

AIB Ireland Services PMI®

Irish service sector remains severely restricted by coronavirus lockdown in May

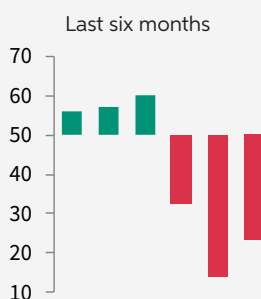
Key Findings

Second-fastest drop in activity in 20-year survey history

Same trends for new and outstanding business

Sentiment picks up but remains negative

Ireland Services Business Activity Index



Irish service sector firms remained severely restricted by the ongoing lockdown measures to contain the coronavirus pandemic, the latest AIB Irish services PMI® data revealed. Total business activity fell at the second-fastest rate since the survey began in May 2000, although it eased notably compared with April's collapse. Employment also continued to shrink rapidly. The 12-month outlook for activity remained negative, but less so than in March and April.

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

"The extent to which large parts of the Irish economy remain in lockdown as a result of the measures taken to contain the coronavirus outbreak is clearly shown by the AIB Irish Services PMI data for May. The business activity index remained mired at very low levels, coming in at 23.4, the second lowest reading on record after April's dismal 13.9. The previous low was 31.8, hit during the depths of the global financial crisis in early-2009. The index stood at 59.9 as recently as February."

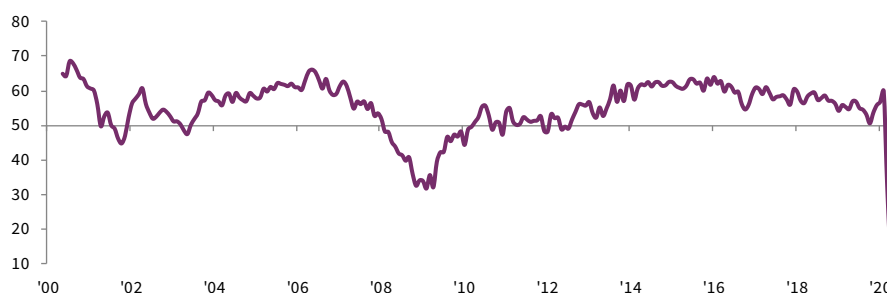
"The May reading for Ireland is below the flash Services PMIs for the same month in the Eurozone and UK of 28.7 and 27.8, respectively. This is consistent with containment measures being unwound at a slower pace in Ireland than elsewhere. All four sectors covered in the Irish survey registered very low readings

for business activity of below 25.0. Not surprisingly, Transport/Tourism/Leisure was the lowest at 18.4.

"The key components of the survey were very weak, with new business and export orders still at depressed levels. Incomplete contracts, or backlogs, continued to fall markedly. Jobs are still being shed at a marked pace. Meantime, the recessionary conditions saw both input and output prices fall further in all four service sectors. The 12-month outlook, though, did improve somewhat from March and April."

"Overall, this is another weak PMI report. However, we expect a rebound in activity from the current depressed levels will be seen over the summer months as lockdown restrictions are eased and the economy starts to open up again."

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 23.4 in May, from April's record low of 13.9. Though the month-on-month increase was a series-record, the index was still the second-lowest ever recorded, and signalled a further severe drop in service sector activity midway through the second quarter. Some 61% of survey respondents reported lower activity during the month, compared with 78% in April. The Index remained some 36.5 points below February's pre-crisis figure of 59.9.

All four sub-sectors continued to record severe contractions in business activity in May. Transport, Tourism & Leisure again registered the fastest decline, and Technology, Media & Telecoms the slowest. All four sectors registered weaker falls than in April, however. Business Services and Transport, Tourism & Leisure posted the biggest one-month gains in the activity index, but still recorded stronger overall rates of decline than the other two monitored sub-sectors.

In line with the trend for total business activity, the volume of new business received by service providers fell at a slower rate in May, but the drop was still the second-fastest on record. Almost two-thirds (65%) of firms reported weaker demand, down from 79% in April. Companies widely reported a lack of new work from hesitant clients, as demand continued to dry up due to the coronavirus pandemic.

With new work continuing to drop markedly, the volume of outstanding business at service

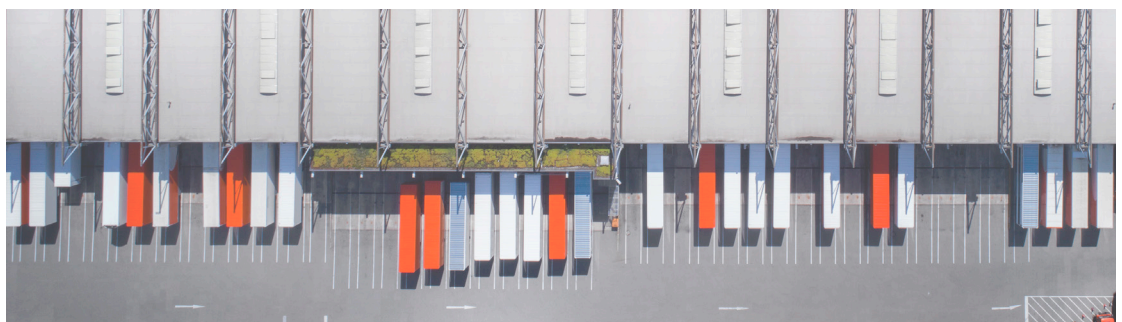
providers declined at a rate only slightly weaker than April's record pace.

Irish service sector employment fell markedly for the third consecutive month in May as firms continued to adjust their workforces in light of temporary shutdowns and very little new business. The rate of job shedding eased only slightly from April's record and was the fourth-fastest in the 20-year survey history. Transport, Tourism & Leisure again registered a notably marked decline in its workforce.

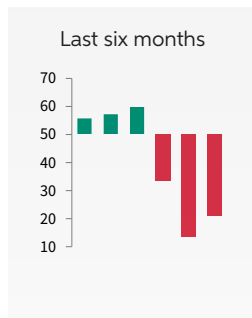
Deflationary pressures remained in May. Average input prices fell for the second month running, and at a rate that remained strong despite easing since April. With sustained falls in input prices, firms again cut their own charges in an attempt to bring in revenues, with the rate of reduction the strongest since April 2013.

With many businesses remaining shut down and demand continuing to plummet, the 12-month outlook for activity remained very weak in May. A greater proportion of firms expect activity to fall by May 2021 (42%) than increase (36%). That said, the overall degree of pessimism was softer than in both March and April, in a sign that sentiment had turned a corner.

At the sub-sector level, three areas recorded negative sentiment with pessimism strongest in Financial Services, followed by Business Services and Transport, Tourism & Leisure respectively. The Technology, Media & Telecoms sector posted renewed confidence regarding activity over the next 12 months, with reports of work on new business solutions for clients in the post-pandemic environment and the development of remote working systems.



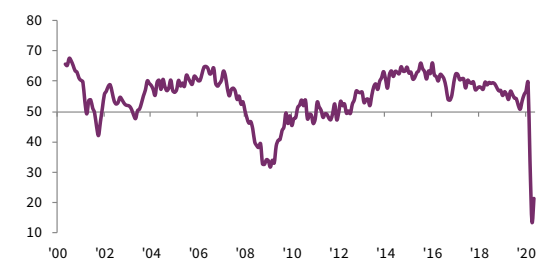
New Business Index



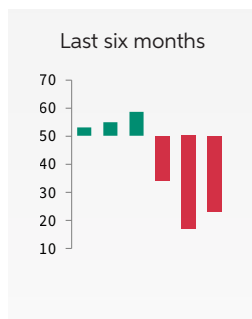
The volume of new work received by Irish service providers continued to plummet in May, reflecting the collapse in demand resulting from the ongoing national and global lockdowns to contain the coronavirus pandemic. The pace of contraction was slower than in April, but still the second-fastest on record.

New Business Index

sa, >50 = growth since previous month



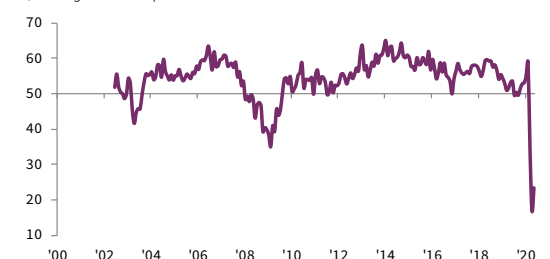
New Export Business Index



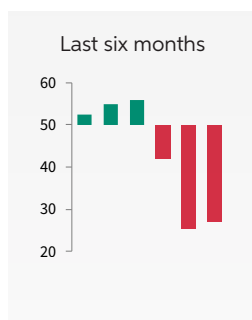
The seasonally adjusted New Export Business Index rose from April's record low in May, but the latest figure still indicated a stronger downturn in international demand than in any previous period. Transport, Tourism & Leisure recorded the steepest drop, and Financial Services the weakest.

New Export Business Index

sa, >50 = growth since previous month



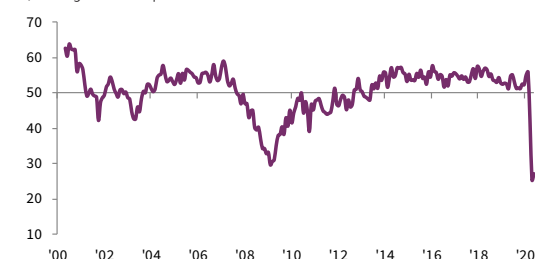
Outstanding Business Index



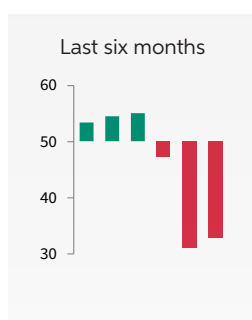
With further rapid declines in both domestic and export business in May, the volume of incomplete contracts at Irish service providers continued to fall markedly. As was the case with new business, the rate of contraction in backlogs eased since April but was stronger than in any prior month since the series began in May 2000.

Outstanding Business Index

sa, >50 = growth since previous month



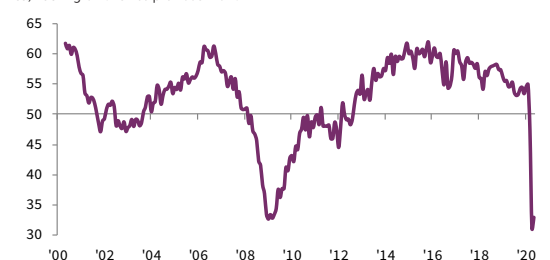
Employment Index



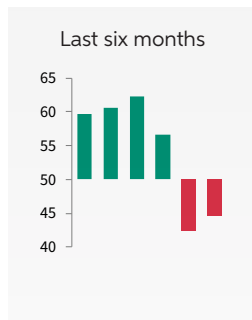
The seasonally adjusted Employment Index rose only slightly from April's record low in May, indicating another historically marked rate of job shedding in the Irish services economy. The pace of decline was the fourth-fastest on record, comparable with those seen in early-2009. More than one-in-three firms (37%) reported lower workforces, compared with 41% in April.

Employment Index

sa, >50 = growth since previous month



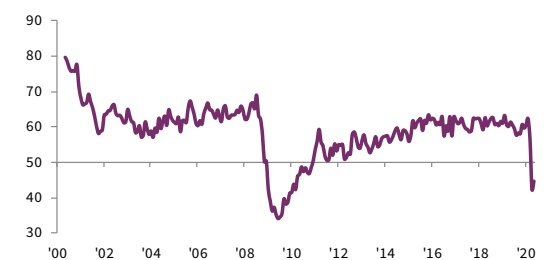
Input Prices Index



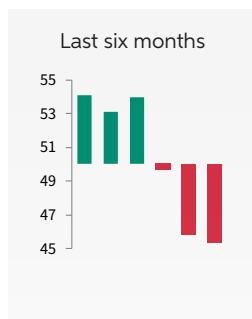
Average input costs at Irish service providers fell for the second month running in May. Prior to April, prices had risen every month since December 2010. The rate of reduction eased in the latest period from April's ten-year record, but remained marked. Firms linked lower costs to government wage subsidies, reduced travel expenses and lower fuel prices.

Input Prices Index

sa, >50 = inflation since previous month



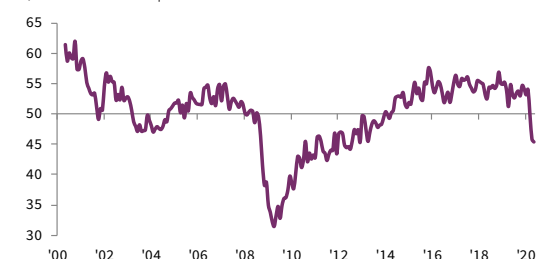
Prices Charged Index



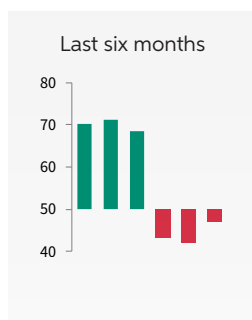
With business volumes falling rapidly and reduced cost inflationary pressures, service providers cut their own charges further in May. Average charges declined for the third month running and at the strongest pace since April 2013, as around 18% of respondents reported discounting during the month.

Prices Charged Index

sa, >50 = inflation since previous month



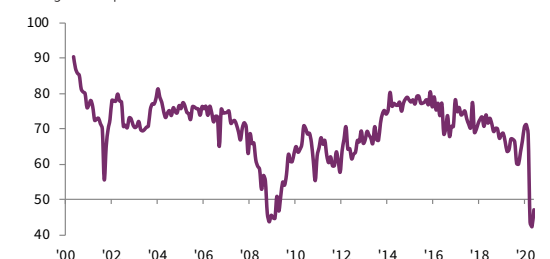
Future Activity Index



The 12-month outlook for Irish service sector activity remained pessimistic in May. The Future Activity Index rose from April's record low, but remained below 50.0 as more firms (42%) expect lower workloads by April 2021, compared with those forecasting growth (36%). The index was above the levels seen in late-2008 to early-2009, however.

Future Activity Index

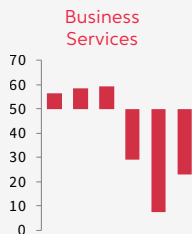
>50 = growth expected over next 12 months



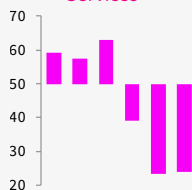
Services Sub-sectors

Business Activity Index

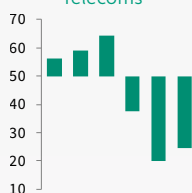
Last six months



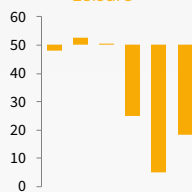
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

The rate of decline in business services activity eased in May compared with April's record plunge, but was nonetheless faster than in any previous survey period. The trend in new business matched that for total activity. Employment also fell at a slower rate, but the second-fastest since April 2009. Firms remained pessimistic regarding the 12-month outlook, but less so than in April.

Financial Services

Financial services activity fell in May at a rate only fractionally slower than April's survey-record. With new business continuing to fall rapidly, the volume of outstanding business dropped at a series-record pace. The rate of job shedding also set a new record. Financial services firms were also the most pessimistic among the four monitored sub-sectors.

Technology, Media & Telecoms

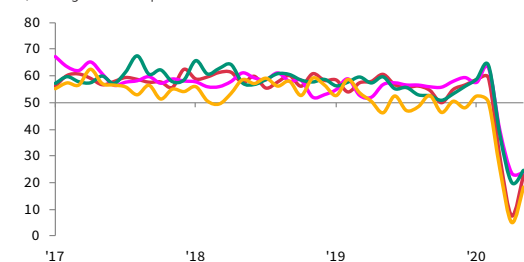
Activity in the Technology, Media & Telecoms sector fell at the second-fastest rate in the series history in May, albeit one that was slower than the other monitored sub-sectors. The TMT category also registered the slowest declines in new business and employment. Moreover, firms in the sector were optimistic regarding future growth, in contrast to pessimism elsewhere.

Transport, Tourism & Leisure

The transport, tourism & leisure sector recorded the steepest falls in activity, new business, exports, backlogs and employment among the four monitored sectors in May. That said, the rates of decline all eased since April, and the sector was less pessimistic than the business and financial services sub-sectors concerning the 12-month outlook.

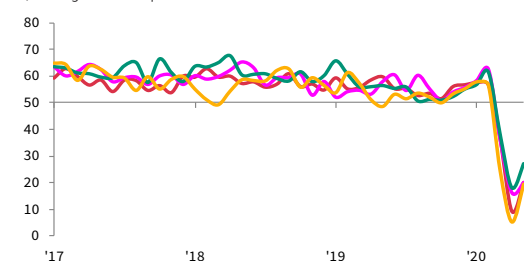
Business Activity Index

sa, >50 = growth since previous month



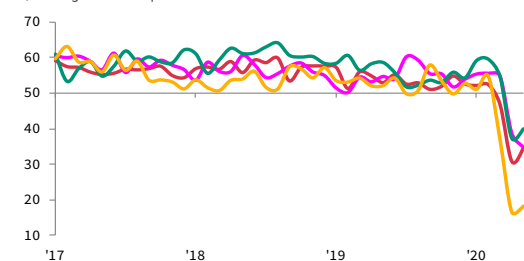
New Business Index

sa, >50 = growth since previous month



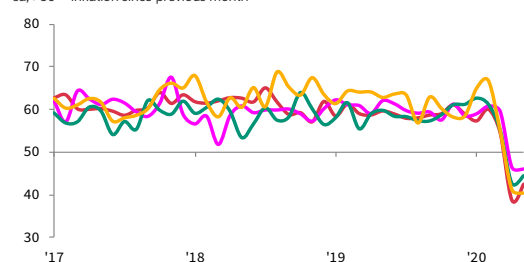
Employment Index

sa, >50 = growth since previous month



Input Prices Index

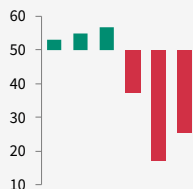
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Downturn in private sector output remains severe in May

Private sector output in Ireland, covering manufacturing and services, continued to drop at a historically marked pace in May as the lockdown to contain the coronavirus pandemic remained largely in place despite some lifting of restrictions. The Composite Output Index* rose from April's record low of 17.3 to 25.7, but the latest figure was still lower than in any previous survey period since the series began in May 2000. The next-lowest figure was 32.5 in February 2009.

Services again recorded a faster decline in activity than manufacturing production, although both sectors saw the rate of decline ease since April. The differential between services and manufacturing narrowed for the second month running, however.

New business exhibited a similar trend to output in May, posting a slower fall but still the second-strongest on record. Outstanding business declined

at the second-fastest pace in just over 11 years.

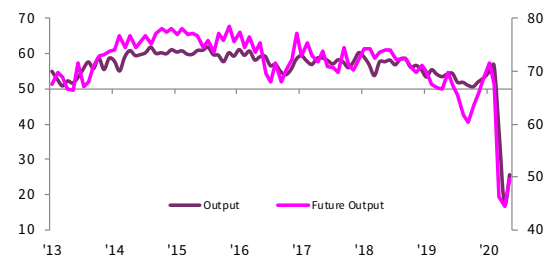
The combined manufacturing and services workforce continued to shrink at a severe pace in May, despite the rate of job losses easing since April. The slower overall drop mainly reflected the trend in the manufacturing sector.

The Future Output Index remained below the no-change mark of 50.0 in May, but rose from April's record low and was also above the March reading. This signalled that, although still weak by historical standards, sentiment had begun to recover as firms looked towards the further easing of lockdown restrictions and a restarting of the wider economy.

*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



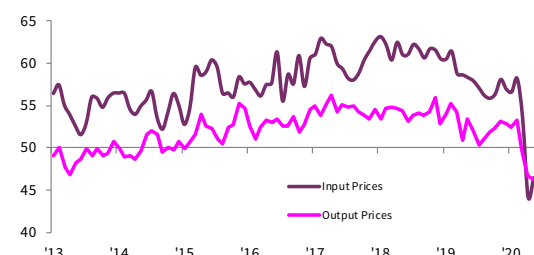
Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index

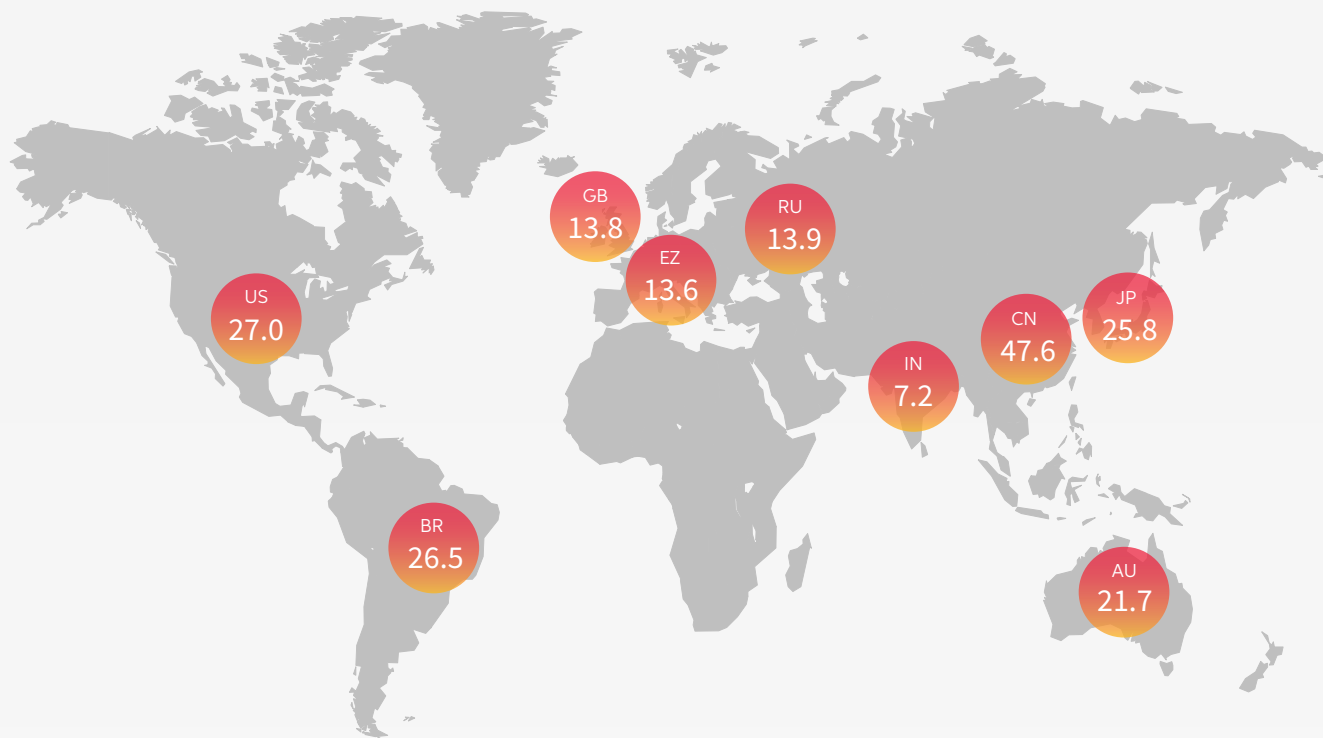
sa, >50 = inflation since previous month



International PMI

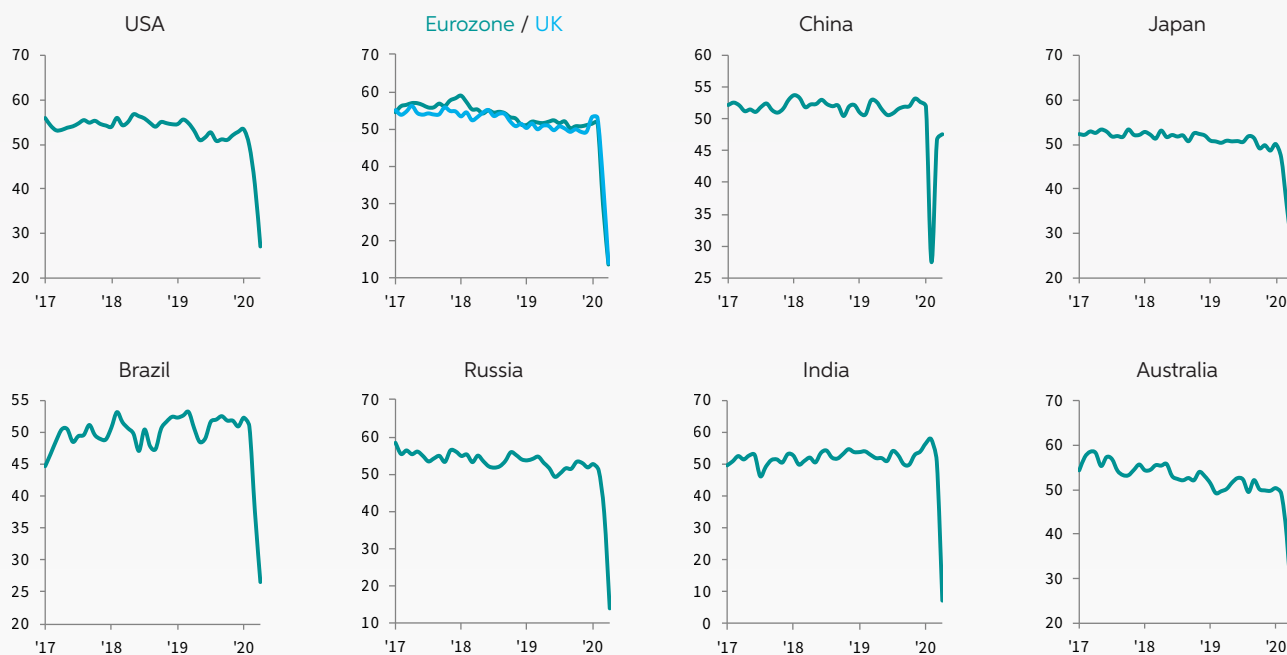
Composite Output Index, Apr '20

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 May 2020.

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

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