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AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Business activity rises at slowest pace since January

Key Findings

New business rises at softest rate in four months

Job creation at 75-month low

Business confidence lowest since December 2011

Activity growth among Irish service providers, though still solid, eased to the slowest since January during August. Meanwhile, inflows of overall new business expanded at the slowest pace in four months, amid reports from some firms of Brexit uncertainty negatively affecting orders from the UK. As a result of softer demand conditions, Irish service providers recorded the weakest payroll expansion since May 2013. Meanwhile, sentiment towards activity over the coming year dropped to the lowest since December 2011 as Brexit weighed on optimism.

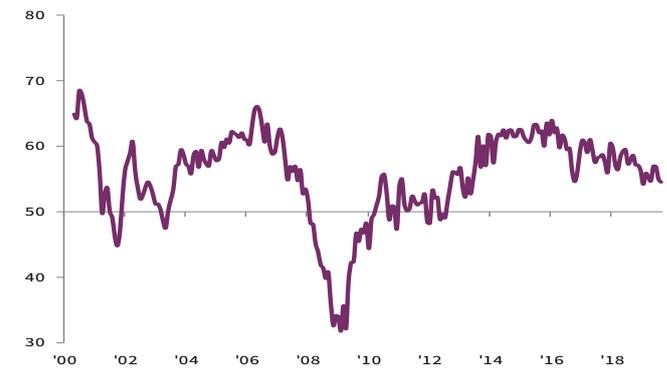
The headline seasonally adjusted Business Activity Index posted 54.6 in August, down from 55.0 in July and signalling the slowest rise in business activity since the start of this year. Though solid, the rate of growth was also weaker than the long-run series average. At the sector level, Financial Services companies registered the quickest rise in business activity during August, while a decrease in output was recorded among Transport & Leisure firms.

Underpinning the slower rise in business activity was a weakening of overall new order growth in August. The rate of expansion, though solid, eased for the third month running and was the slowest since April. As with output, Financial Services companies posted the fastest increase in overall new business.

Volumes of new work from abroad also rose during August, reversing the decline observed in July. That said, the rate of growth was marginal amid reports of Brexit uncertainty negatively affecting orders from the UK. Among the monitored sectors, firms in the Business Services and Technology, Media & Telecoms (TMT) categories posted an

Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

increase in export sales, whilst their peers in the Financial Services and Transport & Leisure sectors recorded a drop in new business from abroad.

The rate of job creation, despite being solid, eased to a 75-month low during August. Where employment rose, panellists reported hiring staff as a result of receiving greater customer orders. The Financial Services sector posted the strongest expansion in staffing levels.

The rate of input cost inflation dipped to the slowest since November 2016. Panellists mainly linked inflation to higher fuel and utilities costs, although there were also reports of greater wage bills.

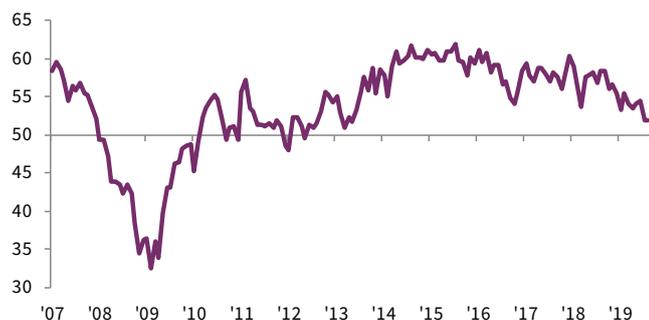
While the rate of input cost inflation eased, companies increased their output charges at a faster pace in August. The rate of selling price inflation was solid and the quickest since May.

Looking forward, business confidence was the lowest since December 2011, dropping sharply from July as Brexit uncertainty weighed on sentiment. One-third of panellists were confident of a rise in business activity from present levels in 12 months' time, but 13% predicted a fall. Optimism was linked to expectations of higher new orders and product development initiatives.

Modest rise in output during August

Composite Output Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

The Composite Output Index* posted 51.8 in August, the same as in July and indicating a modest expansion of business activity.

Central to the expansion of Irish private sector output was an increase in service sector activity, albeit one that was the weakest since the start of the year. Manufacturers, on the other hand, recorded a further decrease in output, though the rate of contraction eased from July.

Levels of private sector new business rose at the slowest pace since May 2013, driven by the fourth straight decline in manufacturing order book volumes. As with output, service sector order growth slowed from July. Export sales, meanwhile, decreased for the second month running, though the rate of reduction eased from July.

Slower new business growth enabled Irish firms to work through their backlogs in August. The rate of backlog depletion was modest, but the fastest since February 2014.

On the employment front, Irish private sector workforce numbers rose modestly and at the slowest pace since May 2013. Service providers increased their headcounts at the slowest pace in 75 months, whilst manufacturing employment growth picked up slightly.

Input price inflation slowed to a 37-month low, amid the softest increase in service sector cost burdens since November 2016. In contrast, output charge inflation quickened from July.

Sentiment regarding output in the year ahead dropped to a series low during August. Optimism among service providers was the lowest since December 2011, whilst manufacturers were the least confident since July 2016.

*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 Irish services sector continued to expand at a solid pace in August according to the latest AIB services PMI survey. Although the headline index reading dipped to 54.6 from 55 in July, it remains within the 54-57 range that has been evident so far this year. However, this is down from the levels seen in previous years.

"It points to a slower pace of activity in the Irish economy in 2019. Nonetheless, the Irish reading of 54.6 is well above the flash August services PMIs of 53.4 and 50.9 registered by the Eurozone and US, respectively. This indicates that the Irish economy is continuing to outperform in terms of growth.

"The impact of Brexit uncertainty was evident in some key sub-components of the August survey. Growth in new orders eased in the month, with some firms reporting a drop in UK orders owing to Brexit uncertainty. Furthermore, business confidence fell sharply to its lowest level since December 2011 as Brexit weighed on the outlook for activity in the sector. Meanwhile, although employment in the services sector continued to expand at a solid pace in August, it was still the slowest rate of job creation seen since May 2013.

"In terms of the four sectors covered in the survey, firms in both Financial and Business Services continued to see robust growth. However, the Technology/Media/Telecoms sector expanded at its slowest pace in over six years. Meantime, activity in the Transport/Tourism/Leisure sector contracted for the second consecutive month."

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