

AIB Ireland Services PMI®

Service sector continues to take off in June, accompanied by inflation

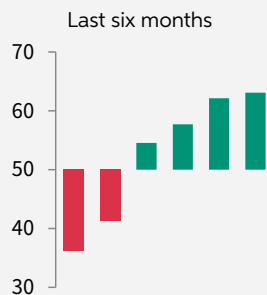
Key Findings

Sharpest growth in activity and new work since January 2016

Strongest input price inflation since July 2008

Jobs growth approaches four-year high

Ireland Services Business Activity Index



AIB PMI® survey data for June showed a continuing steep rebound in the Irish service sector, as lockdown restrictions were lifted and more sectors of the economy reopened. Total activity, new work and outstanding business all increased at the fastest rates since January 2016, while employment rose the most since September 2017. The 12-month outlook remained strongly positive as firms expect a continued recovery from the pandemic. Less positively, input price inflation reached the highest in nearly 13 years.

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

"The AIB Irish Services PMI for June shows that growth in the sector remained very strong in the month. The business activity index rose to 63.1 from 62.1 in May and 57.7 in April, its highest level since January 2016, driven by a release of pent-up demand as more lockdown restrictions were eased. This is in line with trends elsewhere, with the flash Services PMIs for June standing at 61.7, 58.0 and 64.8 in the UK, Eurozone and US, respectively.

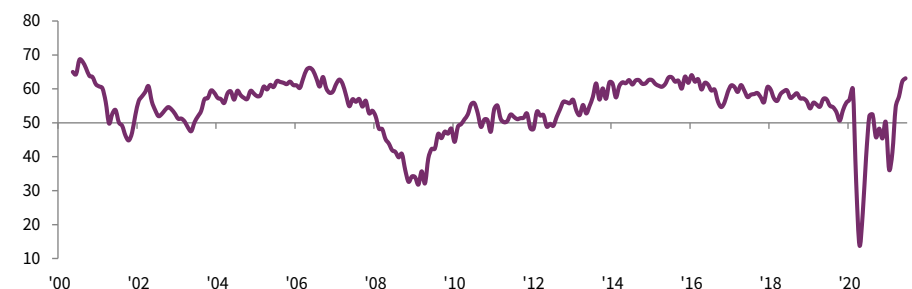
"The June data signalled surging demand in the Irish economy, with new business increasing at its fastest pace in five and a half years. Growth in new export business, while improving, is not nearly as strong. It has been held back in part by a continuing contraction in business from overseas in Transport & Tourism.

"Growth in overall business activity, though, was very strong across all four

sub-sectors in the survey for the third consecutive month. Exceptionally strong growth was recorded in the Transport/Tourism/Leisure sector as hospitality started to re-open. The pick-up in new business resulted in a further marked rise in the volume of outstanding work for the fourth month in a row. Meanwhile, employment expanded particularly strongly in June.

"Cost pressures continue to intensify, with input price inflation hitting its highest level since 2008 on a broad range of price rises. Prices charged to customers increased at a more moderate pace, pointing to a continuing margin squeeze in the sector. Firms in all four sub-sectors, though, are very optimistic on the 12-month outlook, with the Future Activity index at its second highest level since September 2017."

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



Overview

The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The index therefore varies 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 Services Business Activity Index remained above the no-change mark of 50.0 for the fourth successive month in June, rising to 63.1 from 62.1 in May. The latest figure signalled the fastest rate of growth since January 2016. Over the second quarter as a whole the Index trended at 61.0, a marked turnaround from the lockdown-influenced 44.0 in the first quarter and the highest quarterly figure since Q1 2016. The month-on-month rise in the Index in June was, however, the smallest in the current growth sequence.

Growth of activity was broad-based by sub-sector for the third consecutive month in June. The strongest rate of growth was signalled in Transport, Tourism & Leisure (71.2), which almost equalled the record rate of expansion set in September 2000. Growth eased since May in Technology, Media & Telecoms (62.6) and Business Services (60.3), and accelerated in Financial Services (60.8).

The surge in demand for services continued in June, with new business increasing for the fourth month running and at the fastest rate since January 2016. Firms reported new work linked to business reopenings and the lifting

of lockdown restrictions. Data indicated that domestic demand remained the main growth driver, as new export business continued to increase more slowly than total new work. By sub-sector, new business increased most in Transport, Tourism & Leisure, which set a new record rate of growth.

The ongoing revival in demand led to greater pressure on business capacity in June. The level of outstanding work rose for the fourth month running, and at the fastest rate since January 2016. Backlogs rose across all four monitored sub-sectors, led by Business Services and Transport, Tourism & Leisure.

Incomplete work rose despite a faster rate of workforce growth in June. Service sector employment increased for the fourth successive month, and at the strongest pace since September 2017. Job creation was most prominent in Technology, Media & Telecoms.

Services sector companies in Ireland remained highly optimistic regarding the 12-month outlook for business activity in June. Sentiment eased only slightly since May and was the second-strongest since September 2017.

June data indicated a further intensification of inflationary pressures in the Irish service sector. The rate of input price inflation accelerated for the fourth time in five months to the highest since July 2008. Fuel, wages, insurance, utilities, freight and Brexit-related costs were all reported to have risen during the month. Companies continued to pass on higher costs to end customers in June, with average prices charged rising at the fastest rate since November 2018.



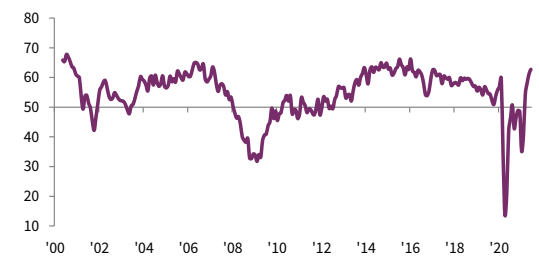
New Business Index



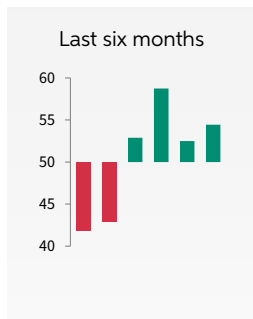
Demand for services in Ireland continued to rebound strongly in June, as the volume of new business rose for the fourth successive month. Moreover, the rate of growth accelerated to the strongest since January 2016. Firms widely linked higher new contracts to increased customer activity as restrictions were lifted and businesses reopened. There was a survey-record rise in new business in the Transport, Tourism & Leisure sub-sector in June.

New Business Index

sa, >50 = growth since previous month



New Export Business Index

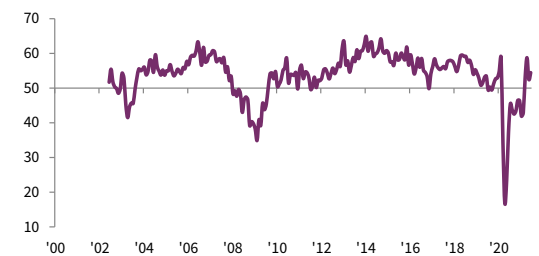


The level of new business placed from international clients rose for the fourth month running in June. Anecdotal evidence mentioned the continued diversion of EU business from the UK to Ireland due to Brexit, and also rising UK demand.

The rate of growth in services exports quickened from May and was robust overall, but remained slower than that seen in April and when compared with overall demand.

New Export Business Index

sa, >50 = growth since previous month



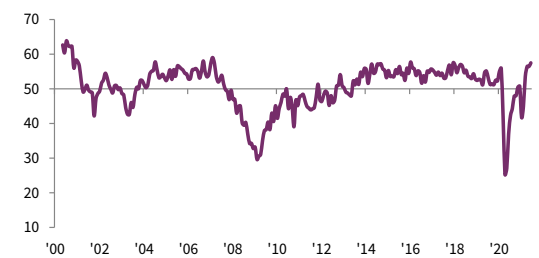
Outstanding Business Index



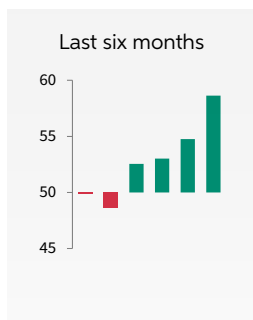
Pressure on service sector capacity grew in June, with the volume of outstanding business rising for the fourth straight month. The rate of expansion in the latest period was among the sharpest registered in over 14 years. Companies linked rising backlogs to the release of pent-up demand as restrictions were lifted, and staff shortages partly due to workers taking accrued annual leave. All four sub-sectors posted strong increases in outstanding work in June.

Outstanding Business Index

sa, >50 = growth since previous month



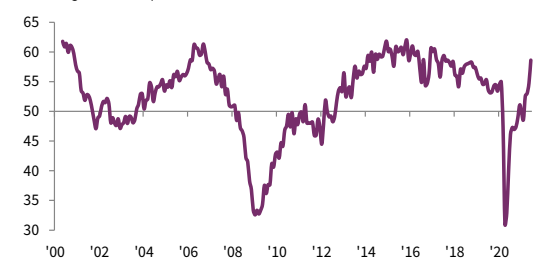
Employment Index



There was a notable uptick in the rate of job creation in June as firms sought to accommodate greater workloads. Overall employment in the service sector increased for the fourth consecutive month, and at the sharpest rate since September 2017. Moreover, the month-on-month rise in the seasonally adjusted Employment Index (3.8 points) was among the largest on record.

Employment Index

sa, >50 = growth since previous month



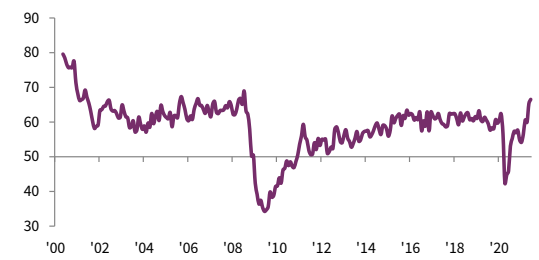
Input Prices Index



Cost inflationary pressure at Irish service providers continued to build in June. Average input prices rose for the twelfth successive month, and at the fastest rate since July 2008. Fuel, wages, insurance, utilities, freight and Brexit-related costs were all reported to have risen during the month. Inflation was strongest in the Transport, Tourism & Leisure sub-sector.

Input Prices Index

sa, >50 = inflation since previous month



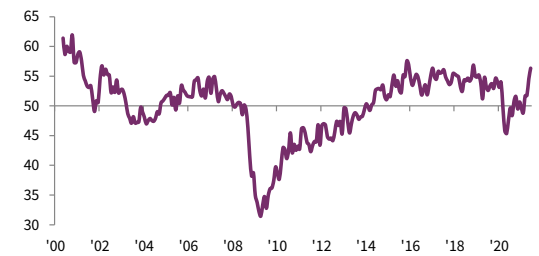
Prices Charged Index



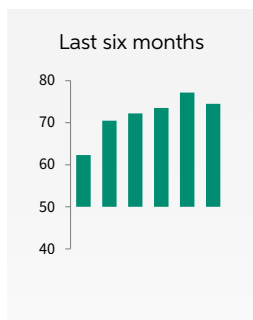
Irish service providers increasingly passed on higher input costs to customers in June. Charges rose for the fourth month running, and at the sharpest rate since November 2018. The sharpest increase in prices charged was in the Transport, Tourism & Leisure sub-sector, and the weakest in Financial Services.

Prices Charged Index

sa, >50 = inflation since previous month



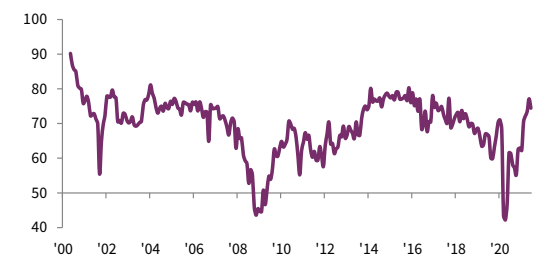
Future Activity Index



The year-ahead business outlook remained strongly positive in June as restrictions were lifted and more sectors of the economy reopened. The overall strength of sentiment eased slightly since May, but was still the second-highest since September 2017. Over half of firms (57%) expect growth of activity by June 2022, compared with less than 9% that forecast a decline.

Future Activity Index

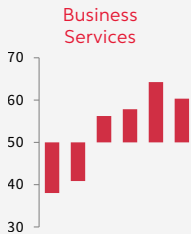
>50 = growth expected over next 12 months



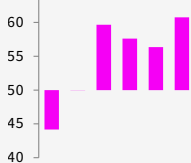
Services Sub-sectors

Business Activity Index

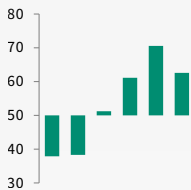
Last six months



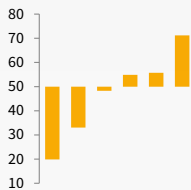
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Activity at Irish business services firms rose sharply again in June. The rate of growth eased since May and was the slowest among the four sub-sectors, the first time Business Services had been the bottom-ranked sector since February 2019. That said, outstanding business increased at the fastest rate among the four sub-sectors. New business and employment both rose sharply during June.

Financial Services

Financial services activity in Ireland increased for the fourth successive month in June. Moreover, the rate of growth rebounded since May and was the fastest since February 2020. Employment rose at the strongest pace in nearly two years, albeit the slowest among the four sub-sectors in June. Financial services registered the softest rates of inflation in both input prices and charges in June.

Technology, Media & Telecoms

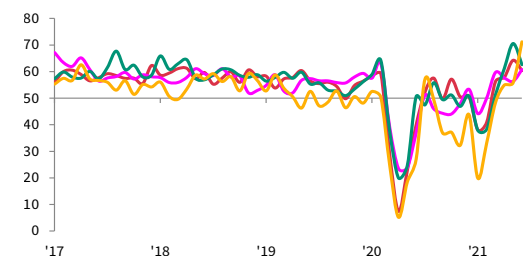
Activity in the Technology, Media & Telecoms sector increased for the fourth consecutive month in June, although the rate of growth slowed since May's 20-year high. New business growth followed a similar trend to total activity, although outstanding work continued to rise. The sector registered the strongest increase in employment among the four monitored sub-sectors in June.

Transport, Tourism & Leisure

June data signalled a significant rebound in growth of activity in the Transport, Tourism & Leisure sector. The rate of growth was the strongest among the four monitored sub-sectors, and the joint-second highest on record. The sector also recorded the strongest gain in new business (a series record) and the sharpest rates of both input price and charge inflation of the four monitored sub-sectors.

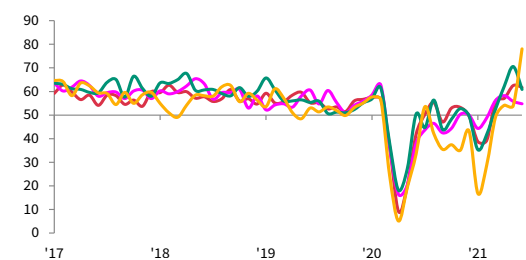
Business Activity Index

sa, >50 = growth since previous month



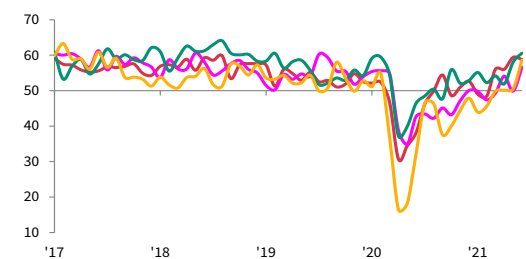
New Business Index

sa, >50 = growth since previous month



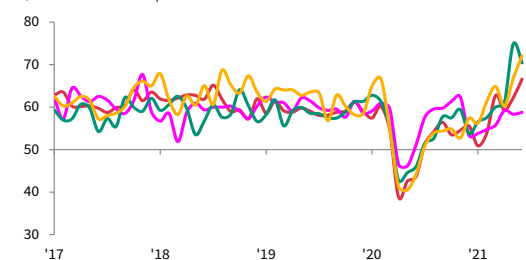
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month

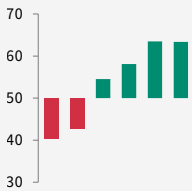


AIB Ireland Composite PMI®

Output growth remains close to May's record pace in June

Composite Output Index

Last six months



Irish private sector output continued to expand at a record pace in June, spurred on by a faster rise in new business. Employment grew at the strongest rate in three-and-a-half years, but this failed to prevent another record increase in outstanding business.

The Ireland Composite Output Index registered 63.4 in June, little-changed from May's record high of 63.5 and signalling another marked expansion in private sector business activity. Both manufacturing and services registered sharp rates of growth, with a slight easing of growth in the former offset by an acceleration in the latter.

The volume of new business received by private sector firms increased for the fourth month running, and at the fastest rate since January 2016. Moreover, it was the third-sharpest rate of expansion in the series history. The level of

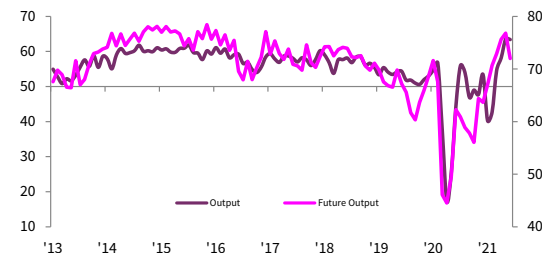
incomplete work increased for the fourth month running, and at a rate unchanged from May's all-time high.

Private sector jobs were added for the seventh consecutive month in June, and at the fastest rate since December 2017. Manufacturers continued to hire at a stronger rate than service providers, although the differential narrowed notably in June.

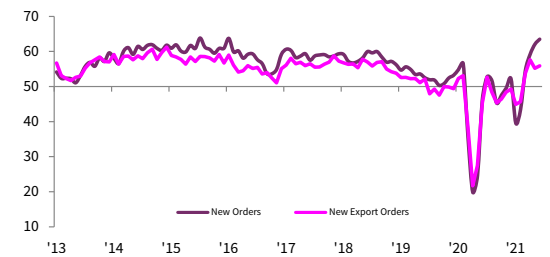
Input price inflation reached the highest since October 2000 in June, with the manufacturing sector almost setting a new survey record. Output prices increased at the fastest rate since that series began in September 2002.

*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.

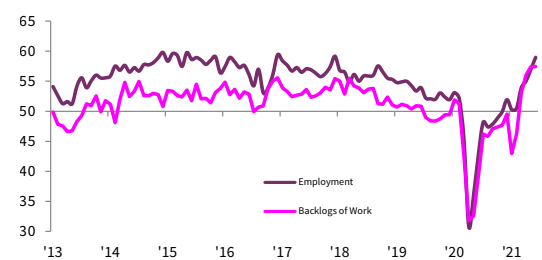
Output Index / Future Output Index
sa, >50 = growth since previous month >50 = growth expected over next 12 months



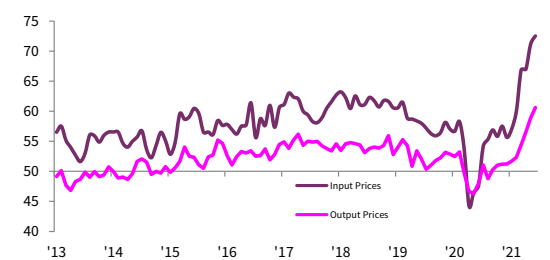
New Business Index / New Export Business Index
sa, >50 = growth since previous month



Employment Index / Outstanding Business Index
sa, >50 = growth since previous month



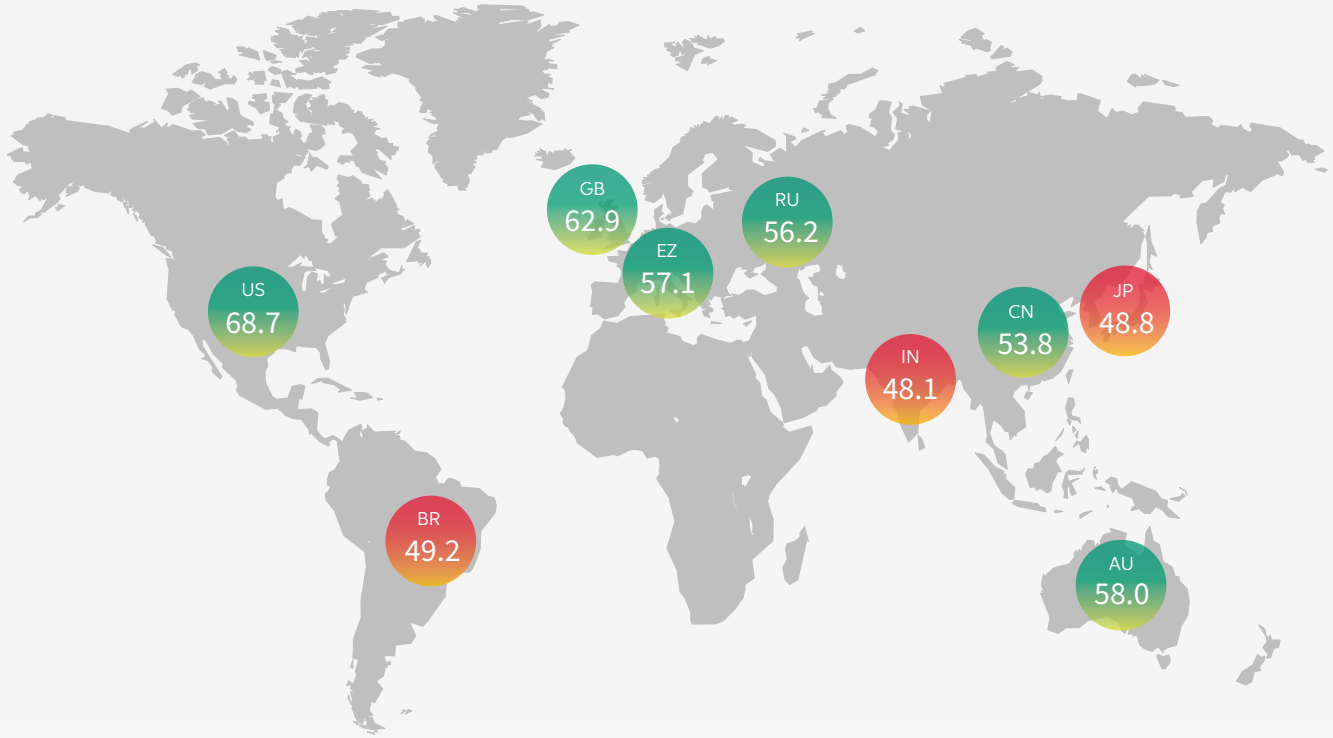
Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



International PMI

Composite Output Index, May '21

sa, >50 = growth since previous month



Composite Output Index

sa, >50 = growth since previous month



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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.

Data were collected 11-25 June 2021.

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

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