

AIB Ireland Services PMI®

Fourth successive slowdown in growth of activity

Key Findings

New business growth at 76-month low

Solid rise in employment

Business confidence at almost eight-year low

Ireland Services Business Activity Index



Business activity in Ireland's service sector expanded at the slowest pace since May 2013, amid a softening of both foreign and domestic demand conditions. Total new orders increased at the weakest rate in 76 months, as export sales fell for the second time in the past three months. Moreover, the rate of contraction of new export business was the joint-fastest since July 2009 as panellists noted a downturn in UK orders due to continued Brexit uncertainty.

Meanwhile, though a solid increase in payrolls was observed in September, the rate of job creation was little changed from August's 75-month low. Meanwhile, business confidence was the lowest in almost eight years, as Brexit uncertainty weighed on sentiment.

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

"The combination of weakening global activity and the growing risk of a no-deal Brexit, which has been weighing on manufacturing activity this year in Ireland, is now beginning to impact on the services sector according to the latest AIB PMI data. Business activity in the Irish services sector fell to 53.1 in September from 54.6 in August, its lowest level since May 2013. It was also the fourth consecutive monthly decline in the index."

"The impact of on-going Brexit uncertainty was quite evident the survey. Growth in new orders eased to a six year low, with firms reporting that Brexit is impacting consumer demand. New export orders actually fell in the month, with respondents seeing a notable downturn in UK orders due to continuing Brexit uncertainty."

"Furthermore, business confidence fell to its lowest level in almost eight years as Brexit weighed on the outlook for activity in the sector. Meanwhile, although employment growth remained solid in September, it was still close to its slowest rate in over six years."

"In terms of the four sectors covered in the survey, they all showed solid growth. Companies in financial services reported the fastest rise in activity and those in the Transport/Tourism/Leisure sectors saw a return to growth after two months of contraction."

"The September reading of 53.1 still represents a solid pace of growth in the services sector. However, recent PMI data point to a deceleration in the pace of activity in the Irish economy as the year has progressed, largely owing to external headwinds."

Services Business Activity Index

sa, >50 = growth since previous month



Overview

The headline seasonally adjusted Business Activity Index posted 53.1 in September, down from 54.6 in August and signalling the weakest rise in business activity since May 2013. That said, the rate of expansion was solid, with activity increasing on a monthly basis for over seven years.

At the sector level, companies in the Financial Services sector posted the fastest rise in business activity of the four monitored categories.

Central to the softer rise in business activity was a weaker increase in new orders. The pace of new business growth eased to a 76-month low in September amid reports of Brexit uncertainty negatively affecting customer demand. As with output, businesses in the Financial Services category posted the steepest rise in new orders of all monitored categories.

Meanwhile, inflows of new business from abroad decreased for the second time in the past three months in September. Despite being marginal, the rate of contraction matched that seen in July and was the joint-fastest since July 2009. Anecdotal evidence from panellists indicated that they had observed a general softening of external demand conditions, with a notable downturn in UK orders stemming from Brexit uncertainty.

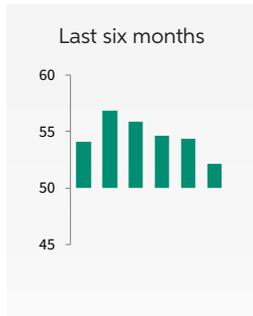
Employment across the Irish service sector continued to increase during September. Though solid, the rate of job creation was little changed from August's 75-month low. Service providers commented that they had added staff in order to cope with greater business activity. Employment rose across all four monitored sectors, led by Transport & Leisure firms.

Further increases in new orders contributed to greater levels of outstanding business during September. That said, in line with the weaker rise in customer demand, the rate of backlog accumulation was modest. Work outstanding has now increased on a monthly basis since June 2013.

On the price front, the rate of input cost inflation ticked up slightly during September. Higher fuel, staff and rental costs were mentioned by panellists. The rate of output charge inflation also quickened and was the fastest in four months.

Looking ahead, service sector business confidence was the lowest in almost eight years as Brexit uncertainty weighed on sentiment. Exactly one-third of panellists were confident of a rise in business activity from present levels in 12 months' time, linked to expectations of higher new orders, product development initiatives and continued growth of the Irish economy.

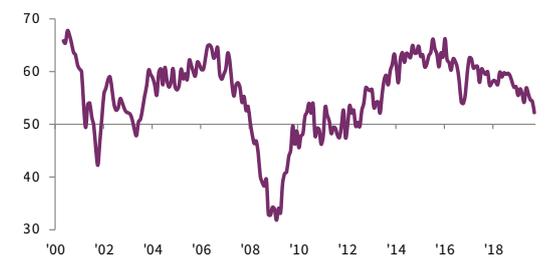
New Business Index



New order growth among Irish service providers eased to a 76-month low during September, amid reports of Brexit uncertainty negatively affecting customer demand. The rate of expansion eased for the fourth month in a row. Despite this, incoming new business has increased on a monthly basis since August 2012.

New Business Index

sa, >50 = growth since previous month



New Export Business Index



For the second time in the past three months, inflows of new business from abroad decreased in September. Though marginal, the rate of contraction matched that seen in July and was the joint-fastest since July 2009. Panellists reported an overall weakening of foreign demand conditions, with a notable downturn in UK orders stemming from ongoing Brexit uncertainty.

New Export Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Volumes of unfinished orders increased during September, indicating growing capacity pressures in the Irish service sector. The rate of backlog depletion was modest, however. Anecdotal evidence from panellists attributed the increase in unfinished business to greater customer orders. Work outstanding has now increased on a monthly basis since June 2013.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



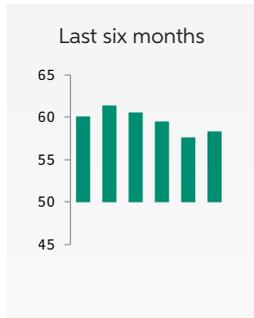
A further rise in employment was recorded among Irish service providers during September, taking the current period of jobs growth to over seven years. Despite being solid, the rate of job creation was little changed from August's 75-month low. Panellists sought to raise staffing levels in order to cope with increased workloads.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



In line with the faster rise of input costs, output charge inflation quickened during September. Irish service providers recorded a further sharp increase in input costs during September. Though marked, the rate of inflation was only just higher than August's 33-month low. Rising staff costs was the main driver of higher input prices, with increased fuel and rental costs also mentioned.

Input Prices Index

sa, >50 = inflation since previous month



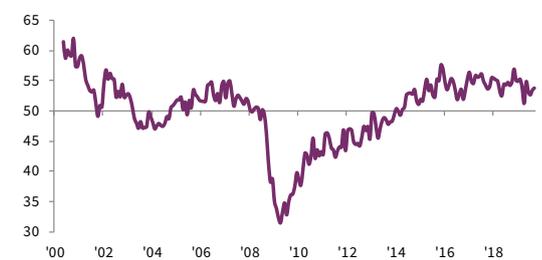
Prices Charged Index



In line with the faster rise of input costs, output charge inflation quickened during September. The rate of increase was solid and the fastest in four months. Anecdotal evidence from panellists indicated that they had raised their charges in response to a pick-up in cost burdens.

Prices Charged Index

sa, >50 = inflation since previous month



Future Activity Index



Business confidence weakened to the lowest level in almost eight years in September, as Brexit uncertainty weighed on sentiment. That said, exactly one-third of panellists were confident of a rise in output from present levels in 12 months' time. Service providers linked optimism to new product developments, improving economic conditions in Ireland and expectations of greater sales activity.

Future Activity Index

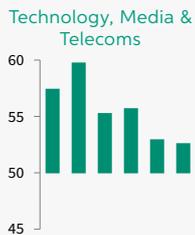
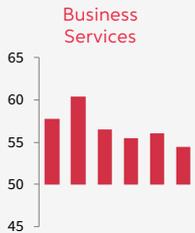
>50 = growth expected over next 12 months



Services Sub-sectors

Business Activity Index

Last six months



Business Services

Business Services companies recorded the slowest expansion in business activity in seven months during September. Meanwhile, overall new business growth was solid, as export sales increased at the fastest pace since April. Employment growth was marginal, however, and the least marked in over seven years. The rate of input cost inflation quickened to a three-month high, whilst selling prices rose at a softer pace than in August. Sentiment towards future activity was little changed from August's 92-month low.

Financial Services

Financial Services companies recorded the fastest rise in business activity of all four sectors covered in September, though the rate of growth eased to a five-month low. Total new orders increased markedly, as export sales rebounded from August's fall. Employment growth was sharp but the slowest in three months. Cost burdens continued to rise sharply, though output charges were virtually unchanged from August. Optimism regarding year-ahead output was the weakest since February.

Technology, Media & Telecoms

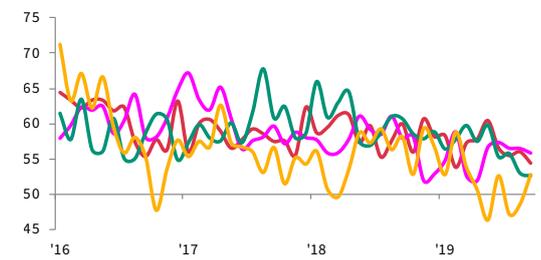
Business activity growth weakened among Technology, Media & Telecoms (TMT) firms during September. Though solid, the rate of expansion was the slowest in 75 months. Likewise, inflows of total new business grew marginally amid the first fall in export orders since July 2011. In contrast to the trend for activity, payrolls expanded at the fastest pace in three months. Input cost inflation slowed to a six-month low, whilst selling prices increased solidly.

Transport, Tourism & Leisure

Business activity among Transport & Leisure companies rebounded from a two-month sequence of contraction in September. Moreover, the rate of expansion was solid and the quickest since March. In contrast, overall new business growth moderated in September, whilst export sales declined for the seventh month in a row. Job creation in the Transport & Leisure sector was sharp and the fastest since August 2017. Accelerating from August, input cost inflation was the fastest of all sectors covered.

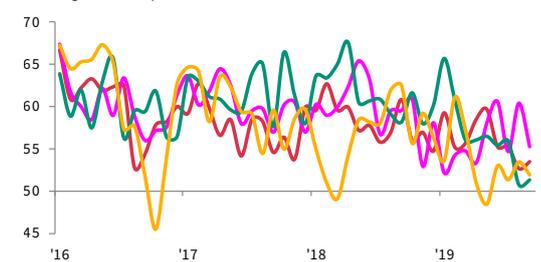
Business Activity Index

sa, >50 = growth since previous month



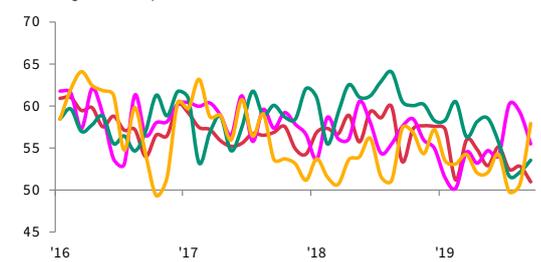
New Business Index

sa, >50 = growth since previous month



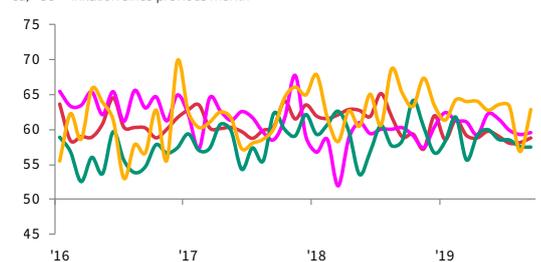
Employment Index

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 slowest pace since March 2013

The Composite Output Index* posted 51.0 in September, down from 51.8 in August and signalling the slowest rise in business activity in six-and-a-half years.

Central to the slower growth of Irish private sector output was the weakest expansion of service sector activity since May 2013. Meanwhile, manufacturing output declined for the third month running and at the same pace as in August.

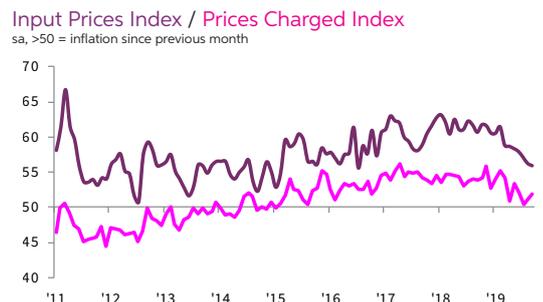
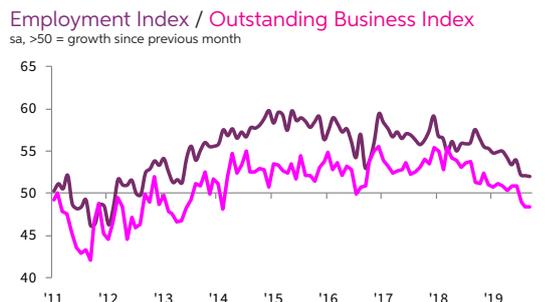
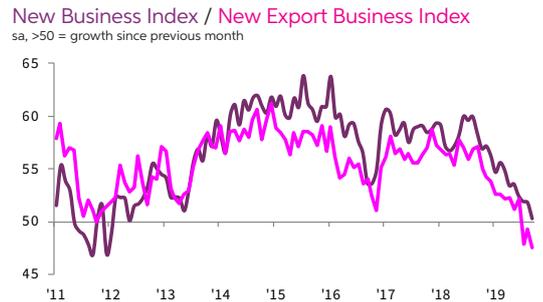
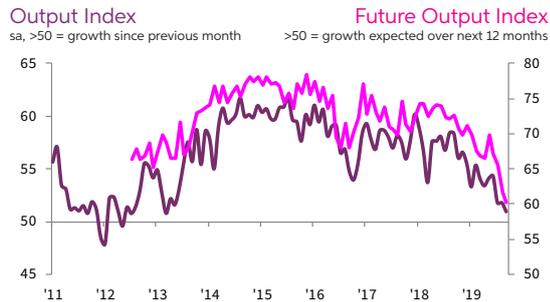
Inflows of total new business slowed for the fourth month in a row during September. The rate of growth was marginal and the softest since May 2012. Meanwhile, export sales shrank at the quickest rate for over ten years.

At the composite level, job creation eased for the third month running to the slowest in over six years. Manufacturing employment was unchanged from August, whilst service sector payroll growth quickened slightly.

Composite input prices rose at the slowest pace since July 2016, 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 to a three-month high.

Sentiment towards output over the coming year dropped to a series low for the second month running during September. Service sector optimism weakened to the lowest since December 2011, whilst manufacturers were the least confident in the 87-month series history.

**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.*



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.

September 2019 data were collected 12-25 September 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.