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Pent-up consumer demand drives profit and employment outlook for businesses – AIB Business Activity Report

- Business activity in the manufacturing and services industries rose to its highest level since June 2018.
- Slow return of hospitality and tourism sectors, supply chain problems and higher costs, weigh on sentiment.
- Majority of firms say output yet to recover one year on from pandemic.
- Expectation of restrictions lifting and progress in vaccine rollout fuels positive outlook for businesses.

Irish firms are increasingly optimistic about the next twelve months, with most forecasting improved profit and employment prospects due to an expected release of pent-up consumer demand once the Covid-19 restrictions are lifted. This is according to the latest AIB Business Activity Report which surveyed 650 companies in the manufacturing and services sector between the 11th and 23rd February. The Report uses percentage net balances varying between -100 and 100 to indicate the degree of pessimism or optimism.

The net balance for business activity in the manufacturing and services industries rose from October's record low of +20% to +46%, the highest since June 2018. The 26-point rise was the highest increase since the report began in 2009. The outlook in Ireland was stronger than in Italy (+44%), Germany, Spain (both +36%) and France (+28%), but less positive than that in the UK (+57%).

Hilary Gormley, Head of Business Banking, AIB said, 'The latest AIB Business Activity Report speaks to a renewed level of optimism amongst Irish businesses as firms look beyond the pandemic, to a rebound in demand as lockdown restrictions ease. With the output of many businesses still below pre-pandemic levels and supply chain disruptions impacting operations, it is clear that challenges persist for a significant proportion of Irish firms. Notwithstanding these challenges, sentiment is increasingly positive across both the manufacturing and services sectors.'

'Encouragingly, firms are optimistic for key areas such as employment, capital spending and profitability. Furthermore, it is clear that Irish firms are planning for continued investment in their IT capabilities and research and development as they seek to drive efficiencies and bring new and improved products and services to market.'

Firms are expecting a resurgence in business activity once more people become vaccinated and the lockdown restrictions are eased as the year progresses. Confidence was also attributed to winning new business as a result of Brexit. Weighing on sentiment were supply chain problems and higher costs, linked to both Brexit, the pandemic and a comparatively slow return to normality for sectors such as tourism and hospitality.

The 12-month outlook for employment dramatically improved at the beginning of the year, rising sharply from +6% in October 2020 to +25% in February, the largest increase since the series began in 2009. Hiring intentions were stronger for the services sector (+28%) compared to the manufacturing

sector (+20%). The employment outlook in Ireland was stronger than in Germany (+21%), France (+14%), Spain (+9%) and Italy (+8%), but weaker than that in the UK (+30%).

Profit outlook improved on the expectation of a revival in demand. The net balance for output prices rose to +27% from +16% last October. Manufacturers were more upbeat on pricing than service providers.

The survey revealed that output was still lower than pre-pandemic levels at more than half of all companies. More positively, a greater number of firms expected business to recover to pre-pandemic levels within a year.

Over half (57%) of firms reported that output at their units was lower as of mid-February when compared with pre-pandemic levels. This was slightly better than October (51%) but below June 2020 (74%) reflecting the economic hit from the latest lockdown restrictions.

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Further Information

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