

AIB Ireland Services PMI®

Declines in activity and new business soften in October

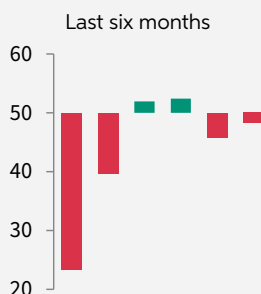
Key Findings

Modest drop in activity compared with September

Slowest decline in employment of current retrenchment period

Business expectations weaken to five-month low

Ireland Services Business Activity Index



The Irish service sector experienced a partial stabilisation in October following September's downturn but underlying conditions remained weak, according to the latest AIB PMI® data. Activity and new work both declined further, but at softer rates. Meanwhile, outstanding business and employment both fell at the slowest pace in their respective eight-month sequences of decline. Expectations moderated to the weakest in five months, reflecting rising uncertainty over a second wave of COVID-19 and a potential no-deal Brexit.

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

"The AIB Irish Services PMI recovered some ground in October after a marked decline in September, with the business activity index improving to 48.3 from 45.8 the previous month. The index, though, remains below 50 indicating that services activity continues to contract, though not at the same pace as in September. The Irish index was above that for the Eurozone, where the October PMI fell to 46.2. The UK index also fell back, but remained in expansion mode at 52.3."

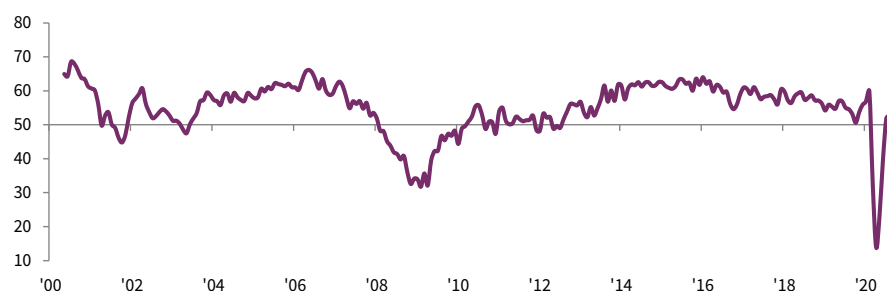
"The detailed PMI data point to ongoing difficult business conditions for many services firms. Weak demand was evident in a continued decline in new business from both at home and abroad. Firms linked the weakness of demand to Covid-19 restrictions. Falling orders saw backlogs decline again for the eighth consecutive month. Meanwhile, margins are being squeezed, with input costs

rising more quickly than output prices. Firms are responding to these challenges by continuing to cut their workforces in October."

"The recent marked rise in new cases of Covid-19 and resulting re-imposition of restrictions on activity is being most clearly felt in services sectors that depend on discretionary consumer spending. In particular, the Transport, Tourism and Leisure sector posted another very weak reading for October, well below that for other sectors."

"The 12-month outlook for the services sector remained positive, although it continues to ease back from its recent high in June. Overall, the PMI data show that business conditions are challenging for many services firms. This will be even more so in November, with much of the sector now back in lockdown."

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 Business Activity Index remained below the no-change mark of 50.0 in October at 48.3, from September's 45.8, indicating a second successive monthly decline in Irish service sector output. This renewed downturn followed growth in July and August as the economy initially reopened following the spring lockdown. The rate of decline in the latest period was only modest, however, and slowed from September.

The latest sub-sector data revealed contrasting trends across the four categories monitored. Two sectors registered strong declines in activity, with Transport, Tourism & Leisure posting a steeper drop than Financial Services. Meanwhile, a strong rise in activity was registered in Business Services, the third expansion in the past four months, while a modest increase was seen in the Technology, Media & Telecoms (TMT) sector.

The volume of new business received by Irish service providers continued to decline in October, with survey respondents linking weaker demand to ongoing coronavirus restrictions and uncertainty over rising virus cases. The rate of reduction in new orders slowed since September, however.

A fall in the overall level of outstanding work in

the Irish services sector was registered for the eighth month running in October, as business capacity remained under-utilised. That said, the rate of decline was the slowest in the aforementioned sequence. This reflected higher backlogs in the Business Services and Financial Services sub-sectors.

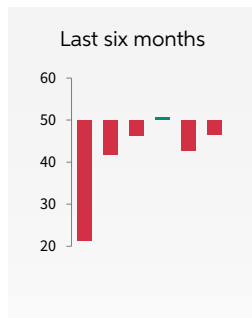
Overall service sector employment followed the same pattern as outstanding business in October, falling for the eighth month running but at the weakest rate over this period. Companies reported redundancies and reduced working hours. Notably sharp rates of job shedding were seen in the Transport, Tourism & Leisure and Financial Services sub-sectors, while a modest decline was seen in Business Services and the TMT sector posted strong growth.

The 12-month outlook for business activity remained positive in October, as firms broadly expect a fading impact from the COVID-19 pandemic in a year's time. That said, with uncertainty over rising virus cases over the medium term and concerns regarding a potential no-deal Brexit, the strength of sentiment was the weakest since May. The Transport, Tourism & Leisure sub-sector recorded the weakest confidence, and the TMT sector the strongest.

Cost pressures remained strong in October, linked by respondents to expenditure on PPE equipment, higher freight charges due to COVID-19 restrictions, costs related to remote working adjustments and compliance. Companies continued to pass higher input prices on to customers, with average charges rising for the second month running and at a faster rate than in September.



New Business Index

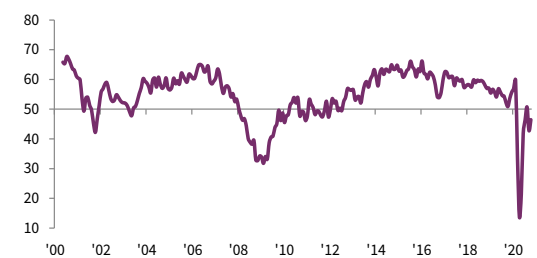


The volume of new business received by Irish service providers declined for the second month running in October, following a slight increase in August. Survey respondents mainly linked weaker demand to COVID-19 restrictions amid rising cases.

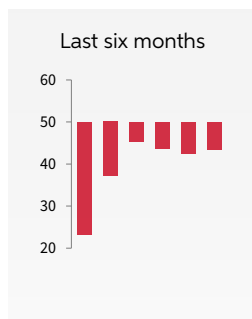
The pace of contraction in new work was only modest, however, and slowed since September.

New Business Index

sa, >50 = growth since previous month



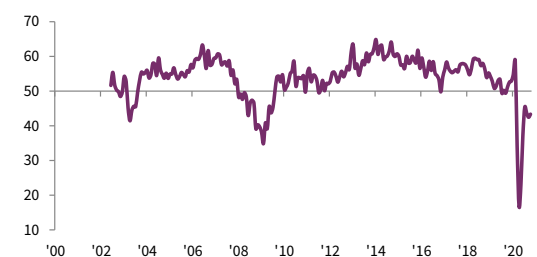
New Export Business Index



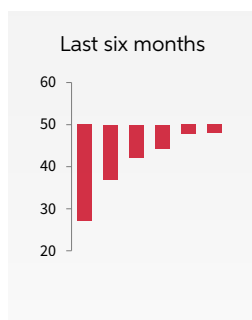
International demand for Irish services continued to weaken at the start of the fourth quarter, linked by panellists to the continuing impact of COVID-19. The volume of new export business contracted for the eighth successive month. The rate of decline was slightly sharper than the average over the third quarter of 2020, but still much weaker than those registered in the second quarter.

New Export Business Index

sa, >50 = growth since previous month



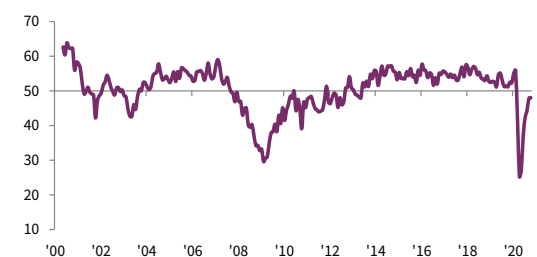
Outstanding Business Index



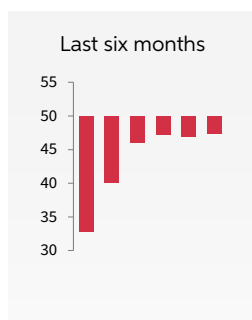
The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 for the eighth month running in October, indicating ongoing spare business capacity at Irish service providers. Firms linked falling work-in-hand to cancelled and postponed contracts and a lack of incoming new business. The rate of backlog depletion was, however, the weakest during this sequence.

Outstanding Business Index

sa, >50 = growth since previous month



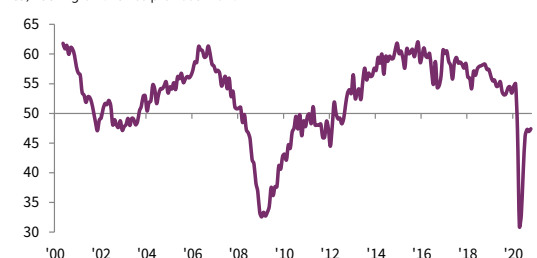
Employment Index



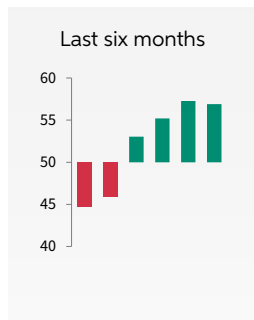
Service providers continued to cut staff, on average, in October. A number of firms reported making redundancies during the month, while there were also mentions of reduced working hours. That said, the rate of job shedding eased for the fifth time in six months following April's survey record, and was the slowest in the current eight-month period of decline. This partly reflected strong job creation in the Technology, Media & Telecoms sector.

Employment Index

sa, >50 = growth since previous month



Input Prices Index

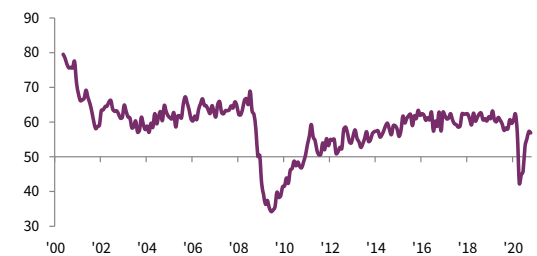


Average input prices at Irish service providers rose for the fourth consecutive month in October. Sources of rising costs included PPE equipment, higher freight charges due to COVID-19 restrictions, costs related to remote working adjustments and compliance.

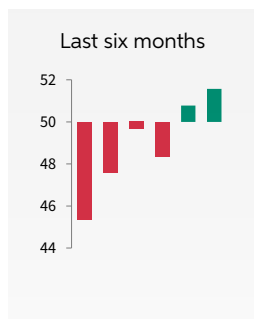
The seasonally adjusted Input Prices Index was indicative of a sharp rate of inflation, but fell for the first time in six months and remained below its long-run trend level of 58.8.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index

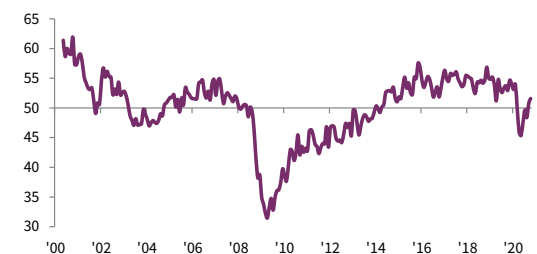


Prices charged by service sector companies in Ireland rose for the second month running in October, following a six-month period of discounting. Firms mainly linked higher charges to increased input costs being passed on to customers.

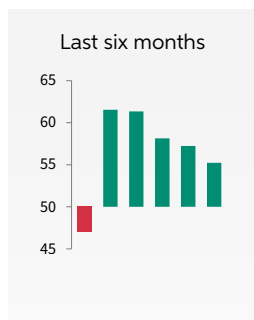
The rate of charge inflation strengthened since September, but remained slower than the recent pre-crisis trend.

Prices Charged Index

sa, >50 = inflation since previous month



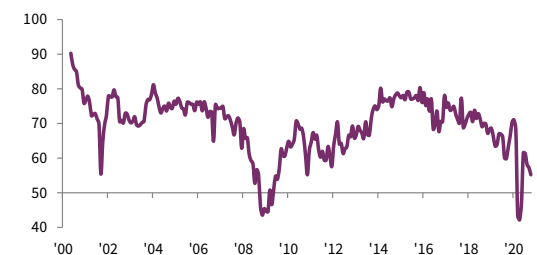
Future Activity Index



Business expectations remained positive overall for the fifth consecutive month in October. Growth forecasts for 12 months' time were mainly linked to expectations of a bounce in business following the COVID-19 pandemic. That said, the strength of sentiment moderated further, to the weakest in this sequence, reflecting rising uncertainty around the longevity of the pandemic and the risk of a no-deal Brexit.

Future Activity Index

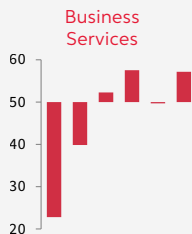
>50 = growth expected over next 12 months



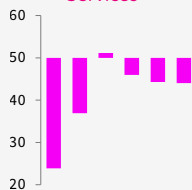
Services Sub-sectors

Business Activity Index

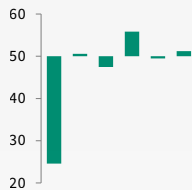
Last six months



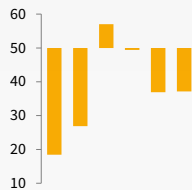
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Business services was the top-ranked sector for the third month running in October, recording a rebound in activity following September's stagnation. The rate of growth broadly matched that seen in August and was sharp. Both new and outstanding business rose following declines in September, although employment fell. Sentiment improved on the month, bucking the overall trend.

Financial Services

Financial services activity fell for the third month running in October, following a slight increase in July. The rate of decline was similar to September's strong pace, albeit much weaker than those seen in the spring. New business also fell sharply, although outstanding contracts rose. Financial services firms faced the sharpest increase in average input prices of all four sub-sectors in October.

Technology, Media & Telecoms

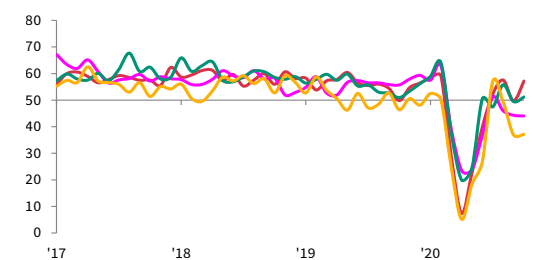
The Technology, Media & Telecoms (TMT) sector registered growth of output for the third time in five months in October, although the latest increase was only modest. Sentiment moderated since September but remained the strongest among the four sub-sectors monitored. Employment rose at the strongest rate since February, in contrast to job shedding in the other three sub-sectors.

Transport, Tourism & Leisure

The Transport, Tourism & Leisure sector registered further marked falls in total activity, new business, backlogs and employment in October. On all four measures, the sector was the bottom-ranked among the four monitored categories. The sector also registered the weakest expectations for activity in 12 months' time.

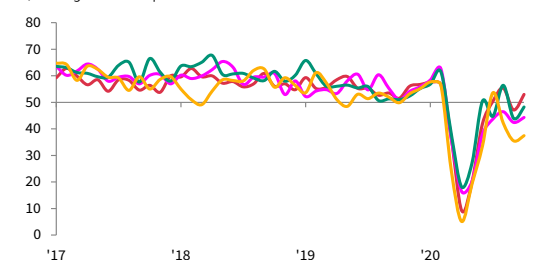
Business Activity Index

sa, >50 = growth since previous month



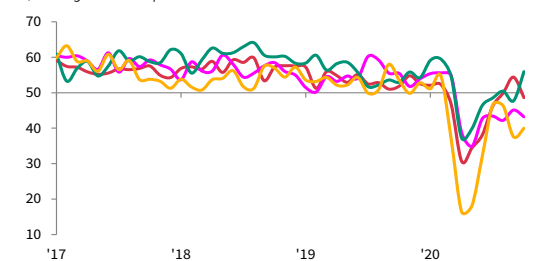
New Business Index

sa, >50 = growth since previous month



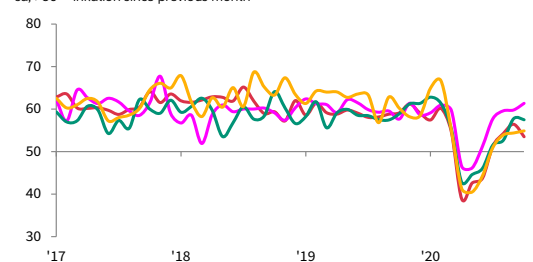
Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month

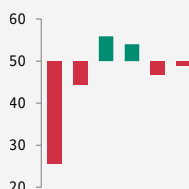


AIB Ireland Composite PMI®

Private sector activity nears stabilisation in October, but outlook darkens

Composite Output Index

Last six months



Irish private sector output fell for the second month running in October as inflows of new business continued to decline. The rate of reduction in total activity slowed to only a marginal pace but the 12-month outlook was the weakest in five months, reflecting ongoing concerns over the longevity of the coronavirus pandemic and rising risks of a no-deal Brexit.

The seasonally adjusted Composite Output Index rose to 49.0 in October, from 46.9 in September, indicating a further drop in private sector activity but one that was only marginal overall. The slower overall contraction reflected both a broadly stable level of manufacturing output, and a slower decline in services activity.

New business at private sector firms in Ireland fell for the second month running in October, following a brief two-month recovery in demand. The rate of

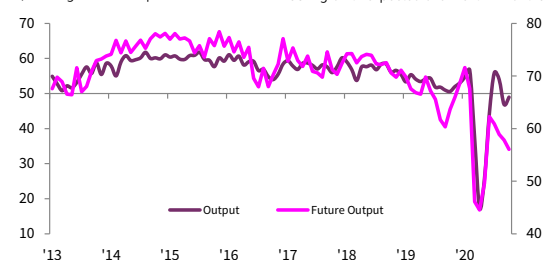
decline eased since September, however, and was much slower than those seen during the spring lockdown.

Private sector employment fell for the eighth month running, but at the weakest rate over this period. This reflected both a slower decline at service providers and slightly higher employment in the manufacturing sector.

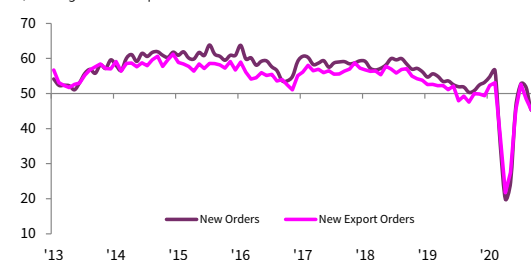
Business expectations remained positive in October, but were the weakest in five months, reflecting renewed concerns over the long-term impact of COVID-19 and also a potential no-deal Brexit.

*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.

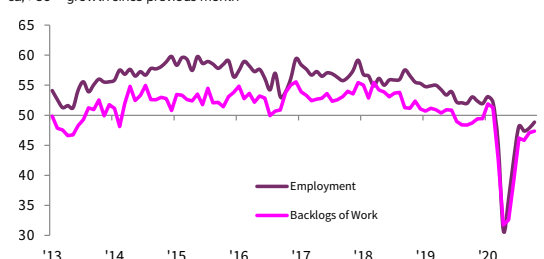
Output Index sa, >50 = growth since previous month
Future Output Index >50 = growth expected over next 12 months



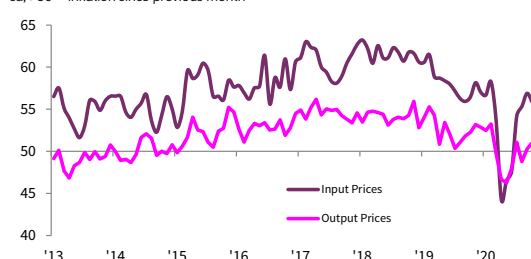
New Business Index / New Export Business Index sa, >50 = growth since previous month



Employment Index / Outstanding Business Index sa, >50 = growth since previous month



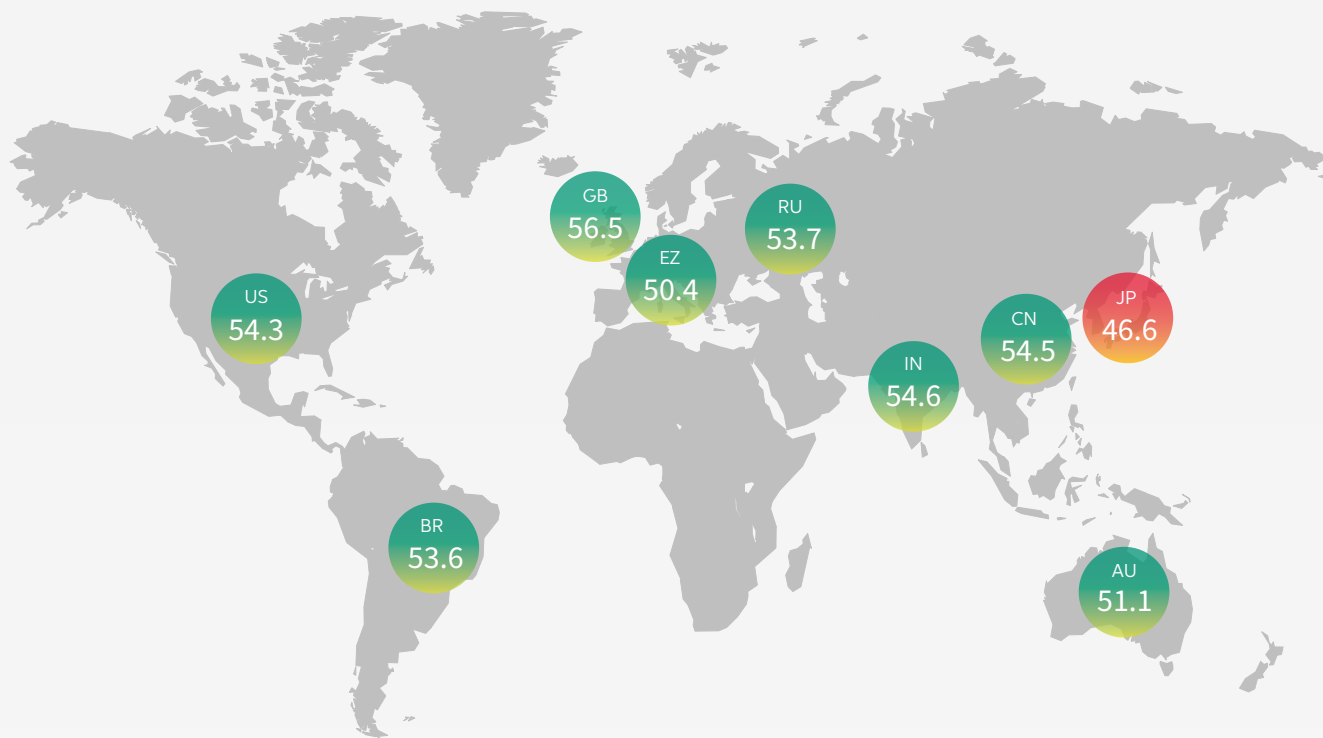
Input Prices Index / Prices Charged Index sa, >50 = inflation since previous month



International PMI

Composite Output Index, Sep '20

sa, >50 = growth since previous month



Composite Output Index

sa, >50 = growth since previous month



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

Graham Union
AIB Press Office
T: +353-1-6412430
M: +353-85-2088343
E: Graham.X.Union@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.

Data were collected 12-27 October 2020.

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

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