



Irish Business Activity Insight Report

July 2019



Executive Summary

Global headwinds and Brexit uncertainty drag down growth forecast to lowest in almost nine years

Expectations for output growth soften further

Irish businesses' growth expectations are at their lowest in almost nine years according to the latest AIB Ireland Business Activity Report. The report reveals growing anxieties towards slowing global economic growth and the outcome of Brexit, whilst also highlighting concerns about skilled labour shortages and the potential disruption from global trade tensions.

Although the number of firms expecting a rise in their business activity over the next 12 months is greater than those predicting a fall, at +32%, the net balance is the lowest seen since late-2010. That said, it is above that seen for the eurozone (+27%) and the joint-second-highest among all countries for which we have both manufacturing and services data, behind Brazil.

The reduction in confidence from the previous outlook survey in February, when the net balance was +35%, continues a downward trend seen since late-2018.

Behind this has been a steady slump in manufacturers' expectations, which are now the lowest in exactly ten years. In fact, since the survey started in 2006, confidence among goods producers has only been weaker during the height of the global financial crisis in 2008-09.

Anecdotal evidence suggests that ongoing uncertainty regarding the final outcome of the delayed Brexit negotiations remains a key threat to the outlook

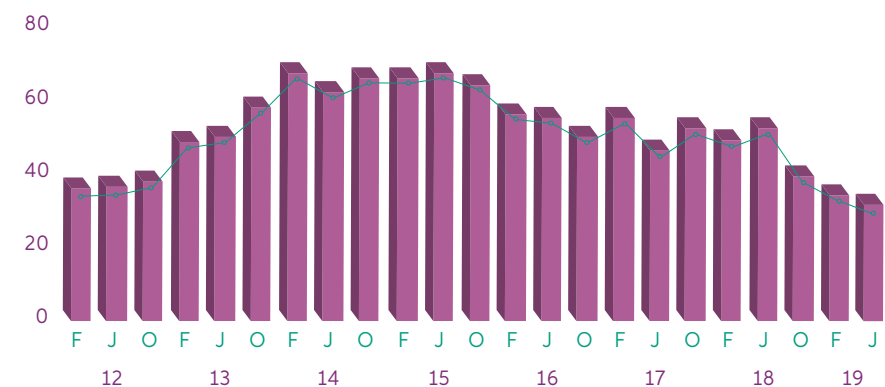
Services sentiment, meanwhile, is unchanged from February, but nonetheless weaker than the historical series average recorded since April 2006. In addition to many of the same concerns highlighted by goods producers, services firms foresee a shortage of skilled staff as a key threat to growth.

Commenting on the latest survey results, Hilary Gormley, Head of Business Banking - Corporate, Institutional & Business Banking said:

'The downward trend in growth expectations continues, particularly in the manufacturing sector, driven by uncertainty on the final outcome of Brexit and slowing economic growth. Although sentiment is still positive overall, it is the lowest it's been for nine years. While there is optimism in Irish Businesses in relation to employment and profitability growth expectations in comparison to the February survey, with confidence around increasing workloads and job creation, cost pressures will continue to be burdensome in the year ahead. Another positive is that sentiment around business activity in Ireland is higher than the remainder of the Eurozone, however the ongoing ambiguity regarding the final outcome of Brexit negotiations is driving uncertainty.'

Do you expect business activity to be higher, the same or lower in one year's time?

% net balance



Hiring and investment plans

Employment, capex and R&D all expected to rise

In contrast with the picture seen for activity, firms are more confident regarding employment than they were in February.

The net balance in Ireland is the joint-highest of all countries for which combined manufacturing and services data are available.

Both monitored sectors are more bullish on hiring than they were at the start of the year.

The improving confidence around job creation is expressed in spite of anecdotal evidence regarding the difficulties in recruiting skilled staff.

Optimism regarding investment spending is also up in Ireland. The net balance for capital expenditure is at +19%, the highest in one year and the greatest of all countries surveyed.

However, the net balance of companies forecasting greater research and development spending is little changed at +8% in June from +7% in February and lower than the eurozone average.

Manufacturing R&D sentiment has ticked down to the lowest since February 2017, whereas the services R&D outlook improved slightly from the previous survey.

Jun '19
+23%

Planned expansion in employment

% net balance



Inflation and profit expectations

Optimism around profits ticks up in June

With workloads expected to increase, a higher proportion of Irish firms predict rises in profits over the next 12 months.

That said, the net balance is up only fractionally to +18% in June from +17% in February, with sentiment the second-lowest since late-2011.

Levels of optimism are broadly similar across the two monitored sectors in June.

Cost pressures are expected to remain marked. The non-staff costs net balance has edged down slightly to +34% in June, but is still the highest in the EU.

For the first time since February 2016, service providers are more likely to forecast a rise in non-staff costs than manufacturing firms.

Expectations among manufacturers, meanwhile, are the lowest since October 2016.

Remuneration is widely expected to be a key driver of higher cost burdens in the year ahead. At +56%, the net balance of Irish firms anticipating higher average staff costs is well above the global average and the highest recorded of all countries surveyed.

Predictions of higher staffing costs are balanced across the two monitored sectors, with manufacturers recording a fractionally higher reading (+57% to +56%).

Companies often expect to be able to pass on higher cost burdens to their customers, with the output prices net balance posting +29% in June. However, this is the same as in February and the joint-weakest since October 2016.

Manufacturers have revised up their output prices expectations, whereas the same net balance of services companies forecast a rise in their selling prices as in February.

As is the case with non-staff costs, the output prices net balance in Ireland is much higher than the global average.

Jun '19
+34%

Cost burdens expected to rise at slower pace

% net balance



Data

Composite net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Oct '17	53	41	36	24	n/a	39	n/a	34
Feb '18	50	38	29	23	n/a	36	n/a	36
Jun '18	53	39	34	25	n/a	38	n/a	37
Oct '18	40	33	28	16	n/a	44	n/a	44
Feb '19	35	17	18	13	7	29	55	35
Jun '19	32	18	23	19	8	29	56	34

The survey uses percentage net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0.0 signalling a positive outlook for the coming 12 months.

Composite net balances are weighted averages of the manufacturing and services net balances. The weights reflect the relative size of the manufacturing and services sectors according to official data.

Manufacturing net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Oct '17	55	38	31	23	22	40	n/a	38
Feb '18	51	33	23	20	15	32	n/a	43
Jun '18	50	39	32	26	20	35	n/a	43
Oct '18	36	34	25	18	11	48	n/a	53
Feb '19	35	16	13	15	13	26	56	35
Jun '19	28	17	16	22	10	27	57	31

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Oct '17	52	43	40	25	n/a	38	58	30
Feb '18	49	42	34	25	n/a	40	63	31
Jun '18	55	38	35	25	n/a	41	60	32
Oct '18	43	32	30	13	n/a	41	57	37
Feb '19	35	18	22	11	3	30	54	35
Jun '19	35	18	28	17	6	30	56	36

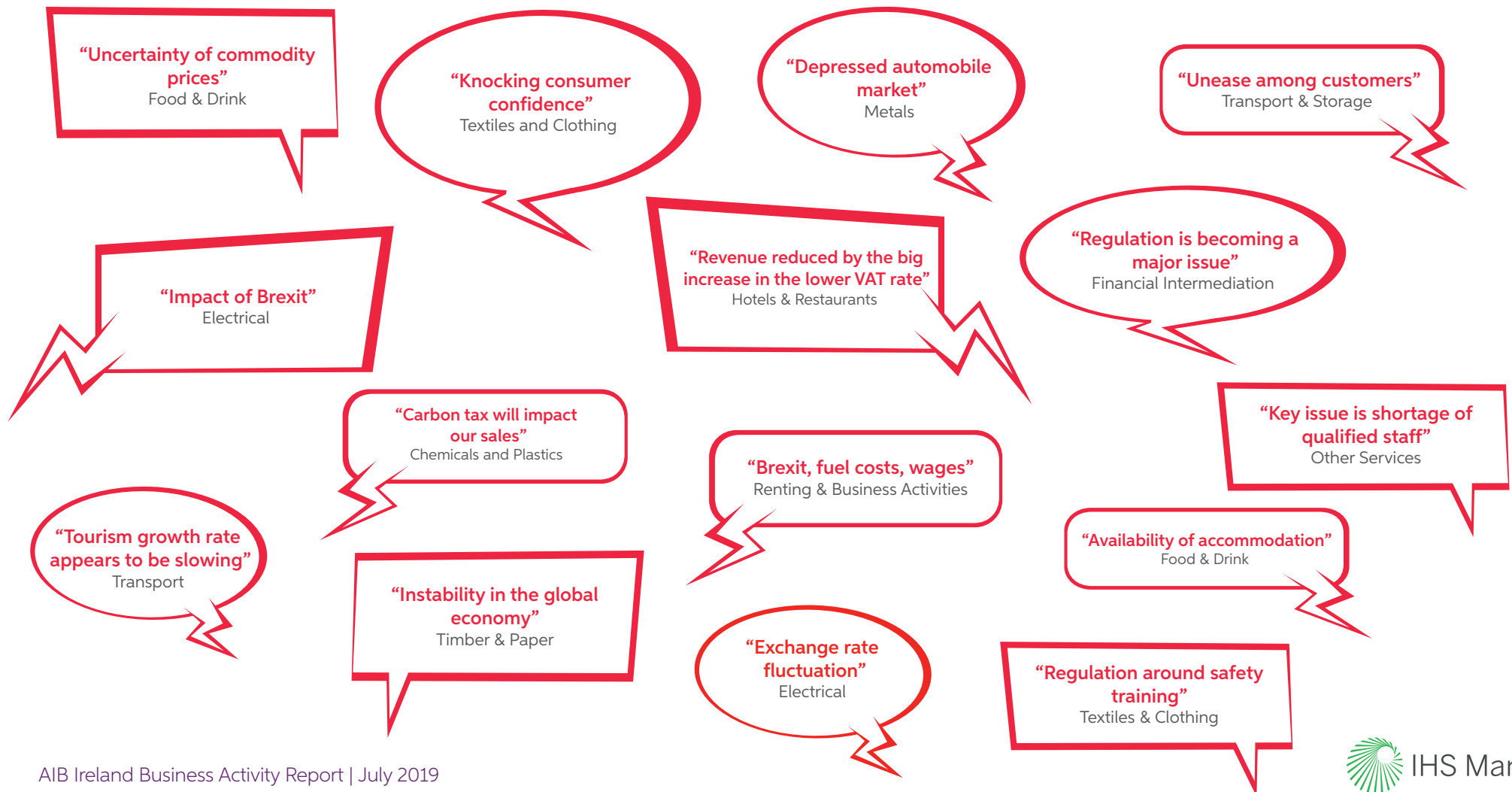
Comments from survey respondents

Opportunities



Comments from survey respondents

Threats





About the AIB Business Activity Report

Methodology

This report is designed to reveal how confident Irish private sector businesses feel about their prospects for the next 12 months.

We take the pulse of 650 manufacturing and service sector companies in Ireland on a tri-annual basis. The samples are based on respondents to AIB's widely-watched Ireland Purchasing Managers' Index® (PMI®) surveys.

The key global composite indices include expectations for Business Activity, Employment, Capital Expenditure, Input Prices, Output Prices and Profits.

These results are published as a weighted 'Composite' Index (all companies), as well as broken down by sector (manufacturing and services).

The survey uses net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0.0 signalling a positive outlook for the coming 12 months.

About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

Contact

AIB



Ciaran Foley – Services Sector Specialist:

E: ciaranc.foley@aib.ie

T: 087 056 3880

W: www.aib.ie/business



Elaine Dunne – Manufacturing Sector Specialist

E: elaine.e.dunne@aib.ie

T: 087 700 5035

W: www.aib.ie/business

IHS Markit

E: economics@ihsmarkit.com

The intellectual property rights to the AIB Ireland Business Activity Report provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trade mark of IHS Markit Ltd. and/or its affiliates.





Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.