

AIB Ireland Services PMI®

Services hit by tighter restrictions in January as second wave worsens

Key Findings

Business Activity Index plunges to 36.2 in January

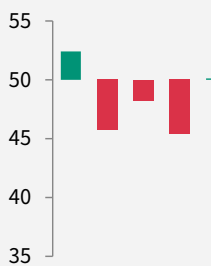
Steepest fall in new work since last May

Business confidence remains robust

Ireland Services Business Activity Index



Last six months



January PMI® survey data from AIB signalled a difficult start to 2021 for Irish service providers. With lockdown restrictions tightening as a second wave of COVID-19 swept through Europe, activity and new business both fell at the steepest rates since last May. More positively, employment was only fractionally lower than in December and firms' expectations for activity remained upbeat as companies looked beyond the winter crisis to a rebound once vaccination campaigns are established.

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

"The AIB Irish Services PMI fell sharply in January, which was not surprising with much of the services economy back in lockdown for the whole month. The business activity index declined to 36.2 from 50.1 in December, its lowest level since last May. Notably, the UK economy which also went back into lockdown in January, saw a similar steep decline in its flash Services PMI to 38.8 in the month. The PMIs, though, have not plummeted to the levels seen last spring during the first lockdown.

"The impact of the latest lockdown was very evident in a sharp fall-off in new business as the tightening of restrictions suppressed demand. The decline was not as severe for new export business as most other countries have not implemented the same extensive lockdown seen in Ireland and the UK. The fall-off in new business resulted in a marked decline in

the volume of outstanding business in the month.

"The sub-sector data show that the Transport, Tourism & Leisure sector has been the hardest hit by the lockdown, with its business activity index dropping to 19.8 and new business collapsing completely. The other three sub-sectors posted far smaller declines in activity and new business.

"More encouraging, employment hardly changed in January despite the lockdown, having expanded in December for the first time since last February. Meanwhile, sentiment in regard to the 12-month outlook remained relatively upbeat. Firms believe that the roll out of the vaccine programmes will eliminate the need for further lockdowns and see a return to more normal business conditions as the year progresses."

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 dived to 36.2 in January, from December's 50.1, indicating the fastest rate of decline in Irish services output for eight months. The month-on-month decline in the headline figure was the third-largest on record, behind those seen in March and April last year. That said, the latest contraction was not as severe as those seen last spring during the first wave of COVID-19.

All four monitored sub-sectors suffered sharp falls in business activity in January, the first broad-based decline in four months. By far the fastest rate of contraction was signalled in Transport, Tourism & Leisure (19.8,) followed by Technology, Media & Telecoms (TMT, 37.9) and Business Services (38.0) respectively. These three sectors all posted the worst downturns since May 2020. The fourth sector, Financial Services, fared comparatively better but still posted a strong decline (44.2, three-month low).

New business received by service providers fell rapidly in January as lockdown restrictions suppressed demand. The latest decline was the fastest in eight months and the strongest since April 2009 when the March-May

2020 period is excluded. New UK trading arrangements were also mentioned by survey respondents as a source of lower inflows of new business at the start of the year.

A lack of incoming new work was reflected in a steep drop in outstanding business in January, following slight increases in the final two months of 2020. The rate of backlog depletion was the strongest since June 2020, with the Transport, Tourism & Leisure sector posting the worst reduction. In contrast, outstanding work rose in Financial Services.

Although pipeline business fell in January, service providers retained an optimistic outlook for the next 12 months. Sentiment was little-changed from the levels seen in November and December, with firms expecting the development of vaccination programs to reduce the need for future lockdowns and allow business levels to rebound in the second half of 2021. Firms were also hopeful of successfully adjusting to the new UK trading environment.

The positive outlook for 2021 was reflected in the latest data on employment at service providers. Although a reduction was signalled in January, it was only fractional and much weaker than those seen during the second and third quarters of 2020. Employment rose strongly in the TMT sector, largely offsetting a sharp fall in Transport, Tourism & Leisure.

Average input prices rose in January, reflecting higher fuel, insurance, salaries and import costs. That said, the rate of inflation eased to a six-month low. Charges levied by service providers fell as firms attempted to boost sales, albeit only marginally.



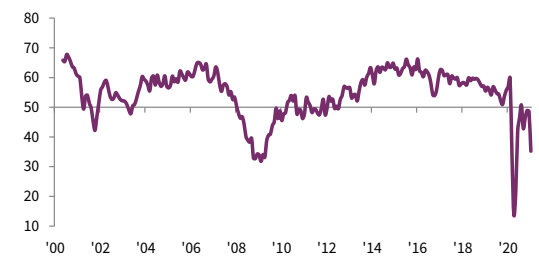
New Business Index



The volume of new business received by Irish service providers fell for the fifth successive month in January. Moreover, the rate of decline accelerated to the fastest since May 2020. Firms mainly linked weaker demand to lockdown restrictions, while post-Brexit trade was also mentioned. Excluding the March to May period last year, the decline in new business in January was the fastest since April 2009.

New Business Index

sa, >50 = growth since previous month



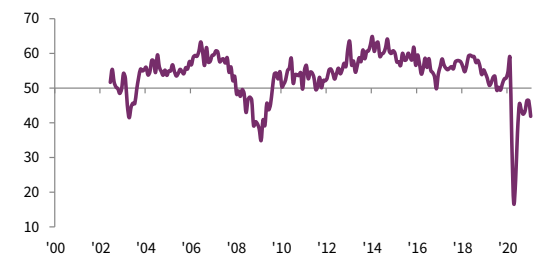
New Export Business Index



International demand for Irish services weakened noticeably at the start of 2021. The seasonally adjusted New Export Business Index signalled the steepest reduction since June 2020. Lockdown restrictions due to COVID-19 were most frequently linked by firms to worsening international demand, followed by Brexit. New export business has declined continuously since March 2020.

New Export Business Index

sa, >50 = growth since previous month



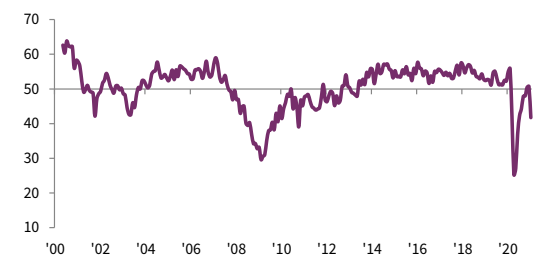
Outstanding Business Index



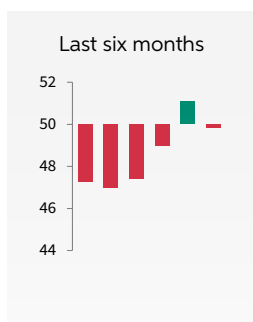
Following marginal increases in both November and December, the volume of outstanding work held by Irish service providers dropped sharply in January. Companies reported a lack of incoming work to replace completed contracts. The overall rate of decline was the fastest since last June, but tempered somewhat by a further rise in outstanding financial services business.

Outstanding Business Index

sa, >50 = growth since previous month



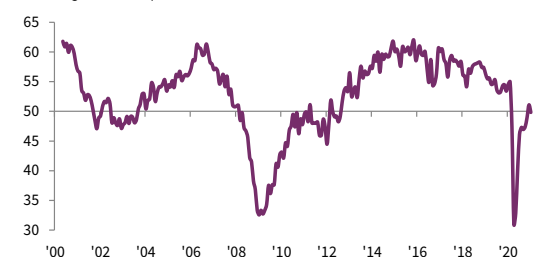
Employment Index



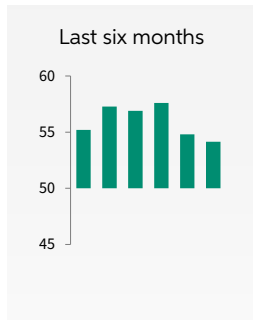
December's increase in service sector employment proved short-lived as a renewed decline was registered in January. Where staff levels fell, this was linked to lockdown restrictions, redundancies, voluntary leavers and moves to short-term contracts. That said, the overall rate of job shedding was only marginal, reflecting a strong rise in the Technology, Media & Telecoms sector.

Employment Index

sa, >50 = growth since previous month



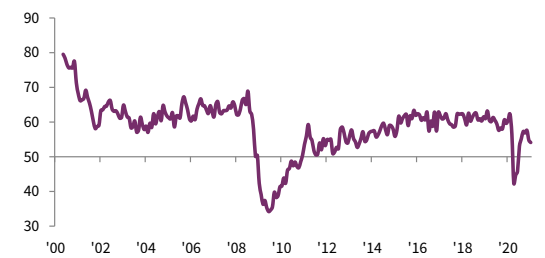
Input Prices Index



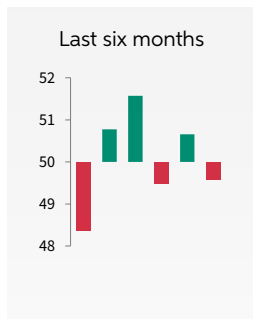
Average inputs prices faced by Irish service providers continued to rise in January, but the rate of inflation eased further from November's recent high. The seasonally adjusted Input Prices Index fell to a six-month low and remained below its long-run average (58.8). Where costs rose, this was linked to higher fuel, insurance and salary bills, as well as higher import costs due to Brexit.

Input Prices Index

sa, >50 = inflation since previous month



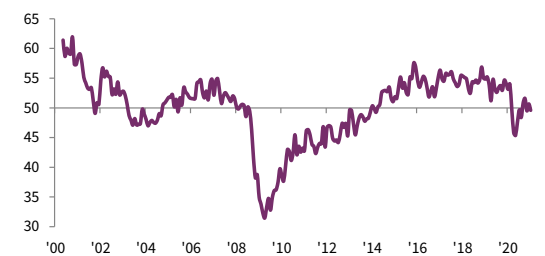
Prices Charged Index



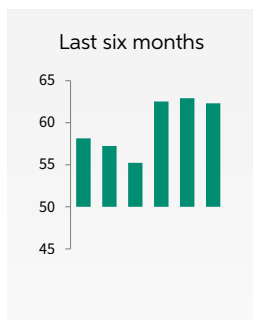
Irish service providers lowered their prices charged on average in January, following increases in three of the final four months of 2020. Lower charges were linked to efforts to boost competitiveness. Brexit was mentioned as a factor in both higher and lower charges compared with December. The overall rate of reduction in service providers' prices in January was only fractional.

Prices Charged Index

sa, >50 = inflation since previous month



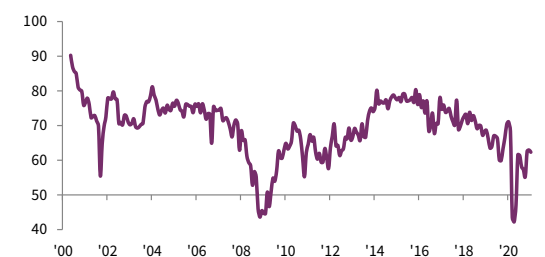
Future Activity Index



Although activity and new business both fell steeply in January, service providers remained optimistic regarding the 12-month outlook. The Future Activity Index was only slightly down on December's ten-month high, although it remained below its historic trend level (69.5). Firms linked positive forecasts mainly to the vaccine roll-out eliminating the need for future lockdowns, and the normalisation of new UK trading arrangements.

Future Activity Index

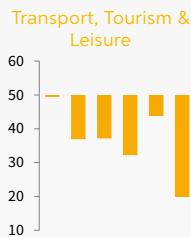
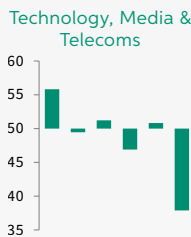
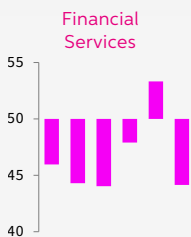
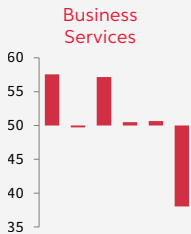
>50 = growth expected over next 12 months



Services Sub-sectors

Business Activity Index

Last six months



Business Services

Activity and new work at business services firms both fell at the sharpest rates since last May. Subsequently, outstanding orders declined for the first time in four months, and at a marked pace, and companies shed staff for the first time since last October. More positively, sentiment strengthened to nearly match November's recent peak, and input price inflation was only marginal.

Financial Services

December's rebound in financial services activity proved short-lived as a renewed decline was registered in January. The rate of contraction was strong, albeit the weakest among the four monitored sectors. New business fell sharply and for the first time since last October, though staffing declined only fractionally. Expectations for activity were the second-strongest in any month since before the onset of the pandemic in February.

Technology, Media & Telecoms

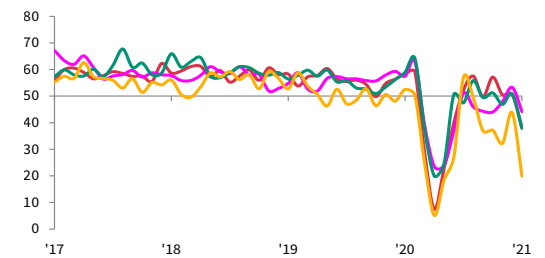
Output in the Technology, Media & Telecoms sector fell at the fastest rate since May 2020 in January, with the same trends evident for both new and outstanding business. Despite this downturn, employment rose at one of the fastest rates since the second half of 2019. Firms in the sector also remained more optimistic than their peers elsewhere in the services economy, in line with the long-run trend.

Transport, Tourism & Leisure

Firms operating in the Transport, Tourism & Leisure sectors suffered a severe decline in activity in January, reflecting tighter lockdown conditions. Moreover, new work declined at the fastest rate since last April at the height of the first wave. The sector also reported much stronger declines in outstanding business and employment than the other sectors, and weaker sentiment.

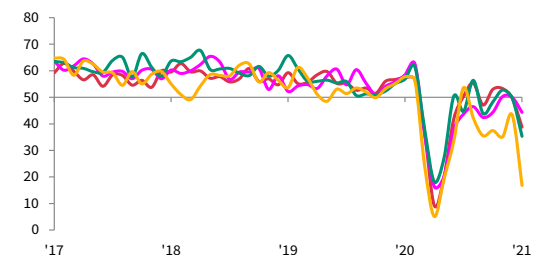
Business Activity Index

sa, >50 = growth since previous month



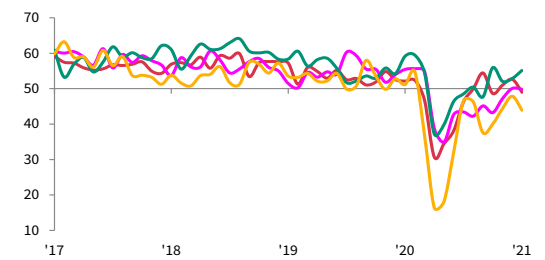
New Business Index

sa, >50 = growth since previous month



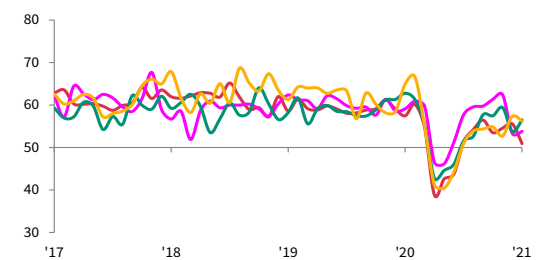
Employment Index

sa, >50 = growth since previous month



Input Prices Index

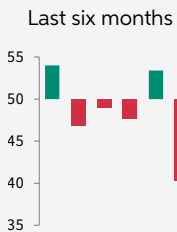
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

January sees strongest decline in private sector output since May 2020

Composite Output Index



Irish private sector firms reported a steep drop in output at the start of 2021 as tighter lockdown restrictions imposed to fight a second wave of COVID-19 hurt demand and weighed on business capacity.

The seasonally adjusted Ireland Composite Output Index fell sharply from December's 53.4 to 40.3 in January, indicating the fastest rate of contraction in business activity since May 2020. Moreover, excluding March, April and May last year during the most extreme phase of the first lockdown, the rate of decline in January was the strongest since May 2009.

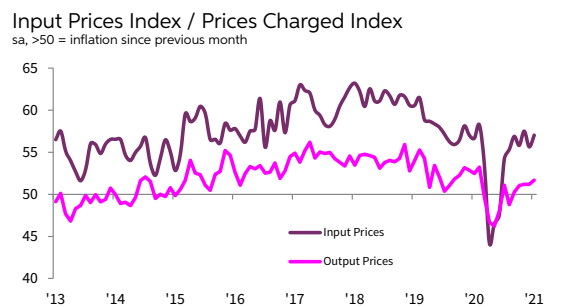
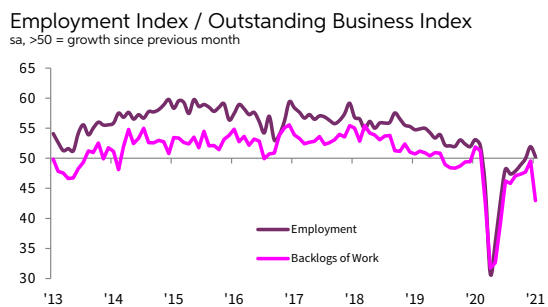
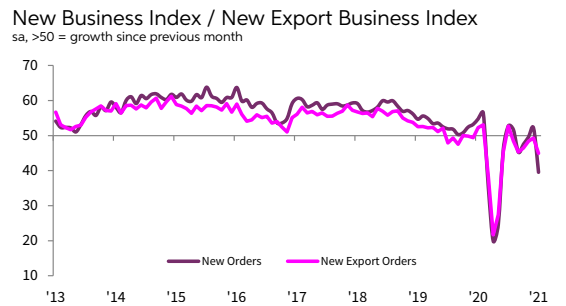
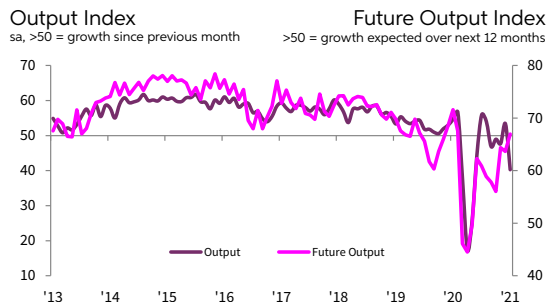
Both manufacturing output and services activity declined markedly in January. As has been the case throughout the pandemic, services fared comparatively worse than manufacturing.

Demand was severely constrained by lockdown measures in January, with new business also falling the most since May 2020. Manufacturing new orders fell for the first time since last October, albeit at a much slower rate than services new business.

Private sector employment growth was sustained in January, although the rate of job creation eased to a fractional pace. This reflected a slight decline at service providers and slower growth in manufacturing.

The 12-month outlook strengthened to an 11-month high in January, reflecting the strongest sentiment at manufacturers since May 2019.

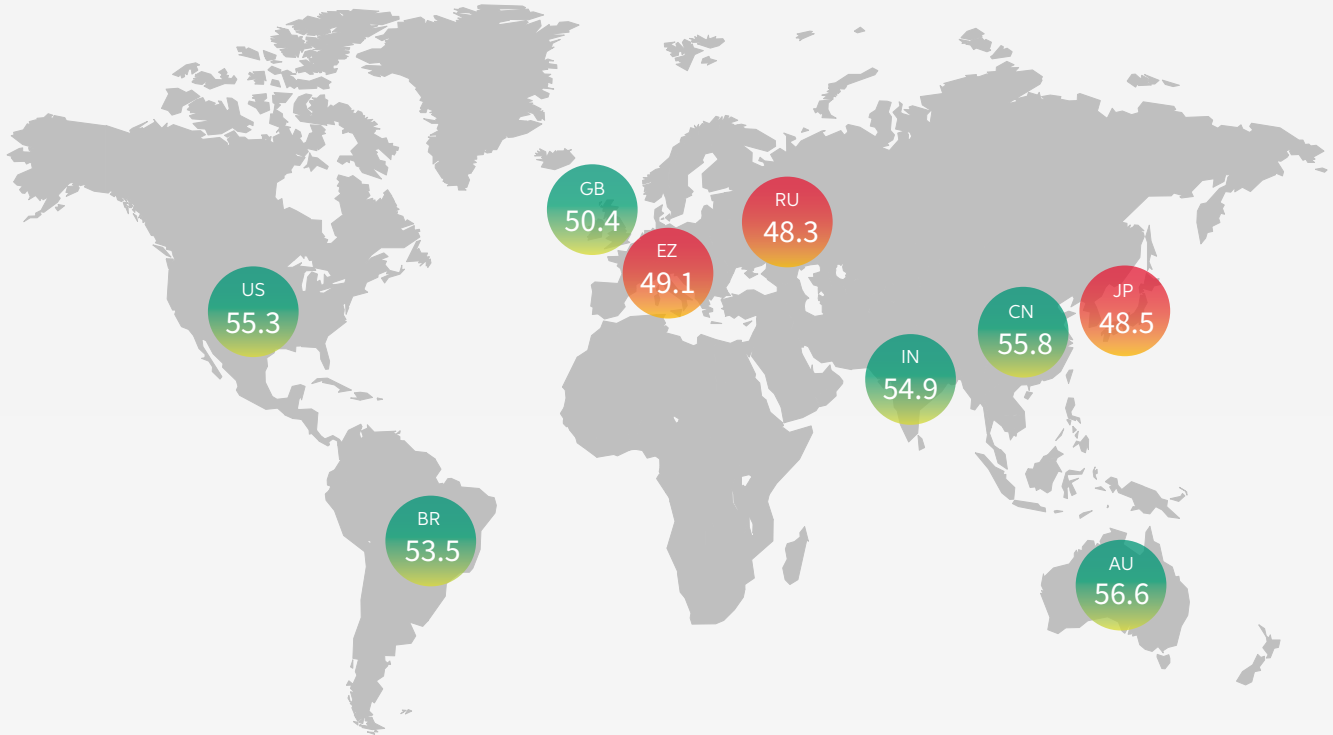
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services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



International PMI

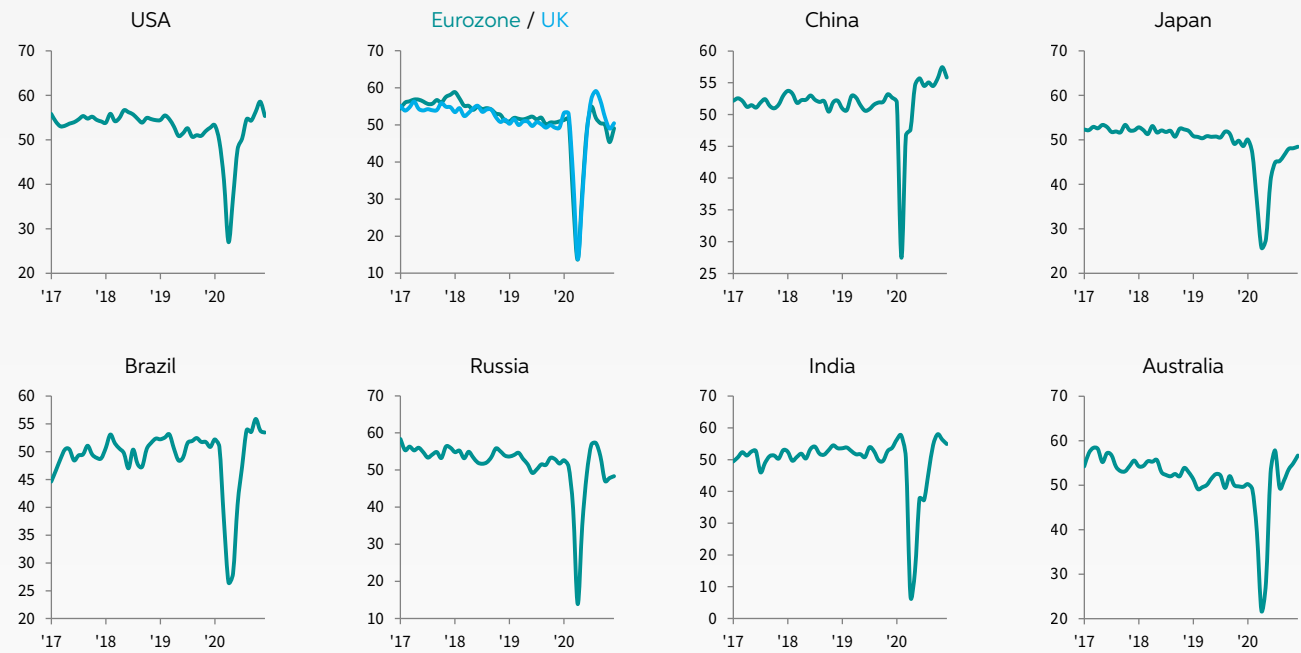
Composite Output Index, Dec '20

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 12-26 January 2021.

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

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