

AIB Ireland Services PMI®

Output rises at slowest pace in 87 months



Key Findings

New business growth at lowest in over seven years

Fastest increase in employment in four months

Sentiment improves from September's near eight-year low

Ireland Services Business Activity Index



Activity growth among Irish service providers was marginal and eased to the slowest in the current 87-month sequence of expansion during October. This was also the case with regards to new orders. In contrast to the fractional rises in activity and total new business, Irish service providers took on additional staff at the fastest pace in four months in order to bolster capacity and work through customer orders.

Looking forward, business confidence towards output over the coming year improved from September's almost eight-year low but was nonetheless subdued amid reports of Brexit uncertainty weighing on sentiment.

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

"The latest AIB Services PMI survey shows that the business activity index for the sector fell to 50.6 in October, down sharply from 53.1 in September and 54.6 in August, to hit its lowest level since August 2012. It was the fifth consecutive monthly decline in the index. The October reading points to just a small rise in business activity in the month. There has been a similar weakening in new business activity in recent months, with again just a small increase being recorded in October."

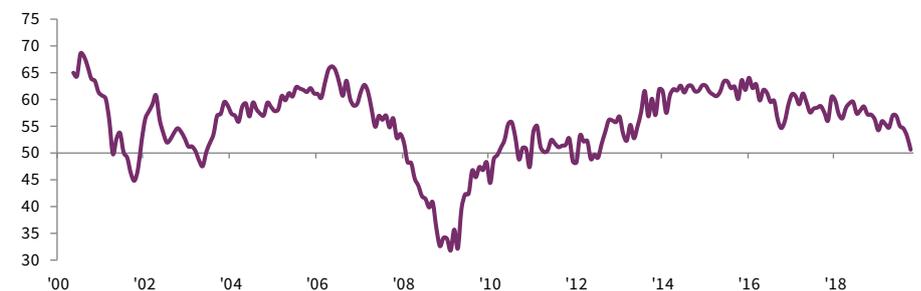
"However, other components of the October survey were more positive. New export orders picked up their best level since June. Employment growth was strong, again rising at its fastest pace in four months. There was also a good improvement in business confidence following two months of lower figures, while backlogs of outstanding orders

continued to rise, albeit modestly.

"The impact of on-going Brexit uncertainty was evident, with some firms saying it has caused a fall in customer orders, with reports it is weighing on business sentiment. In terms of the four sectors covered in the survey, two recorded declining activity in October – Business Services and Transport/Tourism/Leisure - while a third, Tech/Media/Telecoms, saw growth slow to its weakest pace in seven years. Only Financial Services firms reported continuing strong growth."

"Overall, the slowdown evident in manufacturing this year would now appear to have spread to the services sector. The data point to an appreciable deceleration in the pace of activity in the Irish economy in recent months as it is buffeted by uncertainty over Brexit and weakening global growth."

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



Overview

The headline seasonally adjusted Business Activity Index posted 50.6 in October, down from 53.1 in September and signalled the slowest increase in business activity in the current sequence of expansion stretching back to August 2012. At the sector level, Financial Services firms posted the fastest rise in business activity of the four monitored categories for the fifth consecutive month.

Underpinning the slower rise in business activity was a weakening of customer demand conditions. Overall new order growth was marginal and eased to the slowest in the current 87-month sequence of expansion. Some panellists commented that they had seen a decrease in customer orders due to Brexit uncertainty. Of the four monitored sub-sectors, Business Services firms recorded the sharpest increase in new business, whilst Transport & Leisure companies observed a slight fall during October.

Inflows of new business from abroad, meanwhile, returned to growth in October, driven by greater demand from customers based in Oceania and the Netherlands. The rate of increase, though modest, was the fastest since June. A number of firms stated that they had seen an increase in orders from UK-based clients ahead of the Brexit deadline.

Employment across the Irish service sector continued to increase during October.

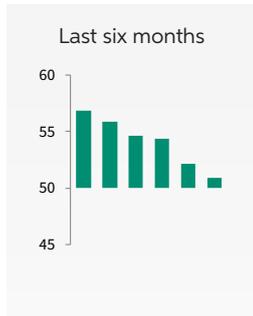
Moreover, the rate of job creation was marked and the quickest in four months. Service providers stated that they had taken on additional staff as a result of increased customer orders and investments in capacity. All observed sectors recorded a rise in workforce numbers, with the strongest increase at Financial Services companies.

Further increases in new orders contributed to another rise in outstanding business during October. That said, the rate of backlog accumulation was modest and the softest in over six years. Work outstanding has now increased on a monthly basis since June 2013.

On the price front, the rate of input cost inflation dipped slightly, but nonetheless was marked. Panellists attributed the latest rise in cost burdens to greater fuel, insurance and staffing costs. With input prices increasing at a slower pace, the rate of output charge inflation softened to a three-month low.

Looking ahead, business confidence picked-up to the highest in three months from September's almost eight-year low during October. Despite this, the overall degree of optimism was subdued, amid reports of Brexit uncertainty weighing on sentiment. Just under 37% of surveyed firms were confident of a rise in business activity from present levels in 12 months' time, linked to expectations of higher sales activity and planned promotions.

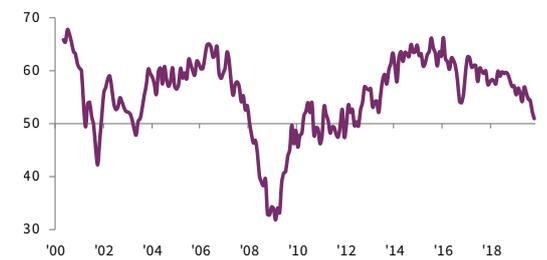
New Business Index



Irish service providers recorded the slowest increase in new business in the current 87-month sequence of expansion during October. The rate of increase was marginal and much slower than the long-run series average. Anecdotal evidence indicated that some firms had seen a fall in customer orders as a result of Brexit uncertainty.

New Business Index

sa, >50 = growth since previous month



New Export Business Index



New export orders among Irish service providers returned to growth in October, following a slight fall observed in September. Though modest, the rate of expansion was the fastest since June. Panellists recorded an overall increase in foreign demand, with some firms highlighting greater customer orders from Australia, New Zealand and the Netherlands. Some panellists also noted an increase in UK orders ahead of the Brexit deadline.

New Export Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Outstanding business among Irish service providers continued to build in October, extending the current sequence of rising backlogs to 77 months. That said, the rate at which work-in-hand accumulated was marginal and the slowest in over six years. Anecdotal evidence from panellists attributed the rise in unfinished business to further increases in new orders.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



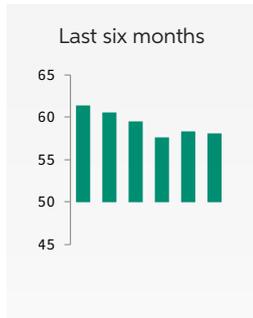
Employment growth quickened in October, as panellists raised staffing levels to cope with greater workloads. The rate of job creation was marked and the fastest in four months. Service sector employment levels have now increased on a monthly basis since September 2012.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



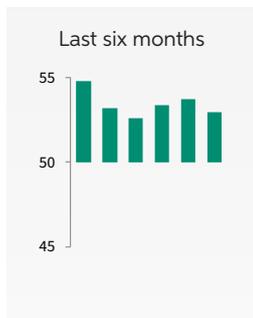
Irish service providers recorded a further marked increase in input prices during October. The rate of input cost inflation dipped slightly from September, and was just below the long-run series average. Greater staff costs was the main driver of higher input prices according to panellists, with increased fuel and insurance bills also mentioned.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Output charge inflation eased in October and was much softer than the rise in input costs. The rate of increase, though solid, was the least marked in three months. Panellists sought to raise their selling prices in response to 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



Sentiment among Irish service providers picked up from September's almost eight-year low to record the highest reading in three months during October. Just under 37% of surveyed firms predict a rise in business activity over the coming year. Expectations of greater sales activity, especially in foreign markets, as well as new promotional efforts were cited as reasons to be optimistic. That said, the overall degree of optimism was subdued amid reports of Brexit uncertainty weighing on sentiment.

Future Activity Index

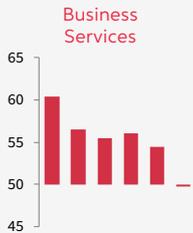
>50 = growth expected over next 12 months



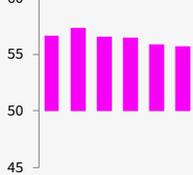
Services Sub-sectors

Business Activity Index

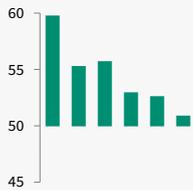
Last six months



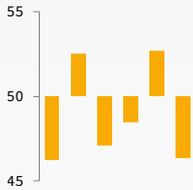
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

For the first time since August 2012, firms operating in the Business Services sector recorded a decrease in business activity during October. Meanwhile, total new orders grew at the slowest pace since September 2012, whilst export sales increased solidly and at the sharpest rate in eight months. The rate of job creation, though modest, picked up from September. Input cost inflation accelerated to a five-month high, whereas output charges rose at the softest pace since July.

Financial Services

For the fifth month running, Financial Services firms recorded the most marked rise in business activity of all four sectors covered during October. That said, the rate of growth eased to a six-month low. Total new orders grew at the weakest pace in the current 80-month sequence of expansion, whilst new export business growth quickened to a four-month high. The rate of job creation was solid and the same as in September. Cost burdens continued to rise sharply, though at the weakest pace since November 2018.

Technology, Media & Telecoms

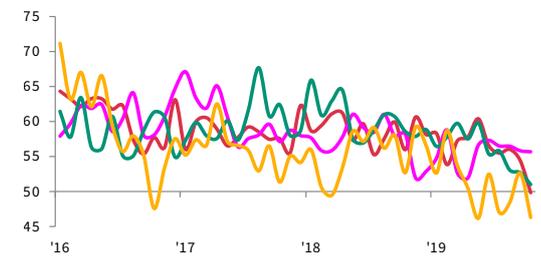
Activity growth among Technology, Media & Telecoms (TMT) firms eased to the slowest since November 2012 during October. In line with activity, the pace of new order growth was marginal and eased from September. Meanwhile, inflows of new business from abroad returned to growth from September's decline. Employment growth was solid but slower than the long-run series average. Input cost inflation picked up to a five-month high, whilst output charges rose modestly and at the weakest pace in 16 months.

Transport, Tourism & Leisure

For the fourth time in the past six months, business activity among Transport & Leisure companies declined in October. Moreover, the rate of contraction was solid and the most marked since May. In line with activity, overall new orders declined, whilst export sales fell for the eighth month running. Employment growth, though solid, eased from September's 25-month high. Selling prices increased for the second consecutive month and at a solid rate, whilst input cost inflation dipped slightly from September.

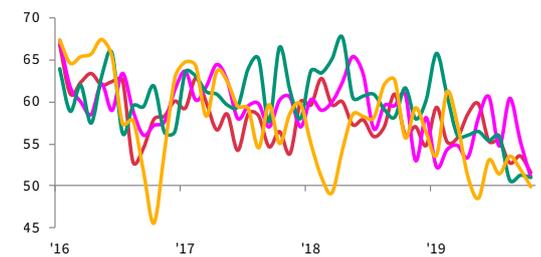
Business Activity Index

sa, >50 = growth since previous month



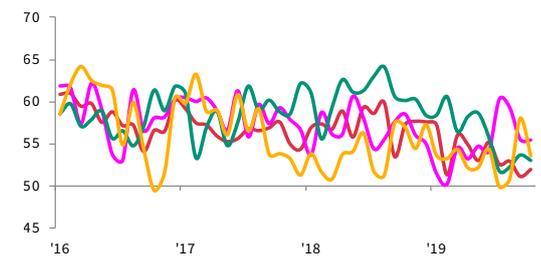
New Business Index

sa, >50 = growth since previous month



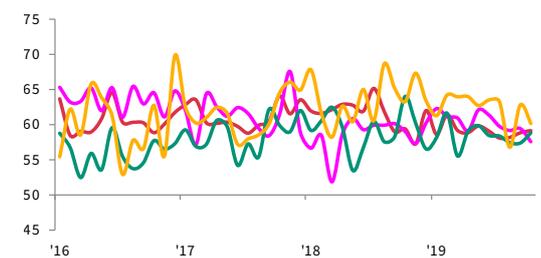
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Weakest increase in output in almost seven-and-a-half years

Composite Output Index



The Composite Output Index* posted 50.6 in October, down from 51.0 in September, and signalling the weakest increase in business activity in the current 89-month sequence of growth.

Underpinning the softer rise in Irish private sector output was a slowdown in services business activity growth. Manufacturers, on the other hand, recorded the first increase in production since June, though the rate of growth was marginal.

A return to growth of manufacturing order book volumes contributed to a faster expansion of private sector new business. However, as with output, service providers recorded a softening of overall new order growth, with new work increasing at the slowest pace in the current 87-month sequence of expansion.

Capacity pressures in the Irish economy eased in October, with backlogs falling for the fourth consecutive month. A further sharp reduction in manufacturing unfinished orders outweighed a modest increase in service sector work-in-hand.

On the employment front, composite workforce

expansion was the fastest in four months, amid a return to growth of manufacturing staffing levels and a faster increase in service sector headcounts.

Rates of both input cost and output charge inflation quickened in October, with cost burdens rising at the fastest pace in three months. The rate of selling price inflation was solid and the quickest since May.

Looking forward, Irish companies were confident that output would increase over the coming year. Despite picking up to a three-month high from September's record low, the overall degree of optimism was subdued.

*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.



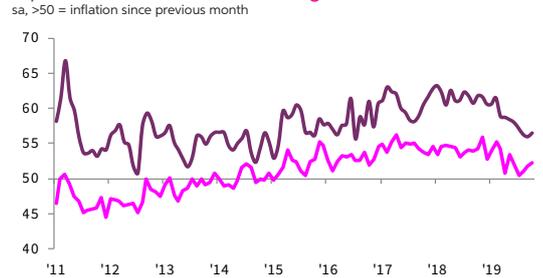
New Business Index / New Export Business Index



Employment Index / Outstanding Business Index



Input Prices Index / Prices Charged Index



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.

October 2019 data were collected 11-28 October 2019.

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

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. To learn more go to ihsmarkit.com/products/pmi.html.

Disclaimer

This publication is issued by Allied Irish Banks, p.l.c. ("AIB") and is for general information purposes only. This publication should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments or product, securities or any derivative instrument (together, "instruments"), or any other rights pertaining thereto. AIB does not express any opinion as to the present or future value or price of any instruments referred to in this publication.

The information provided in this publication is believed to be valid and accurate on the date it is first published but AIB, along with its directors, officers, or employees, does not accept any liability for any loss arising from the use of the information. The information contained therein, including any expressions of opinion, has been obtained from, or is based on, or compiled from, sources believed to be reliable but its accuracy or completeness is not guaranteed and is subject to change without notice.

Any decision made by a party shall be on the basis of its own research and shall not be influenced or based on any view expressed by AIB in this publication or otherwise. This publication does not address all risks. This publication does not constitute investment advice or a recommendation and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments and/or pursuing any investment strategies. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any instruments, forecasts are not a reliable indicator of future performance.

This publication is not to be reproduced in whole or in part without the prior express written consent of AIB. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.