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AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Service sector activity rises at fastest pace since November 2018

Key Findings

New business growth at five-month high

Job creation quickens

Business confidence highest since January

Business activity in Ireland's service sector expanded sharply and at the fastest pace since November 2018 during May, in line with a marked increase in overall new business. The rate of new order growth quickened to a five-month high, amid improving economic conditions and more successful marketing efforts. As a result of firmer demand conditions, Irish service providers recorded a sharper workforce expansion. Meanwhile, sentiment towards activity over the coming year was the highest since January, as expectations of stronger future economic conditions boosted confidence.

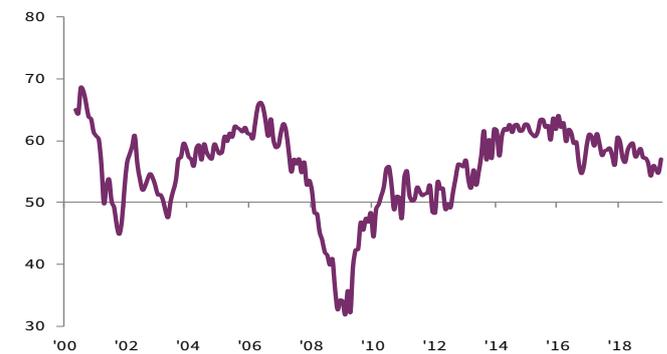
The headline seasonally adjusted Business Activity Index posted 57.0 in May, up from 54.7 in April and signalling the fastest rise in business activity since November 2018. Moreover, the rate of growth was marked and faster than the long-run series average. At the sector level, Business Services companies registered the quickest rise in business activity during May, while a fall was signalled in the Transport & Leisure sector.

Underpinning the faster rise in business activity was a quickening of new order growth in May. The rate of expansion was marked and the fastest in five months, amid reports from panellists of improving economic conditions and more successful marketing efforts. As with output, Business Services companies posted the fastest increase in overall new business.

Volumes of new work from abroad also rose during May and at the fastest pace since the start of 2019. Service providers stated that they had observed an improvement in demand conditions from the UK, European and Middle Eastern markets. Among the monitored sectors, firms in the

Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

Technology, Media & Telecoms (TMT) category led export growth, whilst Transport & Leisure companies posted a third consecutive monthly decline in foreign demand.

Faster new order growth contributed to another increase in outstanding business in May. Moreover, the rate of backlog accumulation was sharp and the fastest since July 2018. Work outstanding has now risen on a monthly basis for exactly six years.

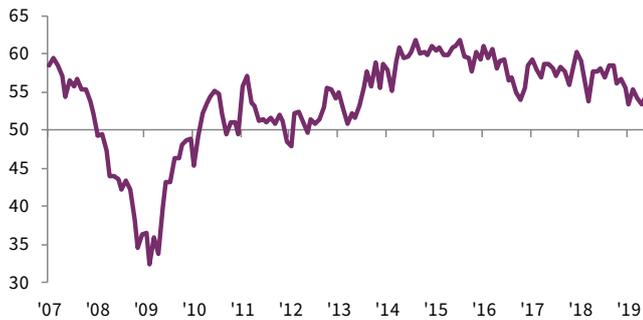
Employment growth was solid and quickened slightly from April's recent low. Anecdotal evidence from panellists attributed the rise in headcounts to greater levels of activity and new business. Companies operating in the TMT sector posted the strongest expansion in staffing levels.

On the price front, the rate of input price inflation quickened in May to a three-month high, driven by reports of greater fuel and staff costs. Output charges also rose in May, with the rate of inflation the fastest in three months.

Predictions of higher new orders and business investment supported optimism that activity will continue to rise over the coming year. Sentiment picked up in May and was the sharpest since January. Around 41% of panellists predicted a rise in output over the next 12 months.

Output growth quickens from April

Composite Output Index
sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

The Composite Output Index* posted 54.1 in May, up from 53.4 in April and signalling a faster rise in business activity.

Underpinning the quickening of Irish private sector output growth was an up-turn in service sector business activity, which expanded at the fastest pace since November 2018. Manufacturers, on the other hand, recorded the first decline in production since the aftermath of the Brexit referendum in July 2016.

Similarly, levels of private sector new business rose at a quicker pace in May, driven by the fastest increase in services orders for five months. As with output, manufacturers recorded a decline in order book volumes, with the rate of contraction the fastest in over six years.

Greater inflows of new business among service providers contributed to an upturn in work outstanding, with the rate of accumulation quickening slightly from April.

At the composite level, job creation eased for the second month running to the slowest since September 2016. Manufacturing employment rose marginally and at the slowest pace in 32 months, whilst service sector payroll growth quickened slightly.

Composite input prices rose at the slowest pace since August 2017, 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 from April's 44-month low.

Sentiment towards output over the coming year improved to a four-month high, amid an increase in both service provider and manufacturer confidence.

*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:

"There was a marked strengthening in business activity in the services sector in May according to the latest AIB PMI data. The index jumped to 57.0 for the month, up from 54.7 in April. This was the fastest pace of expansion recorded since November 2018. It was far above the flash PMI readings of 50.9 and 52.5 recorded in the US and Eurozone, respectively, for May, pointing to much stronger growth in the Irish economy.

"New order growth was very strong, growing at its fastest pace in five months. Panellists reported rising order demand from both at home and abroad. As a result, volumes of unfinished orders rose at their fastest rate since July 2018 as backlogs increased amid growing capacity constraints. Employment growth in services remained solid.

"In terms of the four sectors covered in the survey, firms in Business Services, Technology/Media/Telecoms and Financial Services registered robust growth in activity, with sharply rising new orders. The one disappointment was that the Transport/Tourism/Leisure sector posted its first decline in activity since May 2018.

"Overall, the strong AIB Services PMI reading of 57.0 for May is very welcome given that the manufacturing PMI fell to 50.4. This suggests that the Irish economy is continuing to expand at a good pace, driven by strong growth in the large services sector. It is also encouraging that business confidence in the services sector in May about the outlook for the year ahead, rose to its highest level in four 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.

May 2019 data were collected 13-28 May 2019.

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

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