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Irish private sector firms less optimistic, profits under threat irrespective of falling labour costs – AIB Ireland Business Activity Report

- Most common predicted recovery timescale for businesses from Covid-19 is 7-12 months (21% of surveyed businesses)
- 12 month outlook for Irish private sector employment weakest for nearly a decade
- Companies' profitability under severe pressure irrespective of falling labour costs

Irish private sector firms are less optimistic regarding the 12 month outlook in the wake of the Covid-19 crisis and ongoing Brexit uncertainty according to the latest AIB Ireland Business Activity Report. The AIB Ireland Business Activity Insight Report uses percentage net balances varying between -100 and 100 to indicate the degree of optimism or pessimism.

The net balance of companies expecting growth of business activity over the next 12 months minus those forecasting declines has fallen to +28% in June, from February's pre-Covid-19 level of +37%. The latest figure is the third-lowest on record since the series began in October 2009, and marks the fifth reduction in the past six surveys stretching back to October 2018. Weaker sentiment at the mid-point of 2020 reflects firms' concerns over the economic hit from the ongoing Covid-19 crisis, and also renewed uncertainty around the Brexit negotiations as the end to the transition period looms.

The 12 month outlook for Irish private sector employment is the weakest for nearly a decade. The net balance for employment has fallen sharply to +7% in June, from +23% in February. This is the lowest figure since October 2010 and the fourth lowest on record. The 16 point fall in the net balance is the largest ever recorded.

Company profitability in Ireland looks set to come under severe pressure over the next 12 months despite much weaker expected costs, notably for labour. The net balance for profits has fallen sharply to +5% in June, from +21% in February. This signalled the weakest outlook for profitability since October 2010, and the second-weakest on record. Similar trends are evident in manufacturing (+2%) and services (+7%).

As a separate question businesses were asked about their estimated business recovery period from the impact of Covid-19, with the most common timescale reported within seven to twelve months (21% of firms), followed by three to six months (19%) and less than three months (13%). 17% expect a return to normal business levels after at least one year, with 6% expecting the recovery to take at least two years. Every company which took part expected to recover to pre-Covid-19 levels of business.

AIB Head of Business Banking Hilary Gormley said "The results of the most recent report are not surprising given the effect that Covid-19 has had across Ireland and the Brexit uncertainty that lies ahead. The impact of Covid has been extremely wide-reaching and the severity of that impact has varied greatly across different sectors. The same can be said for the recovery, as the survey

highlights that the speed of recovery for businesses will vary, depending on their activities, markets and customers.”

She continued: “Respondents also highlighted concerns about profitability over the next 12 months, but the key focus for businesses in the short term is liquidity, and ensuring they are adequately resourced and are focused on managing their working capital as best they can. AIB is working with customers across the business community, providing a range of bespoke solutions to mitigate the risk that Covid has presented. We encourage customers to engage with us as the outlook for their business evolves over the coming months. It is also important to note some of the positive responses to the survey, and that for some firms the dynamic environment created by Covid and Brexit will create opportunities for growth or diversification into new markets or product lines.”

The AIB Ireland Business Activity Insight report is based on surveys conducted by IHS Markit among 650 businesses in the manufacturing and services sectors in the Republic of Ireland between the 12th & 25th June 2020.

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