AIB Ireland Services PMI®
Including AIB Ireland Composite PMI®

Business activity growth at three-month low

Key Findings

- Export sales fall for first time since November 2016
- Employment growth slowest in over six years
- Input cost inflation at 16-month low

Business activity in Ireland’s service sector expanded at the slowest pace in three months during July, amid the first reduction in foreign demand since November 2016. Moreover, overall new order growth eased to a three-month low, as firms commented that Brexit uncertainty had negatively affected customer demand. As a result of softer demand conditions, service providers increased their payrolls at the slowest pace in over six years. Meanwhile, driven by slower raw material price rises the rate of input cost inflation eased to a 16-month low.

The headline seasonally adjusted Business Activity Index posted 55.0 in July, down from 56.9 in June and signalling the softest rise in business activity for three months. At the sector level, Financial Services firms posted the fastest rise in business activity of the four monitored categories.

Central to the slower rise in business activity was a weakening of customer demand conditions both domestically and abroad. Overall new order growth, though solid, eased to a three-month low, whilst export sales declined for the first time since November 2016 and at the fastest pace since July 2009. Panellists commented that they had observed a drop in UK business resulting from Brexit uncertainty.

Employment across the Irish service sector continued to increase during July. That said, the rate of job creation softened to the weakest since May 2013. Service providers commented that they had taken on additional staff in anticipation of higher sales activity later this year. All observed sectors recorded a rise in workforce numbers except Transport & Leisure, which saw a fractional decrease in headcounts in July.

Further solid increases in new orders contributed to another rise in outstanding business in July. The rate of backlog accumulation was solid, but eased to the slowest in three months. Work outstanding has now increased on a monthly basis since June 2013.

On the price front, the rate of input cost inflation moderated in July to a 16-month low. Nonetheless, cost burdens rose sharply, amid higher transport, fuel 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 was the lowest in three months, as Brexit uncertainty weighed on sentiment. Just under 43% of panellists were confident of a rise in business activity from present levels in 12 months’ time, linked to expectations of higher sales activity and new product developments.
AIB Ireland Composite PMI®

Output rises at slowest pace in over six years

Comment

Oliver Mangan, AIB Chief Economist, commented:

“According to the latest AIB services PMI survey, business activity in the sector continued to expand at a strong pace in July. Although, the headline index reading of 55.0 was lower than the 56.9 level registered in June and represented the slowest pace of expansion in three months. The Irish level is well above the flash services July PMIs of 53.3 and 52.2 for the Eurozone and US, respectively. This indicates stronger growth in the Irish economy.

“New orders growth was solid, however, the pace of increase did also slow to a three month low. Meanwhile, export orders contracted for the first time since November 2016, with a decrease in orders from the UK owing to Brexit uncertainty acting as a headwind. The service sector continued to create jobs, albeit at the weakest pace since May 2013 amid softer demand conditions.

“In terms of the four sectors covered in the survey, firms in Financial Services, Business Services and Technology/Media/Telecoms continued to register robust growth, supported by a strong rise in new orders. Meanwhile, activity in the Transport/Tourism/Leisure sector contracted for the second time in the past three months.

“In summary, the AIB Services PMI reading of 55.0 for July continues to point to a strong pace of expansion in activity in the services sector. This in contrast to the manufacturing PMI which fell to 48.7. Overall, it appears that strong growth in the large services sector is helping the Irish economy to continue to expand at a good pace. Looking ahead, firms in the sector remained very optimistic on the outlook for their businesses in the coming 12 months.”

The Composite Output Index* posted 51.8 in July, down from 54.4 in June and indicating the slowest increase in business activity since May 2013. Underpinning the slower growth of Irish private sector output was the sharpest decline in manufacturing production since April 2013. Meanwhile, service sector business activity growth, though marked, weakened to a three-month low. Moreover, the rate of expansion in private sector new business eased for the second consecutive month to the weakest in over six years. As with output, a drop in manufacturing order book volumes accompanied by weaker service sector sales dragged down composite new order growth.

On the employment front, composite workforce expansion was the slowest in 74 months, amid a weakening of payroll growth among both Irish manufacturers and service providers. Capacity pressures in the Irish economy eased in July, with the first reduction in backlogs recorded since July 2016. A further marked reduction in manufacturing unfinished orders outweighed a solid increase in service sector work-in-hand. Rates of both input cost and output price inflation weakened in July, with cost burdens rising at the slowest pace in exactly three years. The rate of selling price inflation was marginal and the softest in the current 54-month sequence of rising prices.

Looking forward, Irish companies were confident that output would increase over the coming year. Despite this, positive sentiment weakened to its lowest in just over six-and-a-half years.

*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.
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 to the previous month. The headline 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.

July 2019 data were collected 12-26 July 2019.

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

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