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AIB Ireland Services PMI®

Including AIB Ireland Composite 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

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.

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.

Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

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.

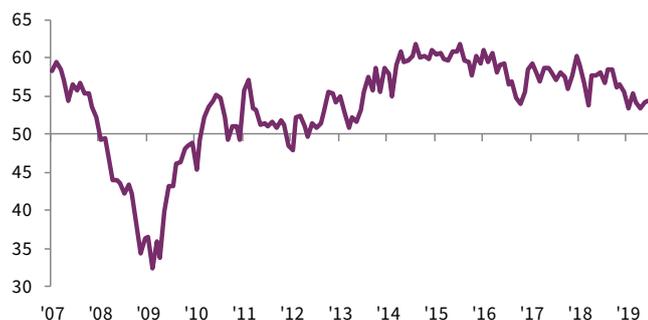
On the price front, the rate of input cost inflation dipped slightly from May, but nonetheless was steep. Higher fuel, staffing and utility costs were mentioned by panellists. The rate of output charge inflation also softened from May.

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.

Output rises at fastest pace since February

Composite Output Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

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.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"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."

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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.

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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