increased business from abroad cited as reasons to be optimistic. That said, many firms expressed concern on the impact of Brexit uncertainty on their activity forecasts.

Future Activity Index

>50 = growth expected over next 12 months



Services Sub-sectors



Business Services

Firms in the Business Services category registered the fastest rise in activity for the second month in a row during May. The rate of growth was sharp and the fastest in six months. Inflows of new work grew sharply and at the fastest pace since September 2018, whilst export sales recorded a marginal increase. Employment growth was solid but eased to a three-month low. Rates of both input cost and output charge inflation quickened, with input prices rising at the fastest pace in three months.

Financial Services

Activity growth among Financial Services companies strengthened in May to a three-month high. Inflows of new work rose sharply and at the fastest pace in five months, whilst export sales increased for the first time since October 2018. Work outstanding rebounded from April's fall to register the greatest accumulation in backlogs since November 2018. The rate of input cost inflation quickened to a four-month high, whilst output charge inflation was the most marked since the start of 2018.

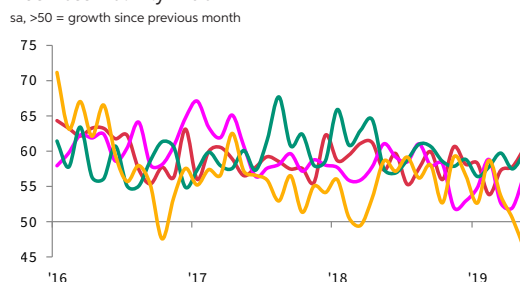
Technology, Media & Telecoms

Business activity among Technology, Media & Telecoms (TMT) firms grew at the fastest pace in eight months during May. The rate of expansion was sharp and well above the series average. Likewise, inflows of new business and job creation quickened in May to three-month highs. Input costs rose at the fastest pace in three months, whilst output charge inflation moderated slightly. Sentiment towards future activity was strongly positive and improved from April.

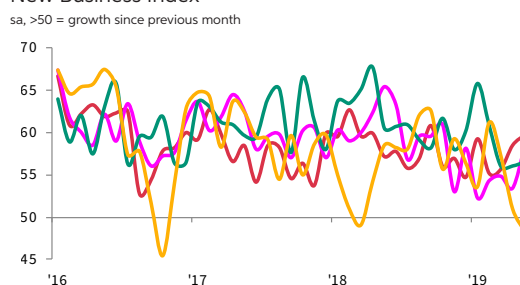
Transport, Tourism & Leisure

Firms operating in the Transport & Leisure sector posted the first decline in business activity since March 2018 during May. The rate of contraction was sharp and the fastest since the end of 2010. In line with activity, inflows of new work fell in May amid the third consecutive monthly decline in export sales. That said, the rate of job creation was solid and quickened slightly from April. Input cost inflation eased to a four-month low, whilst output charges declined for the first time since October 2016.

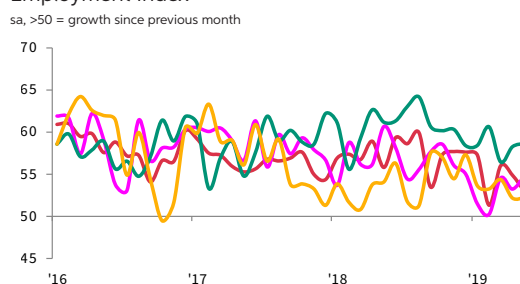
Business Activity Index



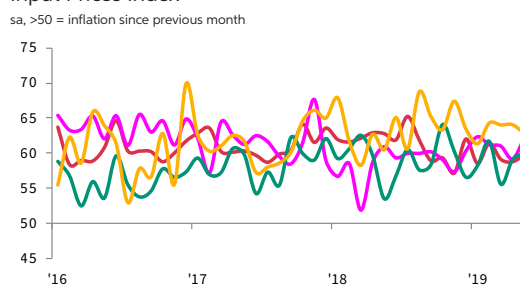
New Business Index



Employment Index

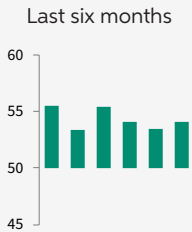


Input Prices Index



AIB Ireland Composite PMI®

Composite Output Index



Output growth quickens from April

The Composite Output Index* posted 54.1 in May, up from 53.4 in April and signalling a faster rise in business activity.

Underpinning the quickening of Irish private sector output growth was an up-turn in service sector business activity, which expanded at the fastest pace since November 2018. Manufacturers, on the other hand, recorded the first decline in production since the aftermath of the Brexit referendum in July 2016.

Similarly, levels of private sector new business rose at a quicker pace in May, driven by the fastest increase in services orders for five months. As with output, manufacturers recorded a decline in order book volumes, with the rate of contraction the fastest in over six years.

Greater inflows of new business among service providers contributed to an upturn in work outstanding, with the rate of accumulation quickening slightly from April.

At the composite level, job creation eased for the second month running to the slowest since

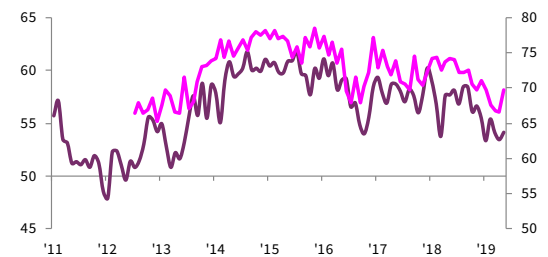
September 2016. Manufacturing employment rose marginally and at the slowest pace in 32 months, whilst service sector payroll growth quickened slightly.

Composite input prices rose at the slowest pace since August 2017, as a softening of manufacturing purchasing cost inflation outweighed a faster rise in service sector input costs. Despite this, the rate of output charge inflation accelerated from April's 44-month low.

Sentiment towards output over the coming year improved to a four-month high, amid an increase in both service provider and manufacturer confidence.

**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.*

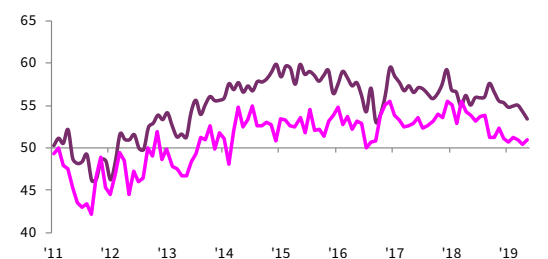
Output Index / **Future Output Index**
 sa, >50 = growth since previous month / >50 = growth expected over next 12 months



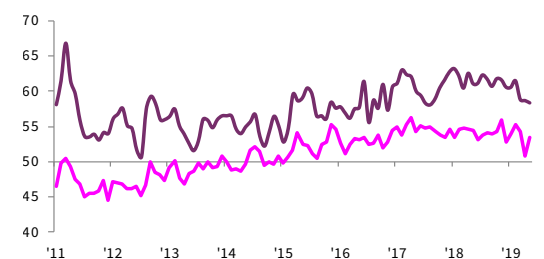
New Business Index / New Export Business Index
 sa, >50 = growth since previous month



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



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



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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.

May 2019 data were collected 13-28 May 2019.

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

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