

AIB Ireland Services PMI®

Business activity growth at three-month low

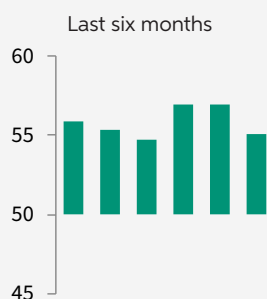
Key Findings

Export sales fall for first time since November 2016

Employment growth slowest in over six years

Input cost inflation at 16-month low

Ireland Services Business Activity Index



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.

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

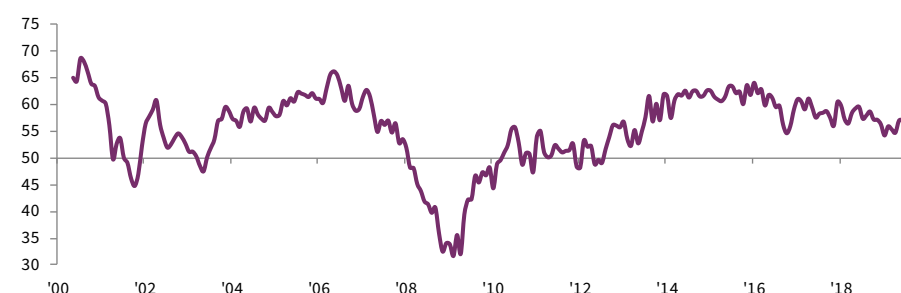
"According to the latest AIB services PMI survey, business activity in the sector continued to expand at a strong pace in July. Although, the headline index reading of 55.0 was lower than the 56.9 level registered in June and represented the slowest pace of expansion in three months. The Irish level 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."

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



Overview

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.

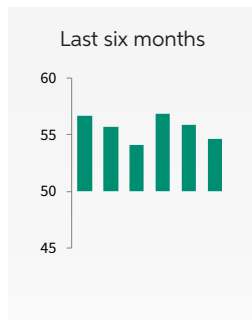
Employment across the Irish service sector continued to increase during July. That said, the rate of job creation softened to the weakest since May 2013. Service providers commented that they had taken on additional staff in anticipation of higher sales activity later this year. All observed sectors 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.

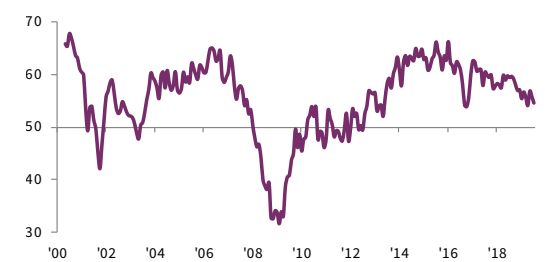
New Business Index



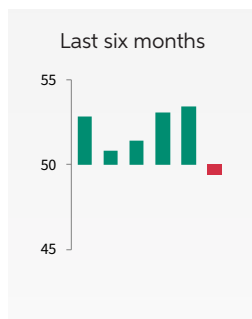
New order growth among Irish service providers eased to a three-month low during July, amid reports of softer customer demand. The rate of expansion was marked, but weaker than the long-run series average. Incoming new business has increased on a monthly basis since August 2012. Technology, Media & Telecoms (TMT) posted the fastest rise in new orders of the four broad sectors covered by the survey.

New Business Index

sa, >50 = growth since previous month



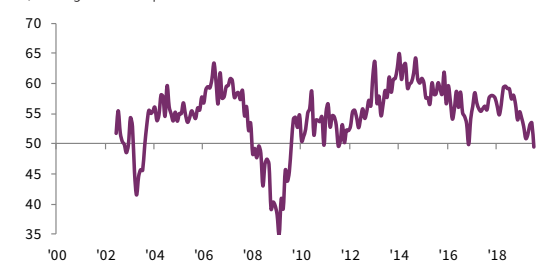
New Export Business Index



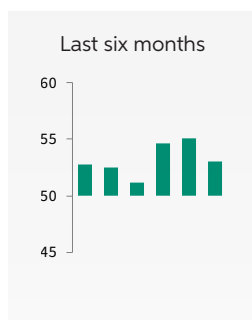
For the first time since November 2016, inflows of new business from foreign customers declined in July. The rate of contraction, though marginal, was the fastest since July 2009. Panellists recorded an overall decrease in foreign demand, with many firms noting a decrease in UK orders resulting from Brexit uncertainty.

New Export Business Index

sa, >50 = growth since previous month



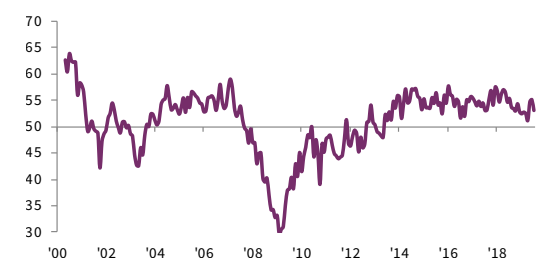
Outstanding Business Index



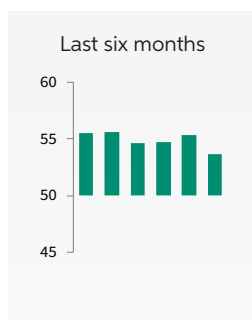
July data showed signs of an easing of capacity pressures among Irish service providers, with the seasonally adjusted Backlogs of Work Index posting its weakest reading in three months. That said, the latest rise in outstanding business was solid, with panellists linking the increase to greater levels of overall new business.

Outstanding Business Index

sa, >50 = growth since previous month



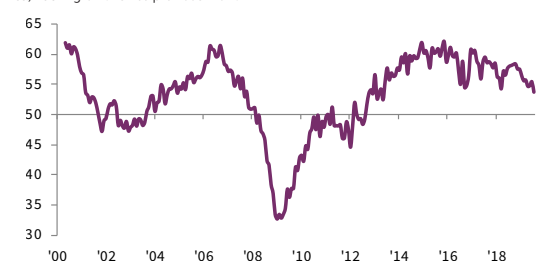
Employment Index



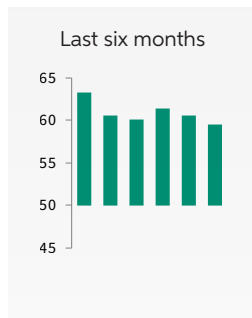
The rate of job creation in the Irish service sector eased to the slowest since May 2013 during July. That said, the pace of job creation was solid and faster than the series average. Service providers commented that they had taken on additional staff to bolster capacity in anticipation of stronger customer demand later this year.

Employment Index

sa, >50 = growth since previous month



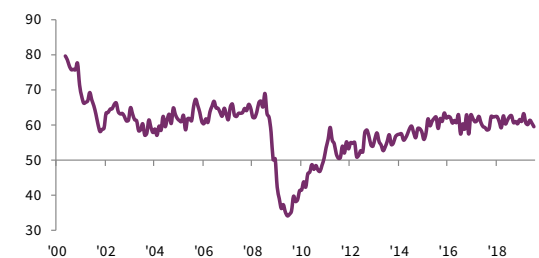
Input Prices Index



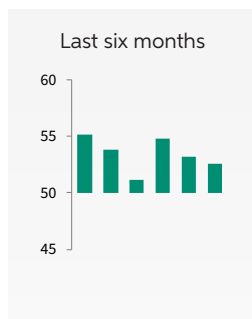
Irish service providers recorded a further marked increase in input prices during July. Although dipping to a 16-month low, the rate of input cost inflation remained above the series average. Greater staff costs was the main driver of higher input prices according to panellists, with increased fuel and transport bills also mentioned. Reflecting this, Transport & Leisure companies posted the fastest rise in input prices of the four monitored sectors.

Input Prices Index

sa, >50 = inflation since previous month



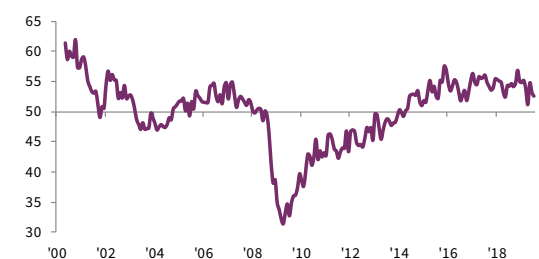
Prices Charged Index



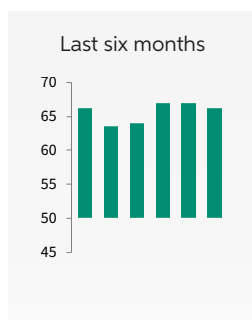
In line with the slower rise of cost burdens, the rate of output charge inflation weakened during July. The rate of increase was solid but dipped from June to a three-month low. All four broad sectors recorded an increase in selling prices, led by Business Services firms. Output charge inflation has been recorded across the service sector as a whole on a monthly basis since April 2014.

Prices Charged Index

sa, >50 = inflation since previous month



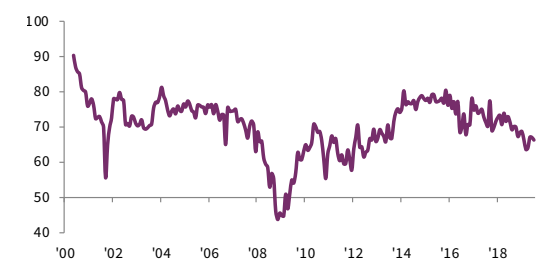
Future Activity Index



Sentiment among Irish service providers dipped to a three-month low in July, amid comments by firms of Brexit uncertainty negatively affecting their customer base. That said, services companies were still strongly optimistic, with just under 43% of panellists predicting a rise in business activity over the coming year. Greater sales forecasts, improved marketing efforts and new capacity investments were cited as reasons to be confident.

Future Activity Index

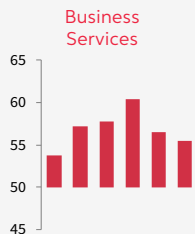
>50 = growth expected over next 12 months



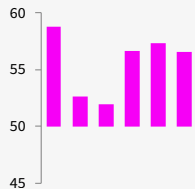
Services Sub-sectors

Business Activity Index

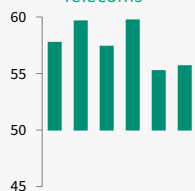
Last six months



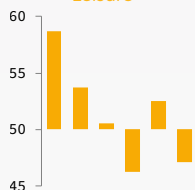
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Firms operating in the Business Services sector recorded the slowest rise in business activity in five months during July. Meanwhile, total new orders grew at a pace unchanged from June, whilst export sales declined for the second consecutive month and at the fastest pace since July 2009. The rate of job creation, though solid, was the weakest since February. Input cost inflation moderated to an eight-month low, resulting in the softest expansion in selling prices in 35 months.

Financial Services

Financial services companies recorded the fastest rise in business activity of all four sectors covered in July. However, the rate of expansion eased to a three-month low. Total new orders grew at the slowest pace since April, dragged down by a slowdown in export sales. In contrast to output and new orders, the rate of job creation was steep and quickened to a 14-month high. Cost burdens continued to rise sharply, though at the weakest pace in three months, whilst selling prices rose marginally.

Technology, Media & Telecoms

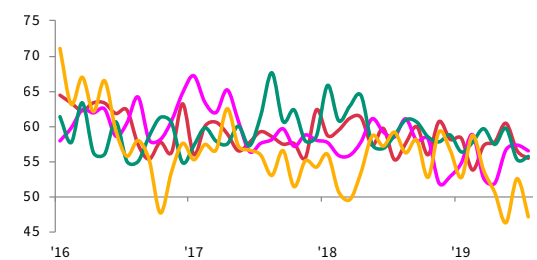
Activity growth among Technology, Media & Telecoms (TMT) firms quickened in July, but was only slightly higher than June's 30-month low. The pace of overall new order growth was sharp and faster than in June. Meanwhile, inflows of new business from abroad expanded at the steepest rate of all four broad sectors. In contrast to the trend for activity, payrolls expanded at the softest pace since August 2012. Both input cost and output charge inflation moderated to, four- and 13-month lows respectively.

Transport, Tourism & Leisure

For the second time in the past three months, business activity among Transport & Leisure firms declined in July. Moreover, the rate of contraction was solid. Overall new orders rose marginally with the rate of growth easing from June, whilst export sales declined for the fifth month running. For the first time since October 2016, employment at Transport & Leisure companies declined. Selling prices increased at the fastest pace since March driven by a further marked rise in cost burdens. Optimism regarding year-ahead output picked up to a six-month high.

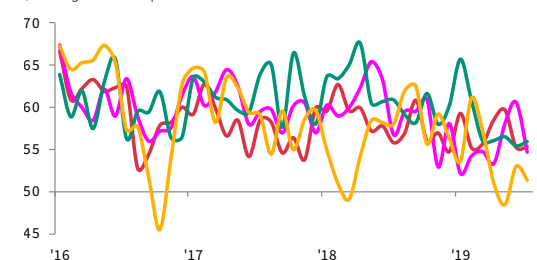
Business Activity Index

sa, >50 = growth since previous month



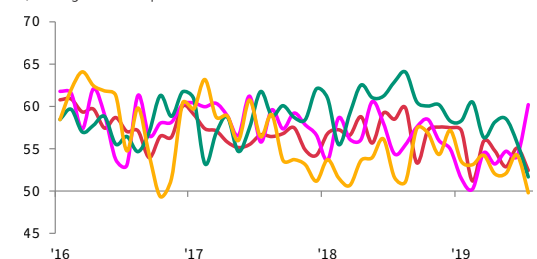
New Business Index

sa, >50 = growth since previous month



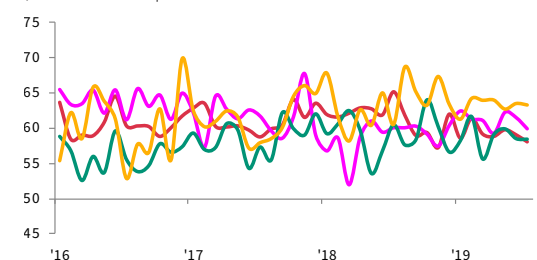
Employment Index

sa, >50 = growth since previous month



Input Prices Index

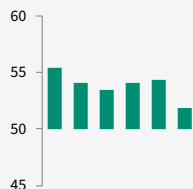
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Output rises at slowest pace in over six years

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.

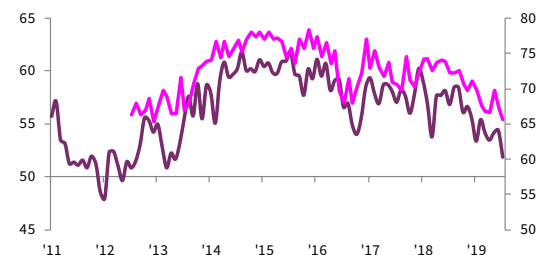
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Ireland Composite Output Index is a weighted average of the Ireland Manufacturing Output Index and the Ireland Services Business Activity Index.

Output Index

sa, >50 = growth since previous month

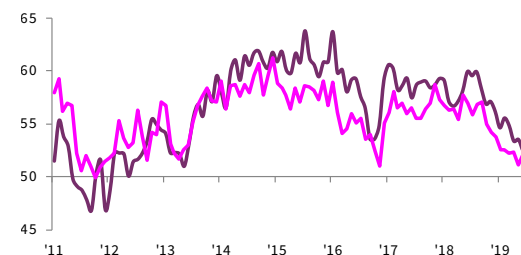
Future Output Index

>50 = growth expected over next 12 months



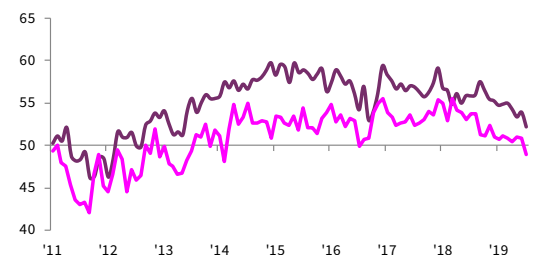
New Business Index / New Export Business Index

sa, >50 = growth since previous month



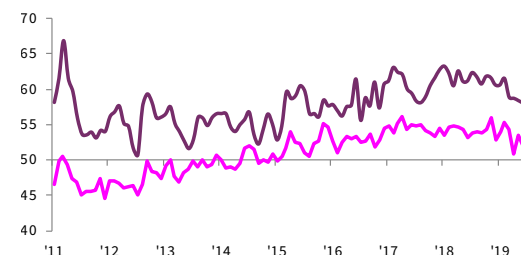
Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index

sa, >50 = inflation since previous month



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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.

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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