



AIB Ireland Services PMI®

Including AIB Ireland Composite 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

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.

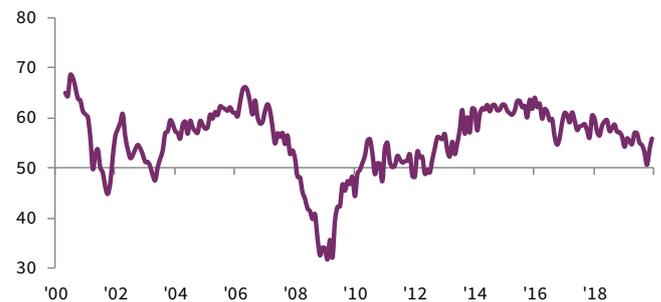
The Business Activity Index remained above the no-change mark of 50.0 in December, extending the current sequence of uninterrupted growth in services output that began in August 2012. Moreover, the latest figure of 55.9, up from 53.7 in November, signalled the fastest rate of expansion since June. That 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,

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

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.

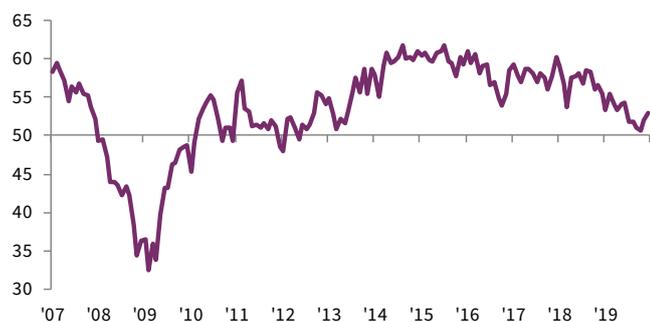
With the trend in new business gaining momentum at the end of 2019, companies' expectations for business activity over the coming year were the strongest in 17 months. A number of firms linked positive sentiment to the prospect of reduced uncertainty regarding Brexit. In line with the trend for employment,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

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

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



Sources: AIB, IHS Markit.

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.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"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."

Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353-1-6417176
E: AIBeconomics.Unit@aib.ie
W: www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353-1-641-2869
M: +353-87-739-0743
E: paddy.x.mcdonnell@aib.ie

IHS Markit

Trevor Balchin
Economics Director
T: +44-1491-461-065
trevor.balchin@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

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.

About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

Disclaimer

This publication is issued by Allied Irish Banks, p.l.c. ("AIB") and is for general information purposes only. This publication should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments or product, securities or any derivative instrument (together, "instruments"), or any other rights pertaining thereto. AIB does not express any opinion as to the present or future value or price of any instruments referred to in this publication.

The information provided in this publication is believed to be valid and accurate on the date it is first published but AIB, along with its directors, officers, or employees, does not accept any liability for any loss arising from the use of the information. The information contained therein, including any expressions of opinion, has been obtained from, or is based on, or compiled from, sources believed to be reliable but its accuracy or completeness is not guaranteed and is subject to change without notice.

Any decision made by a party shall be on the basis of its own research and shall not be influenced or based on any view expressed by AIB in this publication or otherwise. This publication does not address all risks. This publication does not constitute investment advice or a recommendation and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments and/or pursuing any investment strategies. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any instruments, forecasts are not a reliable indicator of future performance.

This publication is not to be reproduced in whole or in part without the prior express written consent of AIB. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.