

AIB Ireland Services PMI®

Rise in new business drives faster activity growth

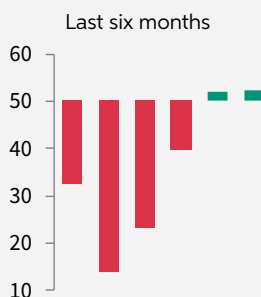
Key Findings

First rise in new work at service providers since February

Slowest rate of job shedding since March

Sentiment at three-month low

Ireland Services Business Activity Index



The latest PMI® data from AIB signalled that the recovery in the Irish services economy continued in August. Total activity rose for the second month running and at a faster rate, as new business increased for the first time since February. That said, demand improved only tentatively, with total activity growth partly driven by the continued depletion of outstanding business. Subsequently, employment continued to fall, and the 12-month outlook moderated slightly.

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

"The AIB Irish Services PMI rose further in August to 52.4 from 51.9 in July. This signals a continuing recovery in business activity following the severe downturn in the sector during the Covid-19 related lockdown over the March-June period. However, it is a very tentative recovery in activity. The August reading of 52.4 is relatively low for the Irish Services PMI - the index stood at 59.9 as recently as February.

"Indeed, the reading for Ireland is lagging well behind the UK and US, where the flash August Services PMIs came in at 60.1 and 54.8, respectively in August. However, the Irish data were better than the rest of the Eurozone, where the flash PMI fell back to 50.1.

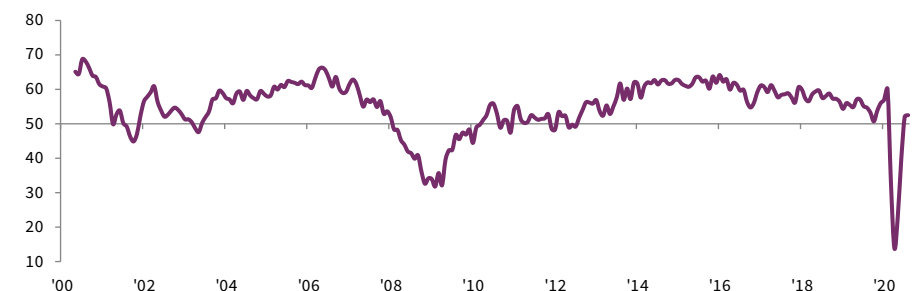
"The sub-components of the survey highlight that the recovery in service sector activity still has quite some way to go. Only two of the four sectors covered in the survey – Business Services and Technology/Media/

Telecoms - showed activity expanding, while Financial Services and Transport/Tourism/Leisure activity contracted.

"Meanwhile, new orders remained at subdued levels, largely due to continuing weak foreign demand. The weakness in export orders was evident in all four service sub-sectors. As a result, backlogs continued to decline. With demand still soft, spare capacity rising and margins being squeezed with input costs rising and output prices falling, firms continued to cut their workforces. This saw employment contract for a sixth consecutive month.

"The 12-month outlook for the services sector remained positive, although it eased back from its June/July levels and remains well its long term trend. Overall, the PMI data show continuing challenging business conditions in the services sector."

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 rose for the fourth month running from April's nadir to 52.4 in August, from 51.9 in July. The latest figure signalled continued expansion during the third quarter so far, although growth remained weaker than the pre-crisis trend. Moreover, the month-on-month increase in the Index in the latest period was only fractional, following unprecedented climbs in May, June and July.

Although overall growth strengthened slightly in August, only two out of four monitored sub-sectors registered expansion, down from three in July. The strongest expansion was in Business Services, closely followed by Technology, Media & Telecoms (TMT) which recovered from a dip in July. A slight decrease in activity was registered in Transport, Tourism & Leisure following strong growth in July, while Financial Services activity fell solidly having also risen the previous month.

The acceleration in growth of total activity mainly reflected an increase in new business, the first since February. The rate of growth was only marginal, however, and weaker than in any previous survey period stretching back to August 2012. Strong increases in the Business Services and TMT sectors were almost offset by declines in Financial Services and Transport, Tourism & Leisure.

The rise in new business in August was insufficiently strong to generate pressure on business capacity, as the volume of incomplete work fell for the sixth month running, a trend

repeated across all four sub-sectors. The rate of decline was strong overall, but eased for the fourth consecutive month to the weakest in the current sequence.

The latest data signalled a further reduction in service sector employment in Ireland in August, continuing the sequence that began in March. Prior to that period, services jobs had risen every month since September 2012. The rate of job shedding slowed for the fourth month running to match that registered in March, however. Business service providers reported broadly stable workforces, and there was a slight rise in the TMT sector, while Financial Services and Transport, Tourism & Leisure both saw further losses.

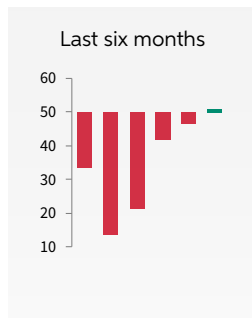
Cost pressures continued to pick up in August, with average input prices rising for the second month running and at a faster rate. Higher input cost were attributed to transport, COVID-related costs such as PPE, wages, subcontractors and insurance. The rate of inflation remained below the long-run survey average, however.

Prices charged by Irish service providers fell for the sixth month running in August. Discounting was linked by firms to increasingly competitive markets, the negative impact of the COVID-19 crisis on client demand and reduced transport costs. The rate of reduction remained modest overall despite quickening slightly since July.

The 12-month outlook for service sector output remained positive in August, but the strength of confidence slipped for the second month running and remained weaker than the long-run survey average. Expectations for activity were strongest in the TMT sector, and weakest in Transport, Tourism & Leisure.



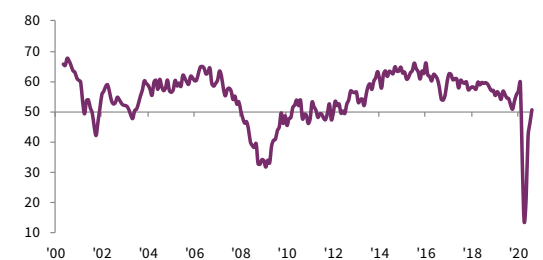
New Business Index



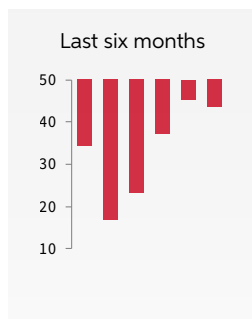
Demand in the Irish services economy improved for the first time since February in August. A number of firms linked the uptick in new work to the reopening of businesses and lifting of restrictions. The seasonally adjusted New Business Index rose for the fourth month running from April's record low to breach the no-change mark of 50.0. That said, the rate of expansion signalled by the latest reading was much slower than at the start of 2020 before the pandemic hit.

New Business Index

sa, >50 = growth since previous month



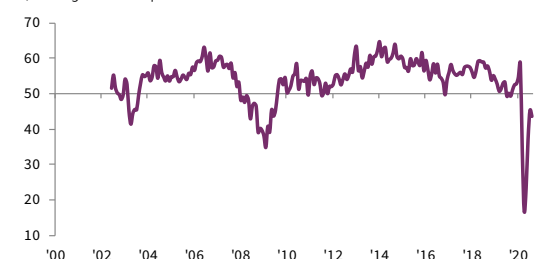
New Export Business Index



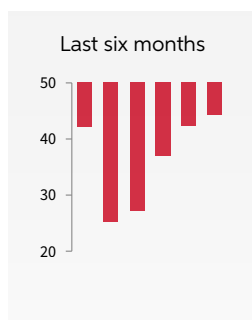
Although total new business increased in August, the volume of new contracts placed by international customers continued to decline, linked to ongoing weak global demand due to the pandemic. All four monitored sectors recorded lower export demand during the month. The overall rate of decline in services exports was slightly faster than in July and marked overall, albeit slower than during the March-June period.

New Export Business Index

sa, >50 = growth since previous month



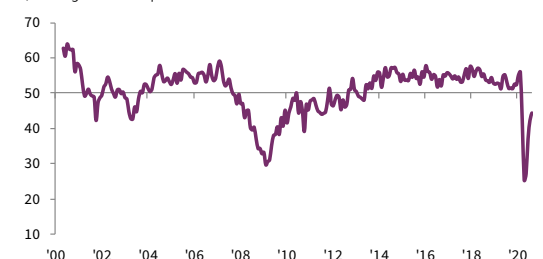
Outstanding Business Index



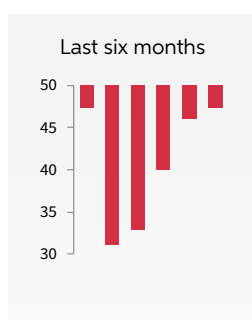
The slight improvement in demand in August was insufficiently strong to generate pressure on service sector business capacity. The volume of outstanding business declined for the sixth month running, having previously increased every month between June 2013 and February 2020. Firms reported a weak pipeline of new work, allowing them to finish outstanding contracts. The rate of decline was sharp overall, but slowed for the fourth month running to the weakest in the current sequence.

Outstanding Business Index

sa, >50 = growth since previous month



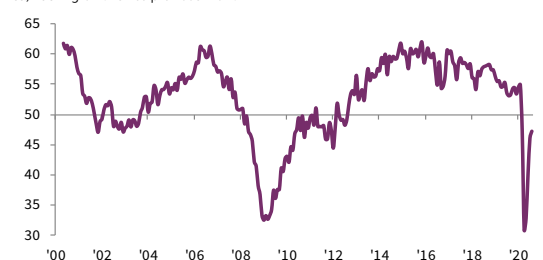
Employment Index



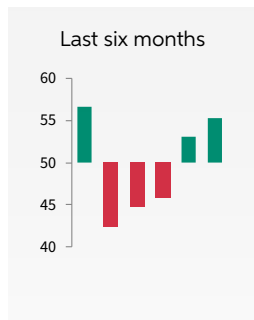
Job shedding at Irish service providers continued in August despite stronger growth of total business activity. The current six-month sequence of decline is the longest recorded by the survey in eight-and-a-half years. Firms linked lower workforces to the loss of temporary staff, redundancies and the non-replacement of leavers. The overall rate of decline was sharp, but slowed for the fourth successive month from April's record to equal that seen in March.

Employment Index

sa, >50 = growth since previous month



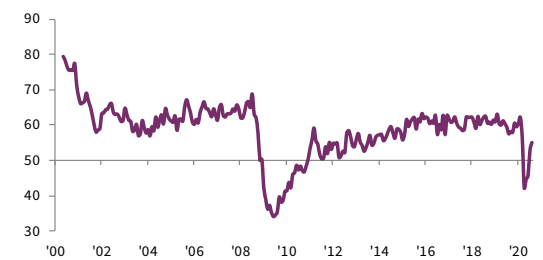
Input Prices Index



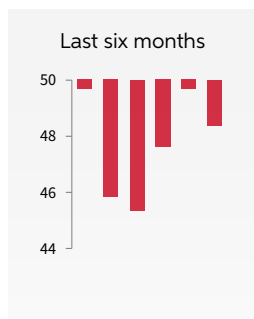
Average input prices increased at a faster rate in August, following the first rise in four months in July. Greater cost pressures were linked to transport, COVID-related costs such as PPE, wages, subcontractors and insurance. The seasonally adjusted Input Prices Index remained below its long-run trend level of 58.8, however.

Input Prices Index

sa, >50 = inflation since previous month



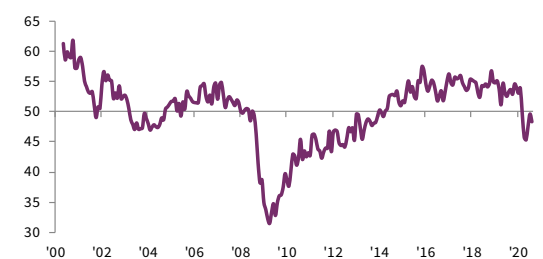
Prices Charged Index



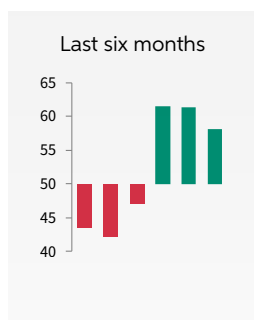
Service providers in Ireland continued to reduce their charges in August, extending the current sequence of discounting to six months. Prior to March, average charges had risen every month since April 2014. Firms linked lower charges to more competitive markets, the impact of the COVID-19 crisis on their customers and reduced travel costs. The rate of reduction accelerated slightly since July, but was modest overall.

Prices Charged Index

sa, >50 = inflation since previous month



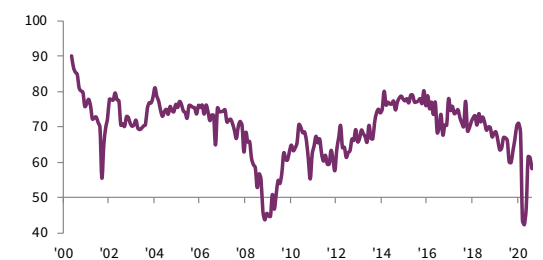
Future Activity Index



Service sector companies remained confident of growth of activity over the next 12 months in August. The Future Activity Index was above 50.0 for the third month running but fell to the lowest in this sequence, signalling weaker overall sentiment. This reflected firms' concerns around the long-term impact of COVID-19 and renewed uncertainty surrounding Brexit. The Index was well below its long-run trend level of 69.7.

Future Activity Index

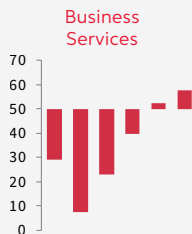
>50 = growth expected over next 12 months



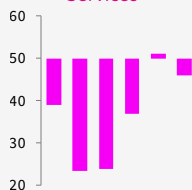
Services Sub-sectors

Business Activity Index

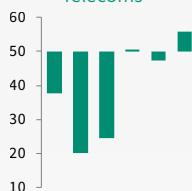
Last six months



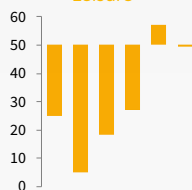
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Business services activity in Ireland rose sharply in August, with the sector registering the strongest rate of growth across all four monitored sub-sectors. New business increased at a robust pace, despite a further drop in exports. Outstanding business declined at the slowest rate among the four sectors, while workforce numbers were broadly stable.

Financial Services

Financial services activity declined in August, following a slight increase in July. New business fell for the sixth month running, albeit at the weakest rate in this sequence. The sector recorded the strongest decline in jobs among the four areas covered, and also registered the fastest rate of input cost inflation.

Technology, Media & Telecoms

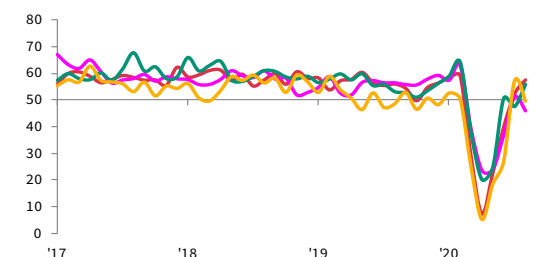
Activity in the Technology, Media and Telecoms sector rose for the second time in three months in August, and at a solid rate overall. The same trend was evident for new business, although outstanding work continued to decline. The sector was the only one of the four monitored to record higher employment during the month, and also registered the strongest 12-month outlook for activity.

Transport, Tourism & Leisure

The Transport, tourism & Leisure sector recorded a fall in activity in August, following July's bounce. The rate of decline was only marginal, however, as a rapid drop in outstanding business almost offset a sharp reduction in new work. The workforce shrank further, albeit at the second-slowest rate of the past six months. The sector was the only one of the four monitored to record higher prices charged during the month.

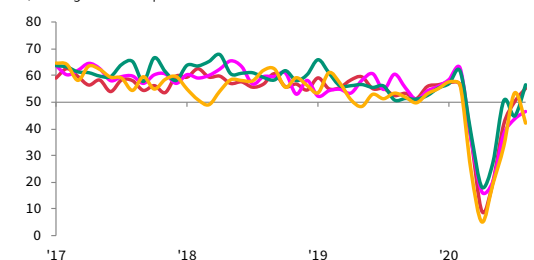
Business Activity Index

sa, >50 = growth since previous month



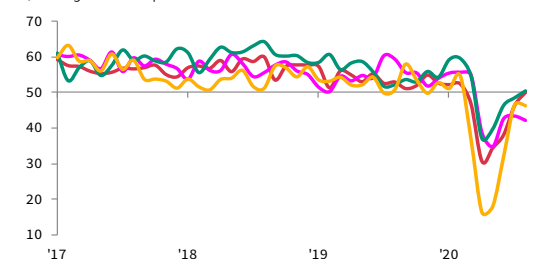
New Business Index

sa, >50 = growth since previous month



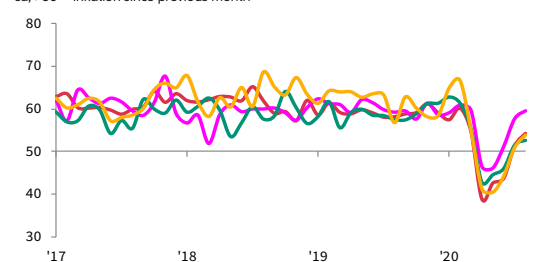
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month

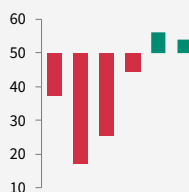


AIB Ireland Composite PMI®

Irish private sector output grows further in August

Composite Output Index

Last six months



Private sector output in Ireland rose solidly for the second month running in August as the economy continued to reopen following the coronavirus lockdown. The rate of expansion eased slightly since July and was still slower than those seen in January and February, but was stronger than the average for the second half of 2019. The Composite Output Index fell from 55.9 in July to 54.0 in August. The slower overall rate of growth reflected a softer rise in manufacturing production, although it still rose more sharply than services activity despite a slight acceleration in the latter. The 12-month outlook for activity remained positive, but eased to a three-month low.

New business also increased for the second successive survey period, albeit at a modest pace that weakened since July. Service sector new business rose for the first time since February, but only marginally, while manufacturing new order growth slowed markedly in

August.

Employment fell for the sixth month running in August, with declines registered in both manufacturing and services. The rate of job shedding quickened slightly from July, but remained slower than those seen during the March-June period. There was a general lack of pressure on capacity despite renewed new business growth, as backlogs declined further.

Input cost inflation accelerated to a six-month high in August, with similar rates of inflation across manufacturing and services. Prices charged fell following July's rise, however, indicating renewed pressure on profitability.

*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

sa, >50 = growth since previous month

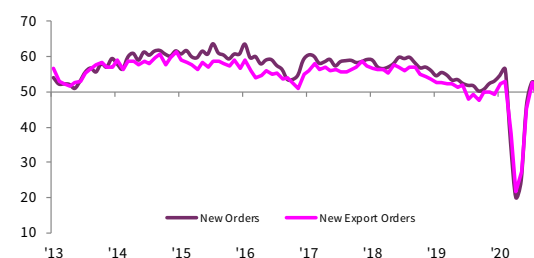
Future Output Index

>50 = growth expected over next 12 months



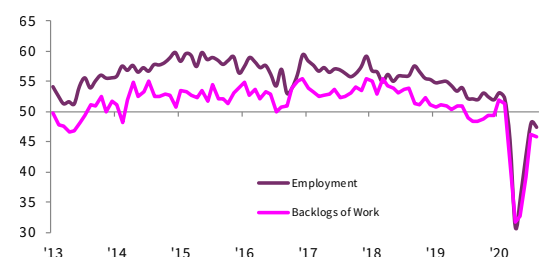
New Business Index / New Export Business Index

sa, >50 = growth since previous month



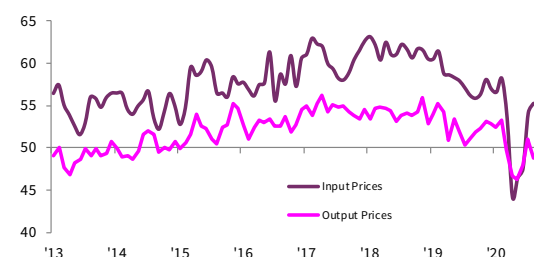
Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index

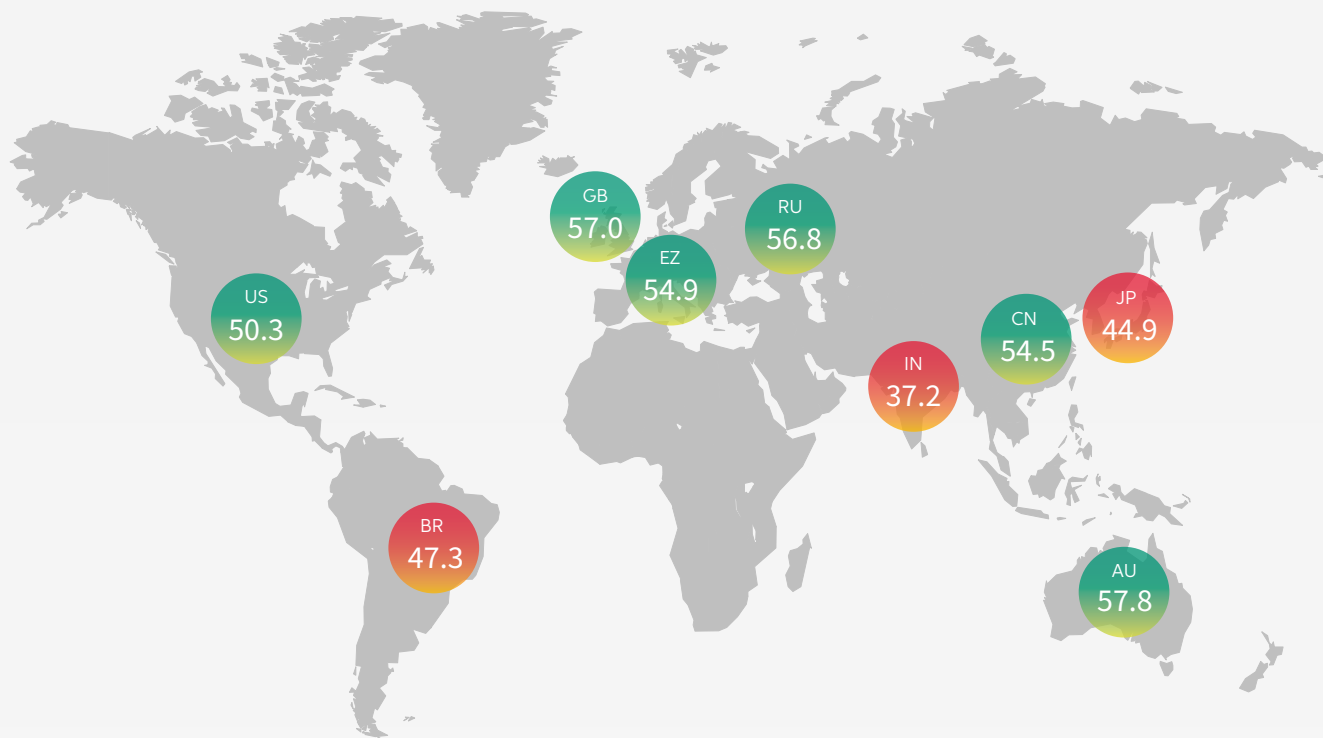
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Jul '20

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 12-25 August 2020.

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

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