

AIB Ireland Services PMI®

Services activity growth continues to accelerate at end of 2019

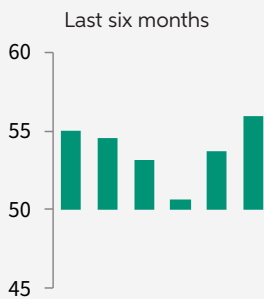
Key Findings

Strongest rise in business activity since June

Solid job creation in services sector maintained

Business confidence continues to recover

Ireland Services Business Activity Index



The Irish services economy continued to regain momentum in December, according to the latest AIB PMI® survey data. New business and total activity both rose at the fastest rates in six months, leading to sustained employment growth and rising levels of outstanding contracts in the sector. Service providers also grew more optimistic regarding the 12-month business outlook, with the Future Activity Index hitting a 17-month high.

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

"The AIB Services PMI business activity index hit a 6-month high of 55.9 in December, signalling a strong finish to the year for the sector. Thus, the rebound seen in November has continued – the index rose to 53.7 in that month, up from a seven year low of 50.6 in October.

"The recovery in activity has been driven by stronger domestic orders in particular, with a pick-up in new export orders also helping. Total new orders rose at their strongest pace since June. Rising orders and activity levels mean that service providers are experiencing increasing backlogs and boosting their workforces, with employment continuing to grow at a solid pace.

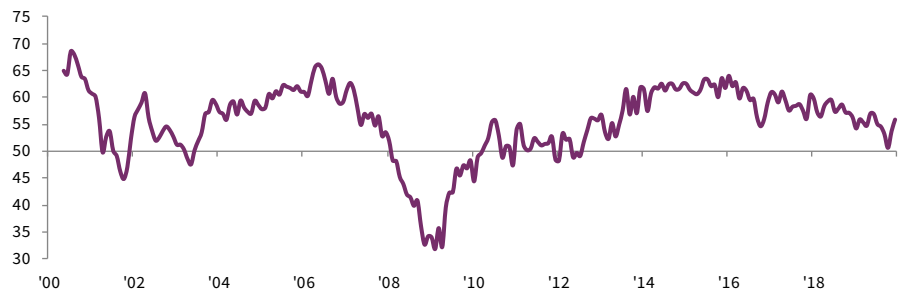
"Business activity grew very strongly in Financial Services (16-month high), Business Services (six-month high), and Technology/Media/Telecoms (seven-month high) during

December. The fourth sector covered in the survey, Transport/Tourism/Leisure, saw strong growth in new orders.

"Meanwhile, there was a further sharp improvement in business confidence, with expectations for business activity over the coming year climbing to a 17-month high. A number of firms linked the improving confidence levels to reduced Brexit uncertainty.

"Overall then, this report indicates that the Irish services sector finished 2019 in very good shape, despite the challenges posed by Brexit uncertainty and weakening global growth. Nonetheless, the rate of expansion in the services sector in 2019 as a whole, though impressive, was the slowest since 2012, indicating that external headwinds did dampen activity somewhat last year."

Services Business Activity Index
sa, >50 = growth since previous month



Overview

The headline figure from the survey is the Ireland 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 Business Activity Index remained above the no-change mark of 50.0 in December, extending the current sequence of uninterrupted growth in services output that began in August 2012. Moreover, the latest figure of 55.9, up from 53.7 in November, signalled the fastest rate of expansion since June. That said, the trend for 2019 as a whole (54.8) represented the weakest growth since 2012 (52.3).

Data broken down by sub-sector revealed that Financial Services continued to outperform in terms of total activity growth at the end of 2019. Business services and the Technology, Media & Telecoms (TMT) sector also recorded strong increases in activity. In contrast, the Travel, Tourism & Leisure segment registered a decline for the fifth time in eight months.

Underpinning the continued pick-up in growth of total activity in December was a stronger increase in new business. New work has risen every month since August 2012, and the rate of expansion in December was the fastest in six months. That said, it remained weaker than the trend shown over the past seven years. This is partly explained by weak international markets relative to domestic demand. New export business increased at a faster rate in December, but one that remained modest compared with total new work after recovering from a stagnation in the third quarter.

The level of outstanding business held at Irish service sector companies continued to rise in December, continuing the trend shown since the second half of 2013. The rate of growth was broadly in line with the trend for 2019, and above the long-run survey average.

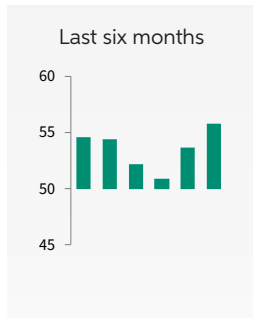
Firms addressed rising workloads by recruiting additional staff in December. The rate of job creation eased to a three-month low, but remained solid overall. Companies in the TMT sector expanded employment at the fastest rate among the four monitored sub-sectors, followed by Financial Services.

With the trend in new business gaining momentum at the end of 2019, companies' expectations for business activity over the coming year were the strongest in 17 months. A number of firms linked positive sentiment to the prospect of reduced uncertainty regarding Brexit. In line with the trend for employment, expectations for activity were strongest in the TMT sector, followed by Financial Services.

Average input prices continued to rise at a strong overall rate in December, albeit one that eased slightly since November. The seasonally adjusted Input Prices Index was slightly above the 19-year long-run survey average. Wages, fuel and utilities were the main sources of cost inflationary pressure at the end of 2019.

Service providers continued to pass on greater input costs to clients through higher charges in December. The rate of inflation was little-changed since November and remained well above the long-run survey average. Firms operating in the Business Services sector raised their charges the most during December.

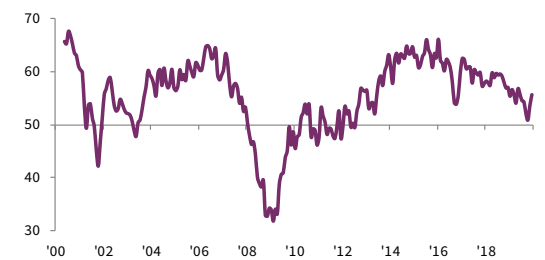
New Business Index



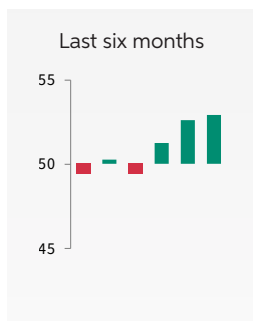
Inflows of new business at Irish service providers continued to regain momentum in December. Having increased at the slowest rate in just over seven years in October, new work expanded at the fastest pace since June in the final month of 2019. The seasonally adjusted New Business Index was also just above its long-run trend level of 55.4. A number of firms reported winning new customers during the month.

New Business Index

sa, >50 = growth since previous month



New Export Business Index

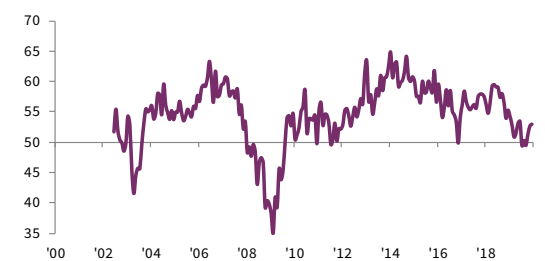


The volume of new export business continued to expand in December. International demand has risen throughout the final quarter of 2019 following a broad stagnation during the third quarter. Moreover, the rate of growth at the end of the year was the strongest since June.

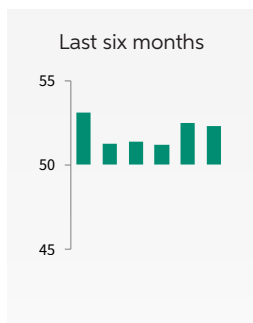
That said, international markets remained softer than domestic demand, and the seasonally adjusted New Export Business Index was below its long-run trend level.

New Export Business Index

sa, >50 = growth since previous month



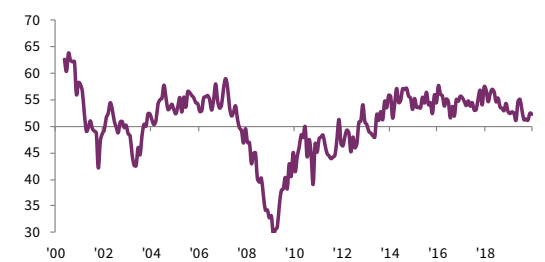
Outstanding Business Index



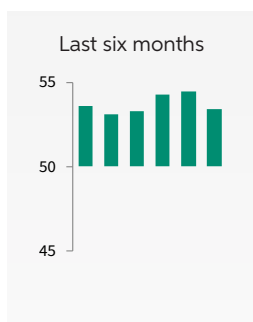
Irish service providers reported that their outstanding business continued to grow, on average, in December. The rate of expansion in backlogs was little-changed from November's moderate pace, and broadly in line with the trend for the year as a whole. Overall, the pressure on service sector capacity during 2019 was the weakest since 2013.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

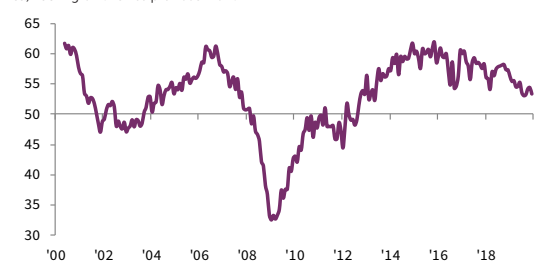


Service providers in the Republic of Ireland continued to boost their workforces in December, extending the current run of job creation in the sector that was initiated in September 2012.

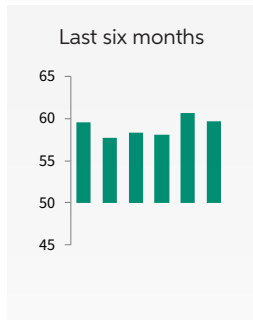
The rate of workforce growth eased to a three-month low, but was solid overall and above the long-run survey trend.

Employment Index

sa, >50 = growth since previous month



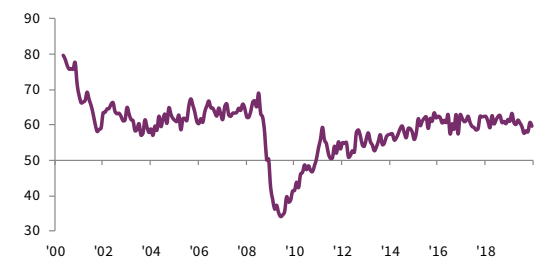
Input Prices Index



Cost pressures facing Irish service providers remained strong in December. The seasonally adjusted Input Prices Index was only slightly lower than November's six-month high, and remained above its long-run trend level of 59.0. Almost one-quarter of survey respondents reported higher average input prices during the final month of 2019, while only 3% mentioned lower costs. Labour, fuel and utilities were all reported have become more expensive.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index

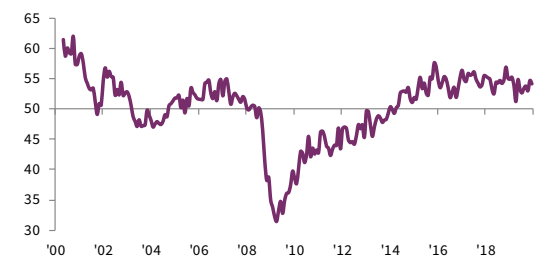


Survey data revealed another strong rise in average prices charged by service providers at the end of 2019. The rate of inflation was little-changed from November's six-month high, and well above the series average.

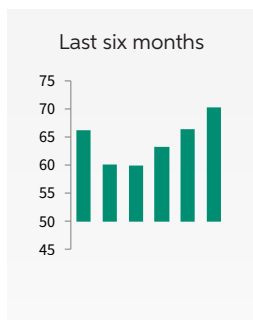
Firms linked higher charges to increased staff costs and efforts to improve profitability.

Prices Charged Index

sa, >50 = inflation since previous month



Future Activity Index

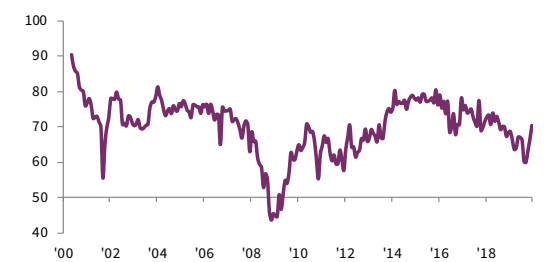


Business expectations continued to recover strongly from September's near-eight year low in December. The Future Activity Index rose to its highest since July 2018, and was broadly in line with its long-run trend level.

Almost half of survey respondents hold positive forecasts for business activity in 2020, versus less than 8% that foresee a decline. A number of firms linked improving expectations to reduced Brexit uncertainty.

Future Activity Index

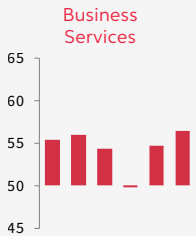
>50 = growth expected over next 12 months



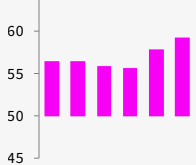
Services Sub-sectors

Business Activity Index

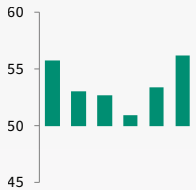
Last six months



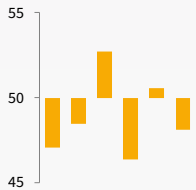
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

The Business Services sub-sector continued to experience a recovery in activity growth in December, following October's stagnation. New business rose at the sharpest rate in seven months, leading to a further build-up of outstanding contracts. Employment growth was maintained, albeit at a slower rate. The sector was, however, less confident about the outlook than other areas of the services economy.

Financial Services

Growth of Financial Services activity accelerated at the end of 2019, and remained the fastest among the four sub-sectors monitored.

New business growth also strengthened, but remained below the trend for total activity. Reflecting this, growth in outstanding contracts slowed at the end of 2019. Employment growth strengthened but remained below the 2019 trend.

Technology, Media & Telecoms

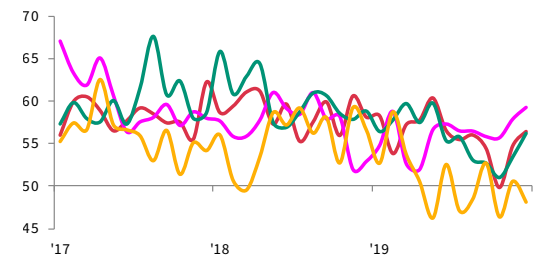
Growth of business activity in the Technology, Media & Telecoms (TMT) sector picked up in December following a subdued four-month period. The rate of expansion was the fastest since May, driven by an acceleration in new business growth. TMT firms were the most optimistic across the service sector as a whole at the end of 2019, and this was reflected in the sector topping the employment growth rankings in December.

Transport, Tourism & Leisure

The Transport, Tourism & Leisure sector continued to lag the wider services economy in December, as has been the case throughout much of 2019. Activity declined for the fifth time in eight months, although new business rose. More positively, the 12-month outlook for activity in the sector improved to an 11-month high. Firms also faced weaker cost pressures than the service sector average.

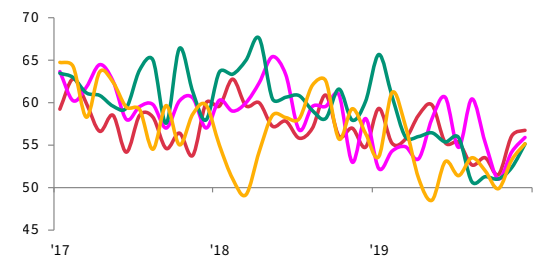
Business Activity Index

sa, >50 = growth since previous month



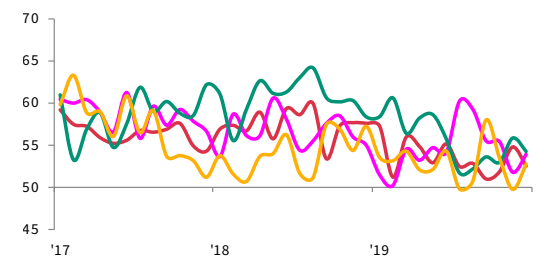
New Business Index

sa, >50 = growth since previous month



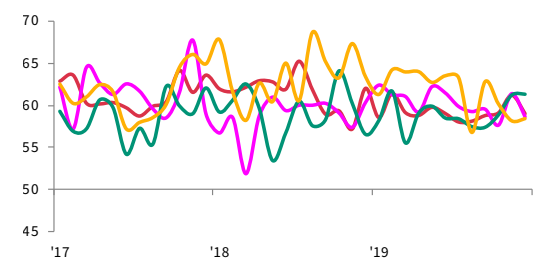
Employment Index

sa, >50 = growth since previous month



Input Prices Index

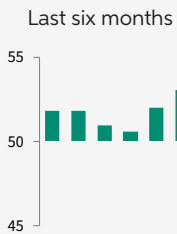
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Private sector output growth accelerates to six-month high in December

Composite Output Index



The Composite Output Index* rose to 53.0 in December, from 52.0 in November. The latest figure signalled the sharpest rate of economic growth in six months, and was in broadly in line with the trend for 2019 as a whole (52.9). This was, however, the weakest annual average since 2012, during the eurozone sovereign debt crisis.

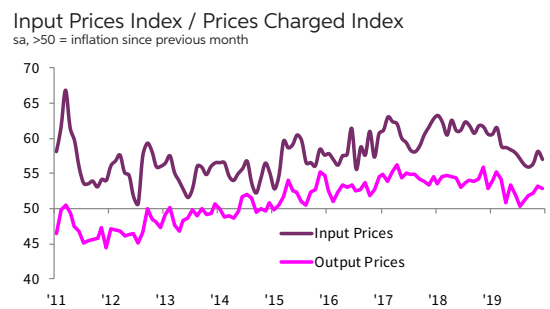
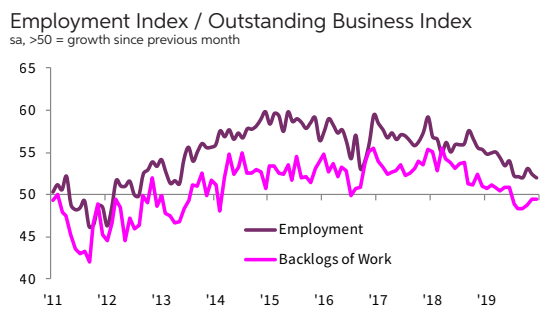
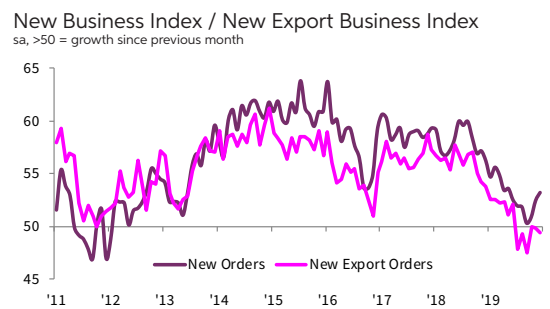
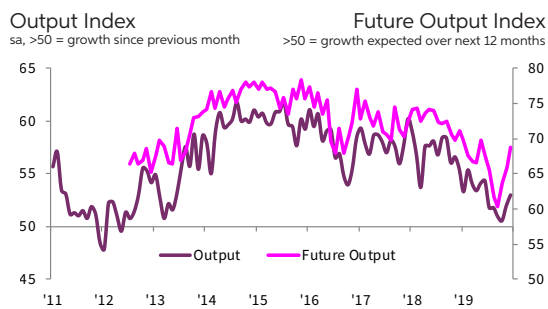
The stronger increase in overall output reflected a faster expansion of the service sector, where activity rose by the most since June. In contrast, manufacturing production fell for the second month running, and at a faster rate.

Private sector new business increased at the fastest rate in seven months in December. This also reflected service providers, as manufacturing new orders declined following mild growth in October and November.

Although output growth strengthened in December, jobs were added at the weakest rate since May 2013. Moreover, manufacturers trimmed staff for the second month running.

Private sector firms in Ireland were increasingly optimistic regarding growth prospects for 2020 in December. The Future Output Index rose to a seven-month high, reflecting stronger readings for both the manufacturing and services sectors.

*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 Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.



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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.

December data were collected 5-18 December 2019.

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

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