

AIB Ireland Services PMI®

Sharp drop in new work drives total activity down in September

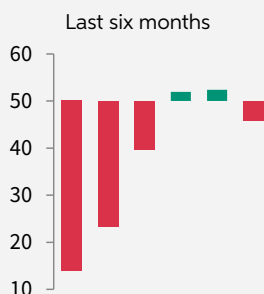
Key Findings

Fastest decline in new business since June

Activity falls, but at slower rate than March-June period

Rate of job losses stabilises, ending period of slowing cuts

Ireland Services Business Activity Index



The latest PMI® data from AIB signalled that the recovery in the Irish services economy petered out in September amid rising virus cases and economic uncertainty. Total activity fell sharply following two months of modest expansion. Moreover, new business declined at the fastest rate since June. A combination of weakening demand and higher labour costs linked to the end of the temporary COVID-19 wage subsidy scheme (TWSS) led the rate of job shedding to level off, following a four-month period of slowing cuts.

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

"The AIB Irish Services PMI for September shows a renewed decline in business activity in the sector in line with the trend seen elsewhere in the Euro area. The Irish business services activity index fell to 45.8 from 52.4 in August, moving well into contraction territory below the 50 level. The flash services PMI reading for the Eurozone also saw the activity index drop below 50 in September to 47.6."

"The recent marked rise in new cases of Covid-19 in Europe 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 very weak readings in September, although business activity declined across all four sub-sectors covered in the PMI survey."

"Weakening demand was manifested in declining sales both at home and abroad, with a marked fall in the volume of incoming new business in September. Firms linked the weakness of demand to Covid-19 restrictions and uncertainty about the economic outlook. Falling orders saw backlogs decline again for a seventh consecutive month. With demand weakening, spare capacity rising and margins being squeezed with input costs rising more quickly than output prices, firms continued to cut their workforces."

"The 12-month outlook for the services sector remained positive, although it continues to ease back from its recent high in June and remains below its long term trend. Overall, the PMI data show that business conditions are very challenging for many firms operating in the services sector of the economy owing to the continuing Covid-19 pandemic."

Services Business Activity Index
sa, >50 = growth since previous month



Overview

The Business Activity Index fell sharply into contraction territory in September, declining from August's 52.4 to 45.8. The month-on-month decline in the headline figure of 6.6 points was the third-largest ever recorded, behind the double-digit plunges seen in March and April. The latest figure signalled a sharp decline in output by the survey's historical standards, albeit one much less severe than those registered from March through June. Over the third quarter as a whole, the Index trended at exactly 50.0, compared with 25.7 in Q2 and 49.8 in Q1. The next-lowest quarterly figure was 49.7 in Q4 2010.

Business activity declined across all four sub-sectors monitored in September. The fastest decline was in transport, tourism & leisure, which had seen strong growth in July and only a slight fall in August. Financial intermediation registered a drop in activity for the sixth time in seven months, while only marginal declines were seen in business services and the technology, media & telecoms (TMT) sectors. Over the third quarter as a whole, business services registered the strongest performance.

Total activity was weighed down by a renewed fall in incoming new business in September, following only a marginal increase in August. Companies linked weak demand to COVID-19 restrictions, economic uncertainty and difficulty in completing new sales due to longer decision-making by clients. Export demand also weakened, linked to COVID-19-related uncertainty and, to a lesser extent, Brexit. The rate of decline in new export sales was the fastest in three months.

Latest data signalled a seventh consecutive

drop in the volume of outstanding business at Irish service sector companies. Firms mainly linked lower backlogs to a lack of incoming new work. The rate of depletion was the weakest in the current sequence, however.

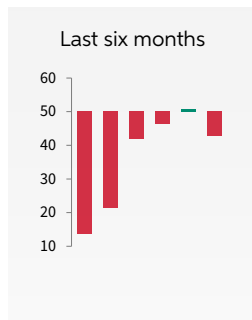
With new and outstanding business both falling, service sector employment in Ireland declined further in September. Companies mentioned redundancies, reduced working hours and the non-replacement of leavers. By sector, the decline was most marked in transport, tourism & leisure, followed by financial intermediation and TMT respectively. That said, the rate of job shedding was little-changed from August, remaining much less severe than those registered during the second quarter. This partly reflected solid workforce growth at business services firms.

Average input prices rose for the third month running, linked to increased labour costs due to the end of TWSS, PPE costs and higher shipping charges. Prices charged increased for the first time in seven months, albeit only slightly. The financial intermediation sector registered the strongest rates of both input and output price inflation in September.

Service providers' expectations for activity over the next 12 months remained positive in September, though the strength of confidence slipped for the third successive month following June's rebound. Excluding the March to May period, sentiment in September was the weakest since November 2010.



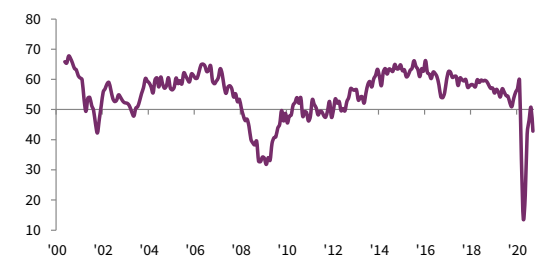
New Business Index



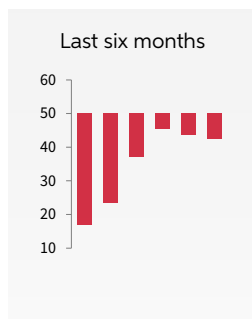
Irish service providers reported a renewed decline in the volume of incoming new business in September, following only a marginal increase in August. The rate of contraction was stronger than in July, but slower than in the March to June period. Companies linked weak demand to COVID-19 restrictions, economic uncertainty and difficulty in completing new sales due to longer decision-making by clients.

New Business Index

sa, >50 = growth since previous month



New Export Business Index

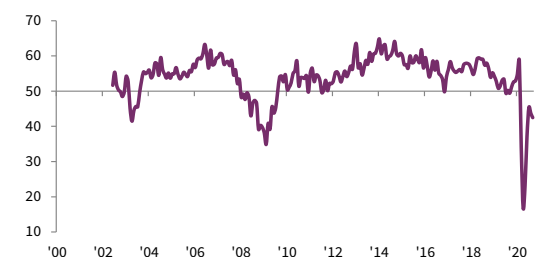


International demand for Irish services weakened further in September. The rate of decline in new export sales was the fastest for three months, but still much slower than in the second quarter.

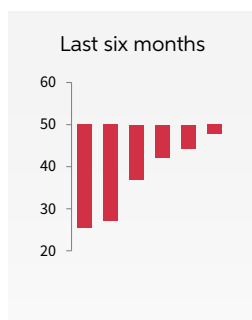
Anecdotal evidence linked lower export business to COVID-19-related uncertainty and, to a lesser extent, Brexit.

New Export Business Index

sa, >50 = growth since previous month



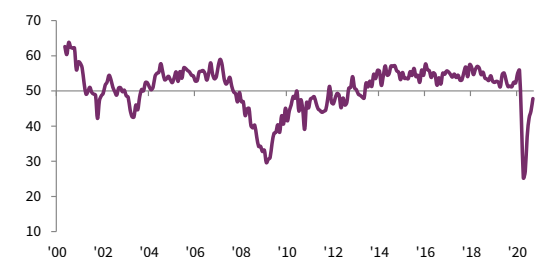
Outstanding Business Index



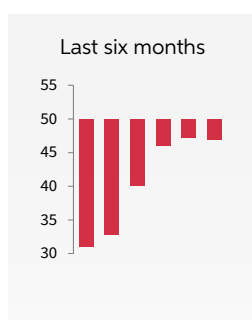
September data indicated a seventh successive drop in the volume of outstanding work held at Irish service providers. Companies reported a lack of incoming new work mainly due to ongoing COVID-19 restrictions and uncertainty. That said, the rate of backlog depletion was the weakest in the current sequence.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

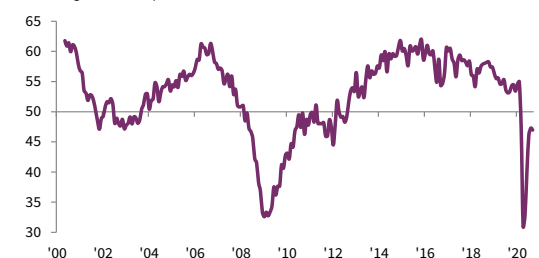


Service sector employment in Ireland fell further in September. Companies reported redundancies, reduced working hours, the non-replacement of leavers and cost cutting due to the end of TWSS.

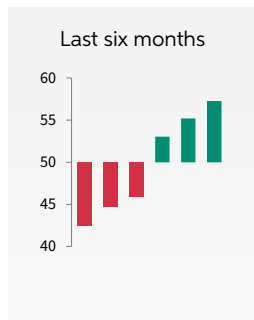
That said, the rate of job shedding levelled off following four months of slowing cuts, remaining much less severe than those registered during the second quarter.

Employment Index

sa, >50 = growth since previous month



Input Prices Index

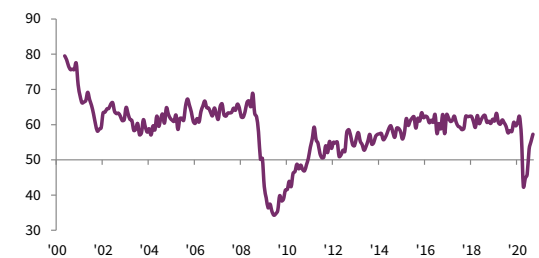


Cost inflationary pressures continued to build at service providers at the end of the third quarter. Average input prices rose for the third month running, and at the fastest rate since February. Firms reported increased labour costs due to the end of TWSS, additional costs for PPE and higher shipping charges.

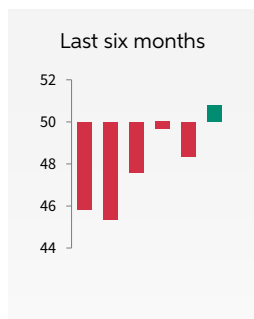
That said, the seasonally adjusted Input Prices Index remained below its long-run trend level of 58.8.

Input Prices Index

sa, >50 = inflation since previous month



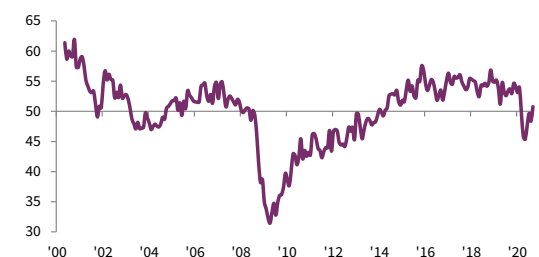
Prices Charged Index



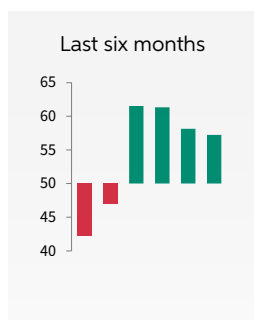
The seasonally adjusted Prices Charged Index rose above the no-change threshold of 50.0 in September, indicating higher charges levied by Irish service sector companies. This followed a six-month period of discounting as demand weakened during the coronavirus pandemic. Firms mainly linked higher prices to the pass-through of increased costs to customers.

Prices Charged Index

sa, >50 = inflation since previous month



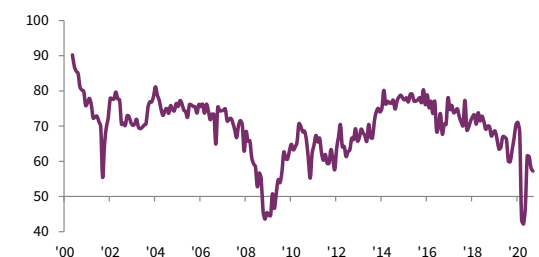
Future Activity Index



Service providers in Ireland expected growth of activity over the next 12 months in September, though the strength of confidence slipped for the third month running. Excluding March, April and May this year during the most severe phase of the coronavirus lockdown, sentiment in September was the weakest since November 2010.

Future Activity Index

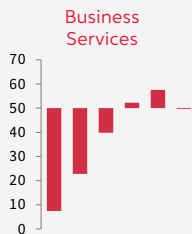
>50 = growth expected over next 12 months



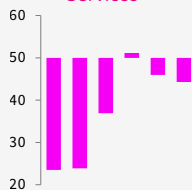
Services Sub-sectors

Business Activity Index

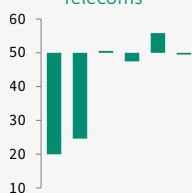
Last six months



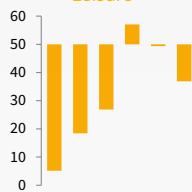
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Business services activity in Ireland fell for the first time in three months in September, linked to a reduction in new business following two months of growth. The declines in overall activity and new work were, however, the slowest among the four monitored sectors. Business service was the only sector to record higher employment in September, the first period of job creation since February.

Financial Services

Financial services activity declined further in September, following a brief increase in July. New business fell for the seventh consecutive month running, and at a faster rate, with an especially marked decline in overseas business. Employment fell for the sixth month running, albeit at the slowest rate of this sequence.

Technology, Media & Telecoms

Activity in the Technology, Media and Telecoms (TMT) sector dipped slightly in September, following a strong rise in August. Moreover, the volume of new business fell sharply, and firms resumed job cutting following a slight increase in the previous survey period.

TMT was the only monitored sector to record lower average charges in September.

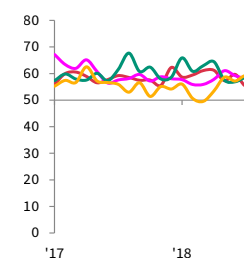
Transport, Tourism & Leisure

The Transport, Tourism & Leisure sector recorded a steeper fall in activity in September, and the fastest decline of all four monitored sectors. It also recorded the fastest decreases in new business, exports, backlogs and employment, and the weakest sentiment.

The sector did, however, record the slowest rise in average input prices across the monitored categories.

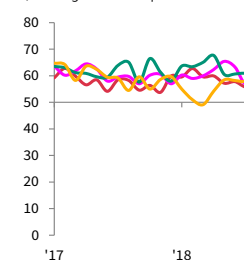
Business Activity Index

sa, >50 = growth since previous month



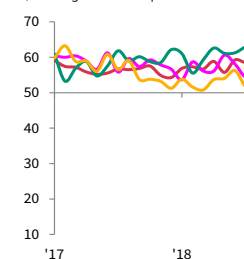
New Business Index

sa, >50 = growth since previous month



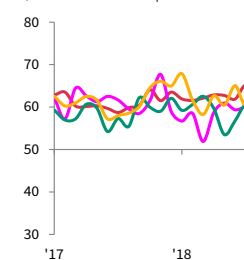
Employment Index

sa, >50 = growth since previous month



Input Prices Index

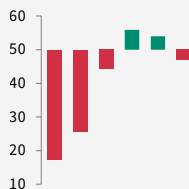
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Output falls across manufacturing and services sectors in September

The Irish private sector economy contracted in September, heralding an abrupt end to a two-month recovery in output growth following the first wave of coronavirus. The seasonally adjusted Composite Output Index fell from 54.0 in August to 46.9, a three-month low. While the rate of decline signalled was weaker than those seen during the March to June period, it was stronger than in any prior month since January 2010.

Manufacturing output and services activity both declined at the end of the third quarter, with the steeper contraction registered in the latter sector. Both sectors also saw lower intakes of new work on the month, with service providers again posting the steeper rate of decline.

Private sector backlogs of work fell for the seventh month running in September, with the decline broad-based for the second consecutive period.

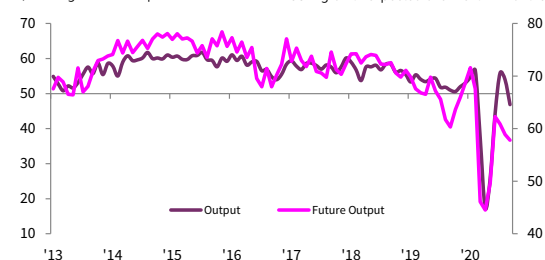
This lack of pressure on capacity contributed to a further round of job shedding, albeit at the second-lowest rate in the current seven-month sequence.

Firms cut headcounts partly to reduce costs, though overall cost pressures continued to rise. Average input prices increased at the fastest rate since February. Output prices rose for the second time in three months, albeit only slightly.

The 12-month outlook for business activity moderated for the third month running, reflecting rising COVID-19 cases and economic uncertainty partly linked by panellists to 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.

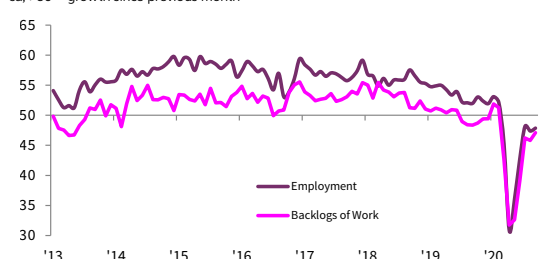
Output Index
sa, >50 = growth since previous month



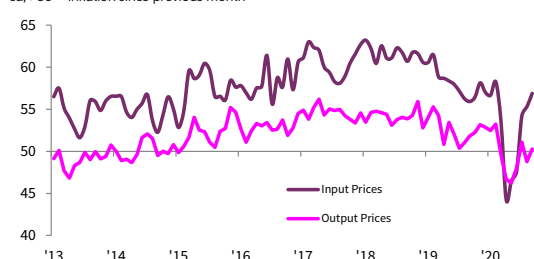
Future Output Index
>50 = growth expected over next 12 months



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



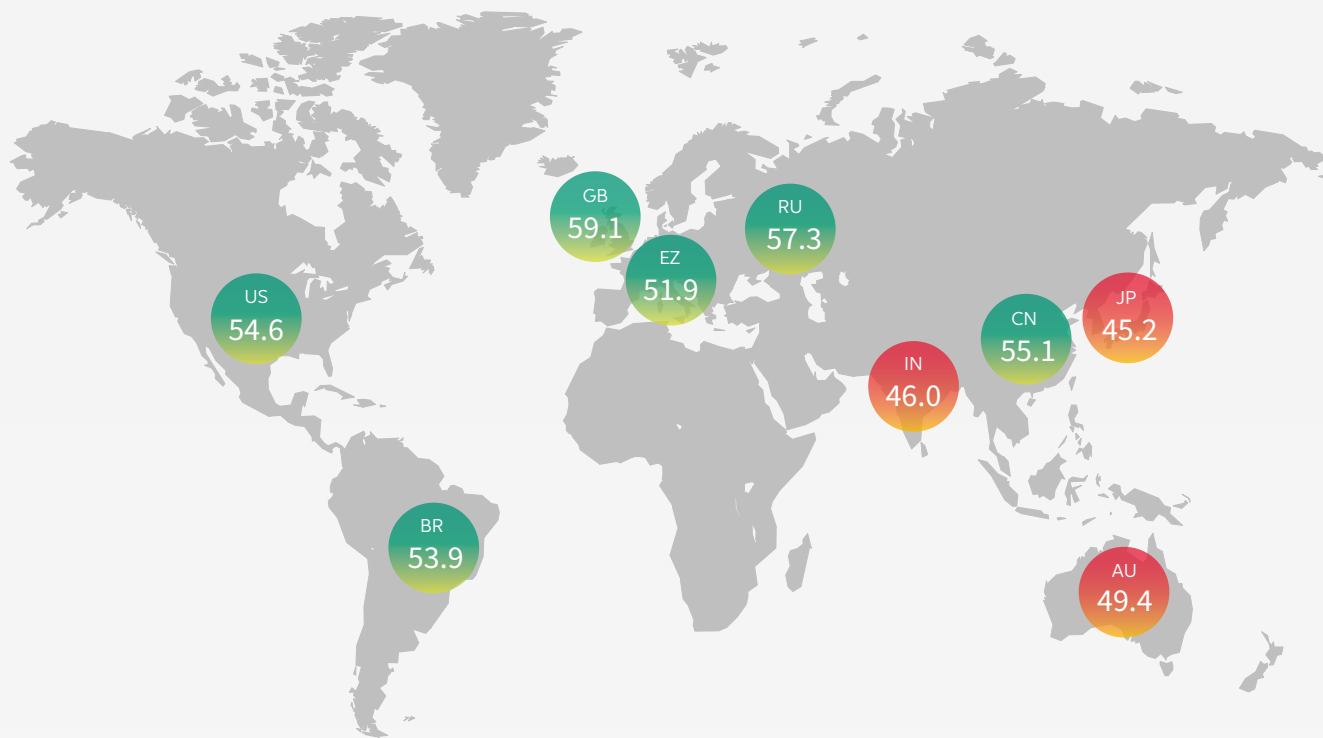
Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Aug '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 11-25 September 2020.

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

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