

AIB Ireland Services PMI®

Irish service sector moves toward stabilisation in June

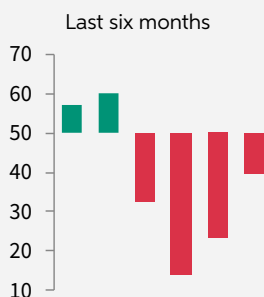
Key Findings

Much slower retrenchment in activity

Expectations for activity turn positive

Rate of job shedding remains strong

Ireland Services Business Activity Index



PMI® data from AIB tracking trends in the Irish services sector provided signs that the most severe phase of the hit to business had passed in June. All six non-price indices registered record month-on-month gains, recovering further from April's record lows. Activity and new business continued to decline overall, but at the slowest rates since the downturn began in March. Employment continued to fall sharply, but expectations with regards to activity over the year ahead turned positive.

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

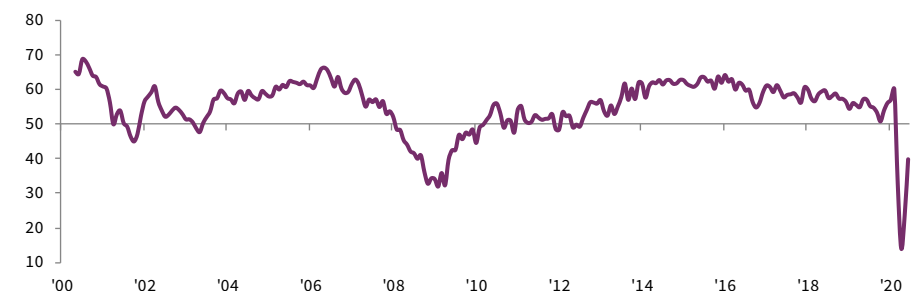
"With large parts of the economy still in lockdown as a result of the measures taken to contain the spread of the coronavirus, the AIB Irish Services PMI staged only a partial recovery in June. The business activity index rose to 39.7 from 23.4 in May, a level consistent with ongoing weak activity in the sector. The index stood at 59.9 as recently as February."

"The June reading for Ireland is below the flash Services PMIs for the same month in the Eurozone, UK and US of circa 47. This reflects the much more cautious approach of the Irish authorities to lifting lockdown restrictions compared to elsewhere. The July Service PMI data should capture the later re-opening of the Irish economy, especially in the hospitality industry. The Transport/Tourism/Leisure sector recorded a very low reading of 26.9 in June."

"With activity still at depressed levels, employment in services continued to contract at a sharp pace in June. Order levels remained weak, leading to a further decline in outstanding business volumes as backlogs continued to fall. Both input and output prices remained under downward pressure."

"The June PMI report, though, did see good month-on-month gains for all sub-components, suggesting the most severe phase of the contraction in business activity is behind us. Encouragingly also, there was a marked improvement in the 12-month outlook, which turned decisively positive, having being at subdued levels over the previous three months. We expect stronger PMI data from July onwards as the economy re-opens following the lifting of most lockdown restrictions."

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 to 39.7 in June, from 23.4 in May and up further from April's record low of 13.9. The month-on-month increase in the headline figure was a new record at 16.3 points. The index continued to signal falling activity in June, albeit at a much slower rate than in March, April and May as the lockdown began to be lifted.

Three of the four sub-sectors monitored by the survey continued to record declining business activity in June. The transport, tourism & leisure sector again registered the steepest rate of contraction, followed by financial services and business services respectively. Activity in the technology, media & telecoms sector rose for the first time since February, albeit only marginally.

The overall reduction in services activity in June mainly reflected a sustained slump in incoming new work, with demand remaining subdued while many lockdown restrictions still in place. That said, the respective index posted a record monthly rise of 20.3 points, bigger than that seen for activity and leaving it above the headline figure. Latest data signalled that international new business weighed on demand, falling at a faster rate than total new work. As was the case for activity, only the technology, media & telecoms sector registered growth of new business in June, and at a marginal pace.

Service sector capacity remained severely under-utilised in June, as signalled by a

further marked reduction in the volume of outstanding business. That said, the rate of backlog depletion was the slowest in three months, and the respective index posted a record month-on-month gain of 9.9 points.

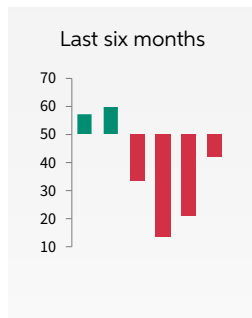
With both new and outstanding business declining further in June, and great uncertainty surrounding the severity and length of the hit to demand from the lockdown, service providers continued to shed staff. The rate of reduction was the slowest in three months, however. One-quarter of respondents reported lower workforces, compared with 37% in May and 41% in April.

The forward-looking expectations data for June signalled that firms were confident of growth over the next 12 months, following especially marked pessimism in March and April in particular. Nearly half (47%) of firms expect growth of activity at their units by June 2021, around double the proportion expecting a decline (24%). That said, the Future Activity Index remained well below its long-run trend level, reflecting uncertainty around the length and severity of downturns sparked by the coronavirus crisis.

Inflationary pressures continued to weaken in June. Average input prices fell for the third successive month, linked to lower labour costs as firms utilised the government wage subsidy scheme. The rate of deflation in input prices was sharp, but slower than in April and May. Meanwhile, prices charged for services rendered fell for the fourth consecutive month, as firms reported special offers to stimulate sales as the economy began to reopen. The rate of discounting was weaker than in April and May, however.



New Business Index

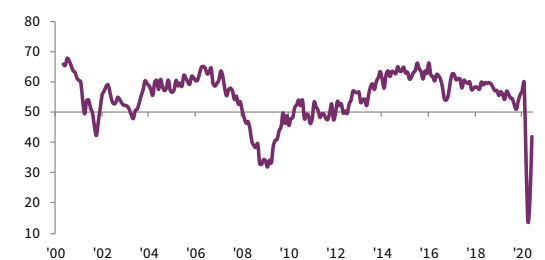


The seasonally adjusted New Business Index rose by a record 20.3 points in June, more than double May's then-record gain of 7.8 points, indicating that the most severe phase of disruption to new business at Irish service providers had passed at the mid-point of 2020.

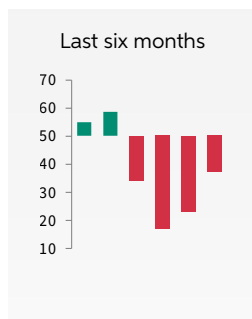
The latest figure still signalled a decline in new work, albeit at the weakest rate since demand began contracting in March.

New Business Index

sa, >50 = growth since previous month



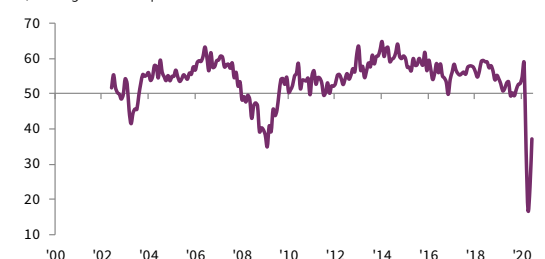
New Export Business Index



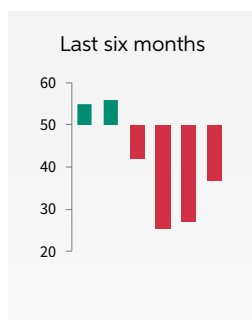
International demand for Irish services remained weak in June, with many national lockdowns only partially lifted. The seasonally adjusted New Export Business Index posted another record month-on-month gain to reach a four-month high, but still signalled a strong rate of decline that was faster than that for total new business.

New Export Business Index

sa, >50 = growth since previous month



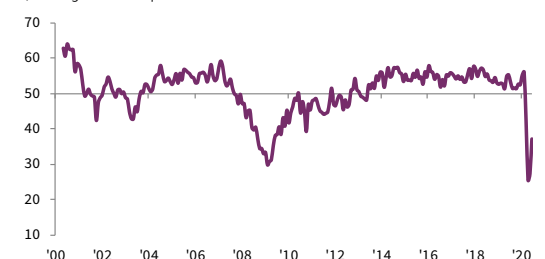
Outstanding Business Index



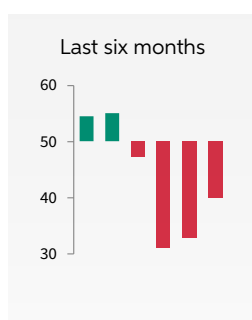
Latest data signalled ongoing spare business capacity at Irish service providers as overall workloads shrank further. As was the case with new business, the rate of contraction in backlogs eased markedly since May. That said, it was still among the fastest registered since the series began in May 2000.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

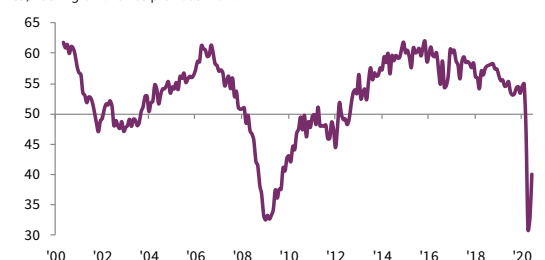


Service sector companies in Ireland continued to cut workforces at a marked rate in June. The rate of job shedding was much weaker than in April and May, but still stronger than in any previous period since the global financial crisis in 2008/09.

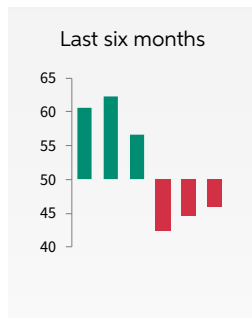
One-quarter of respondents reported lower workforces, compared with 37% in May and 41% in April.

Employment Index

sa, >50 = growth since previous month



Input Prices Index

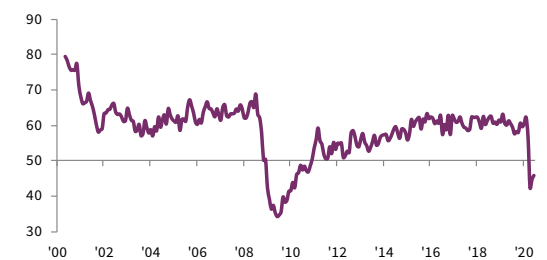


Average input costs in the Irish private sector services economy fell for the third month running in June. Prior to April, prices had risen every month since December 2010. Firms continued to report take-up of the government wage subsidy scheme.

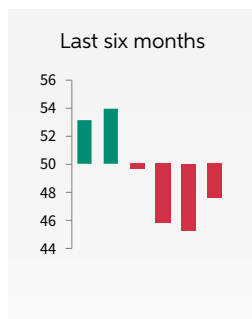
The rate of reduction in input prices ease further from April's ten-year record.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index

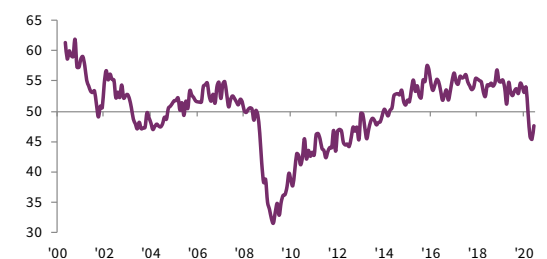


Service providers continued to reduce their charges, on average, in June. The current sequence of discounting stretches to four months. Firms reported special offers as an attempt to stimulate sales as the economy began to reopen.

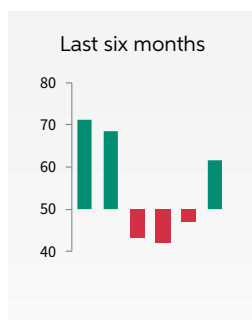
The rate of reduction in charges slowed from May's seven-year record, however.

Prices Charged Index

sa, >50 = inflation since previous month



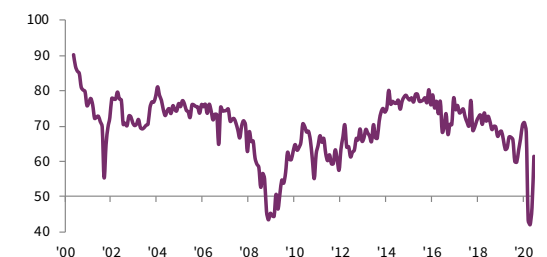
Future Activity Index



The 12-month outlook for Irish service sector activity turned decisively positive in June. The Future Activity Index registered a record one-month gain of 14.5 points, and was above the 50.0 threshold that divides optimism from pessimism. Nearly half (47%) of firms expect growth by June 2021, although 24% expect a decline, reflecting uncertainty around the length and severity of downturns sparked by the coronavirus crisis.

Future Activity Index

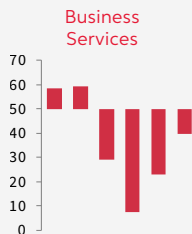
>50 = growth expected over next 12 months



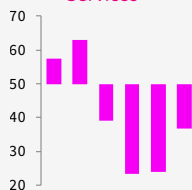
Services Sub-sectors

Business Activity Index

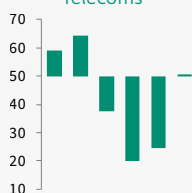
Last six months



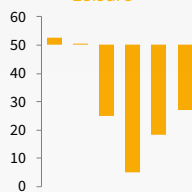
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

The rate of decline in business services activity slowed further in June following April's record plunge, but was nonetheless faster than in any previous survey period since 2009. New business, outstanding business and employment all continued to fall markedly, albeit more slowly. The 12-month outlook turned positive, but business services firms were the least optimistic across the monitored sub-sectors.

Financial Services

Financial services activity continued to decline sharply in June, although the rate of contraction slowed from the rapid pace seen in April and May. Weaker, but still sharp, falls were also indicated for new business, outstanding contracts and employment. Financial services firms were optimistic of growth over the next 12 months.

Technology, Media & Telecoms

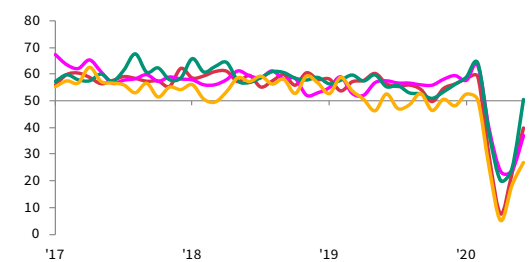
Activity in the technology, media & telecoms sector stabilised in June, following marked declines in the previous three months. Mild growth was signalled for total activity and inflows of new business. Firms were the most optimistic regarding future activity growth among the four monitored sectors. Less positively, employment continued to fall, as did the volume of outstanding business.

Transport, Tourism & Leisure

The transport, tourism & leisure sector continued to record the steepest falls in activity, new business, exports, backlogs and employment among the four monitored sectors in June. That said, the rates of decline all eased further since May. The sector was the second-most confident regarding the 12-month outlook, behind TMT.

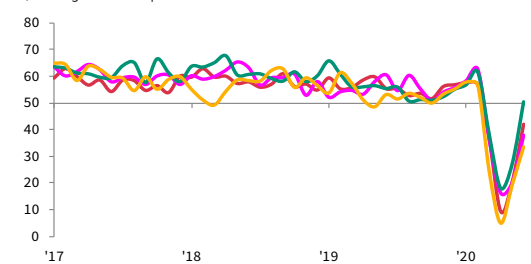
Business Activity Index

sa, >50 = growth since previous month



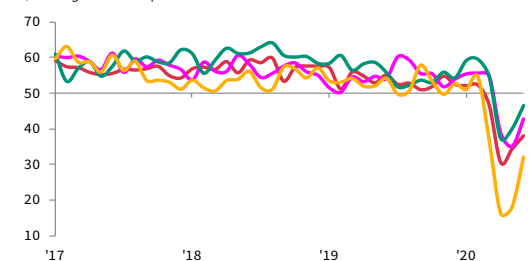
New Business Index

sa, >50 = growth since previous month



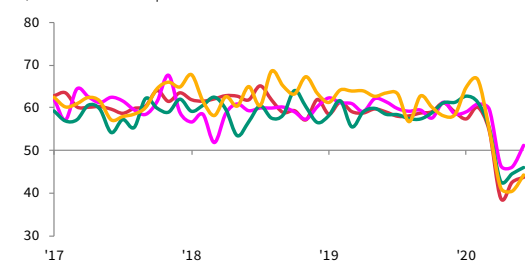
Employment Index

sa, >50 = growth since previous month



Input Prices Index

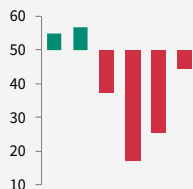
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Irish private sector downturn shows signs of easing in June

The Ireland Composite Output Index* posted a fresh record month-on-month rise of 18.6 points in June, more than doubling May's then-record gain of 8.4 points. This signalled a move towards recovery in private sector output, although at 44.3, the latest figure still signalled an overall slump in activity.

The overall drop in output reflected a further decline in services activity, albeit at the weakest rate in the current four-month sequence. Manufacturing output rose for the first time since February, although the increase was only modest.

The Composite New Business Index also saw a record monthly gain in June and was at a higher level than the output indicator, indicating a much slower reduction in new work at private sector companies. Manufacturing new orders rose, while services new business continued to fall.

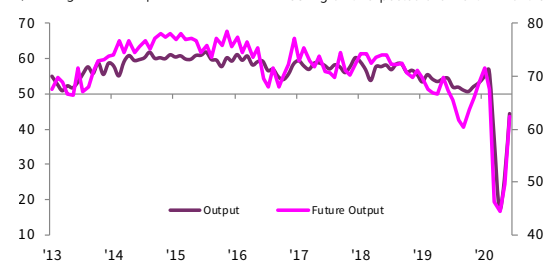
Data for employment showed a less marked rebound, however. Job shedding continued at a marked pace, especially in the service sector, albeit at a rate that was weaker than in April and May.

The 12-month outlook for private sector output was positive in June, following pessimism in March, April and May. That said, the Composite Future Output Index remained below its long-run average since the series was first compiled in 2012.

*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

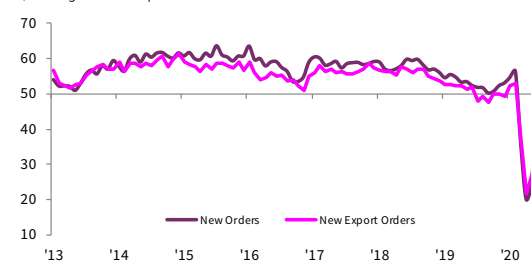


Future Output Index

>50 = growth expected over next 12 months

New Business Index / New Export Business Index

sa, >50 = growth since previous month



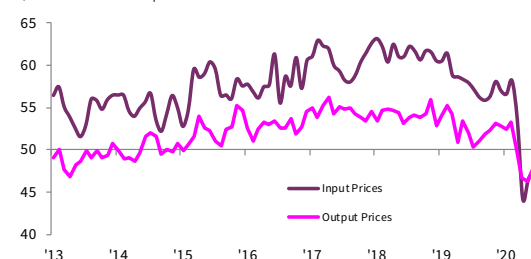
Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index

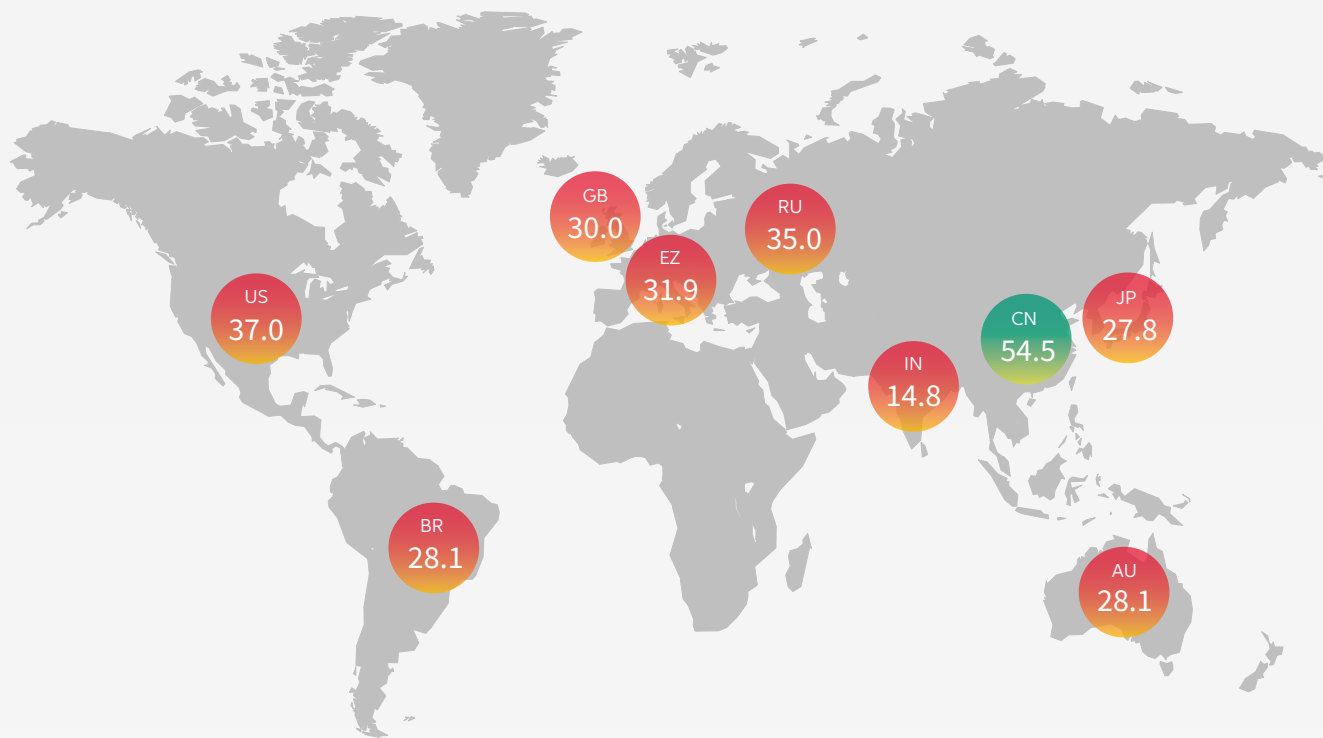
sa, >50 = inflation since previous month



International PMI

Composite Output Index, May '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 June 2020.

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

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