



Irish Business Activity Insight Report

July 2020



Executive Summary



COVID-19 fallout and end of Brexit transition undermine Irish outlook

Irish private sector firms are less optimistic regarding the 12-month outlook in the wake of the Corona pandemic 2019 (COVID-19) and ongoing Brexit uncertainty, according to the latest AIB Ireland Business Activity Report.

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. The only rise in the figure over this period, in February 2020, reflected renewed optimism over a resolution to Brexit uncertainty following the decisive UK General Election, and occurred before the COVID-19 crisis escalated in March.

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. Firms also highlight political uncertainty in the US during the build-up to the presidential election as a threat to their businesses.

Another key takeaway from the latest survey is the prospect of a weak jobs market, with firms adjusting capacity as the economy cautiously emerges from lockdown. The employment net balance has collapsed to +7%, the lowest since late-2010. The decline in the figure of 16 points is the largest on record.

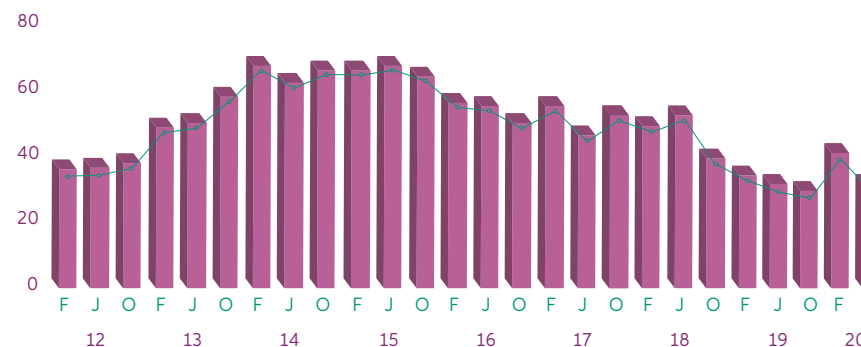
Workforce cuts and take-up of the government wage subsidy scheme has resulted in a steep drop in the staff costs net balance to +22%, from +55% in February. Non-staff cost pressures are also expected to soften while firms are expecting to price aggressively to win business, with the output prices net balance (+6%) at its lowest level since October 2012. As a result, and despite downward revisions to staff costs, profits are set to come under pressure over the next 12 months with the net balance down sharply at +5%, the lowest since October 2010.

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

'The most recent results are not surprising given the effect that Covid-19 has had across Ireland and the uncertainty that lies ahead with Brexit on the horizon. 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 the speed of recovery for businesses will vary, depending on their activities, markets and customers. Respondents also highlighted concerns about profitability over the next 12 months but really the key focus for businesses in the short term is liquidity, ensuring they are adequately resourced and are focused on managing their working capital as best they can through the rest of the year. AIB is working with customers across the business community, providing a range of bespoke solutions to mitigate the risk that Covid has presented and we would encourage customers to engage with us as much as possible 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, 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.'

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

% net balance



Hiring and investment plans

Weakest outlook for jobs since late-2010

The 12-month outlook for Irish private sector employment is the weakest for nearly a decade at the halfway point of 2020, according to the AIB Business Activity Report.

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. Moreover, the 16-point fall in the net balance is the largest ever recorded. The latest data suggest a weak jobs market in Ireland over the next 12 months as firms look set to adopt cautious hiring practices as the fallout from COVID-19 and uncertainty over the final Brexit outcome continue.

By sector, sentiment regarding employment has weakened in both manufacturing (+11%) and services (+4%). The service sector has seen a notable collapse in hiring intentions, with the net balance diving by 24 points since February. The June services figure is the lowest since October 2009 as the economy emerged from the global financial crisis.

The latest data also suggest pressure on capital spending over the next 12 months as firms look to cut costs, with the respective net balance falling into negative territory (-1%) for the first time since June 2012. This reflects an expected reduction in the service sector (-9%), which more than offsets expected growth in the smaller manufacturing sector (+10%). The services figure is the lowest since October 2010, and the manufacturing net balance the joint-lowest since October 2012. The 18-point reduction in the overall figure is a series record.

Spending on research & development also looks set to be curtailed over the next 12 months as firms tighten budgets amid the economic fallout from the COVID-19 crisis. The net balance for R&D has declined to zero, from +9% in February. Service providers are pessimistic (-5%), while manufacturers are much less optimistic (+6%, the lowest since February 2013).

Jun '20
+7%

Hiring intentions
weaken

% net balance



Inflation and profit expectations

Profit outlook worsens despite weaker cost pressures

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%).

The expected pressure on profits reflects concerns about recessionary conditions in the aftermath of the COVID-19 crisis, and also attempts by firms to boost sales. The output prices net balance has dropped a record 24 points in June to +6%, the lowest since October 2012. Service providers in particular are expecting to price aggressively to win business (+2%).

The challenging profits outlook comes despite lower forecasts for input costs, notably wages and salaries. The staff costs net balance has collapsed by 33 points to +22%, by far the lowest since the combined manufacturing and services series was first compiled in February 2019. To put the overall figure in historical context, the services component fell 38 points to +19%, by far the biggest drop since that series began in October 2009. The staffing figures reflect the expected impact of both permanent cuts to workforces and the government wage subsidy scheme.

Non-staff cost pressures are also expected to ease by mid-2021. The net balance has fallen by a record 20 points to +14%, the lowest since June 2012. Net balances have fallen sharply in both manufacturing (+19%) and services (+11%).

Feb '20
+5%

Weak
expectations for
profits

% net balance



Data

Composite net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Oct '18	40	33	28	16	0	44	n/a	44
Feb '19	35	17	18	13	7	29	55	35
Jun '19	32	18	23	19	8	29	56	34
Oct '19	27	15	19	14	9	25	49	30
Feb '20	37	21	23	17	9	30	55	34
Jun '20	28	5	7	-1	-0	6	22	14

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 '18	36	34	25	18	n/a	48	0	53
Feb '19	35	16	13	15	13	26	56	35
Jun '19	28	17	16	22	10	27	57	31
Oct '19	18	11	16	10	13	20	42	24
Feb '20	34	18	16	15	14	26	53	33
Jun '20	25	2	11	10	6	13	25	19

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Oct '18	43	32	30	13	n/a	41	n/a	37
Feb '19	35	18	22	11	3	30	54	35
Jun '19	35	18	28	17	6	30	56	36
Oct '19	33	18	21	17	7	29	54	34
Feb '20	39	24	28	18	6	33	57	34
Jun '20	30	7	4	-9	-5	2	19	11

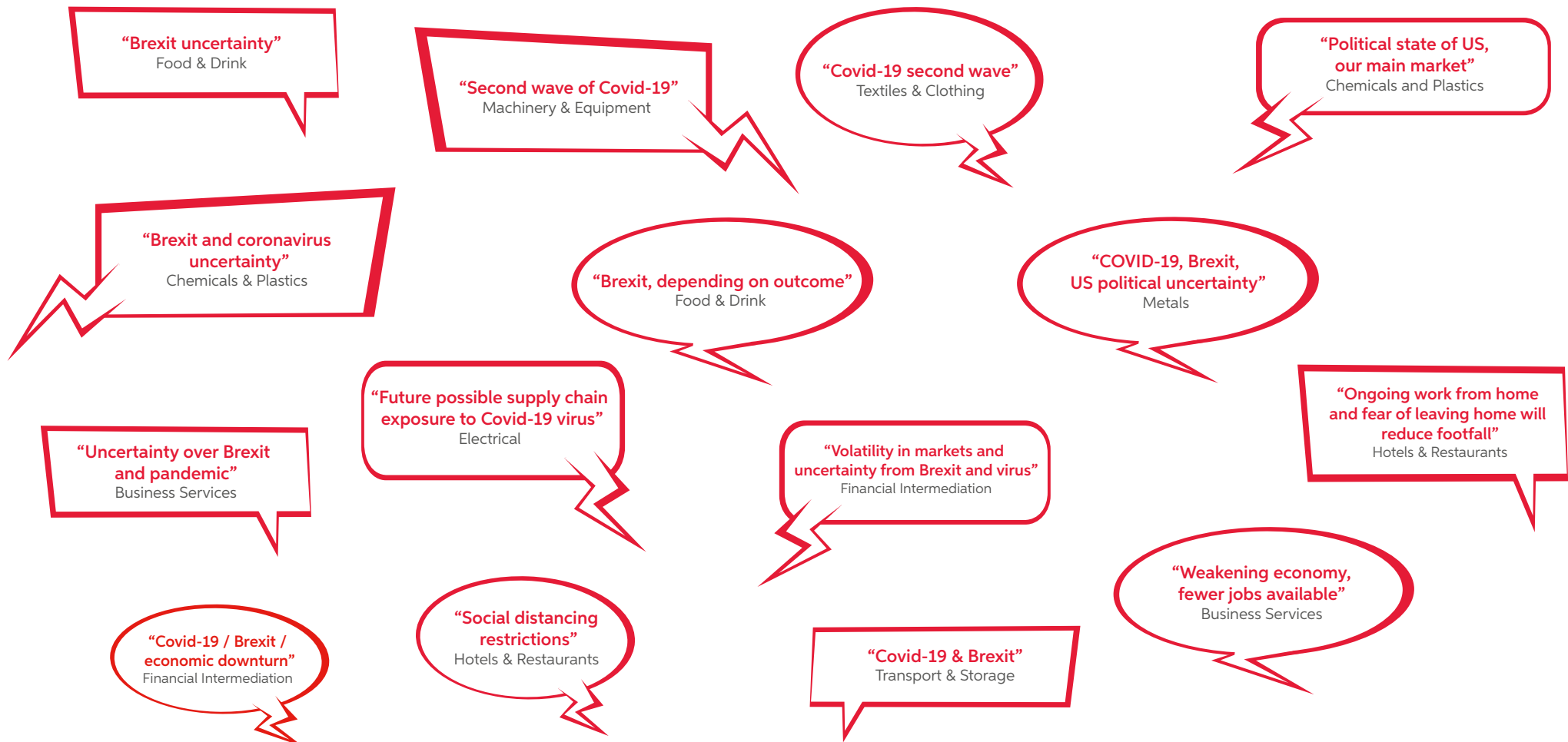
Comments from survey respondents

Opportunities



Comments from survey respondents

Threats



Special question: COVID-19

Nearly three-quarters of firms report drop in activity due to COVID-19 crisis

A special question added to the AIB Ireland Business Activity Report in June asks firms how their output has been impacted by the coronavirus pandemic, and how long they expect business levels to recover to pre-COVID-19 volumes.

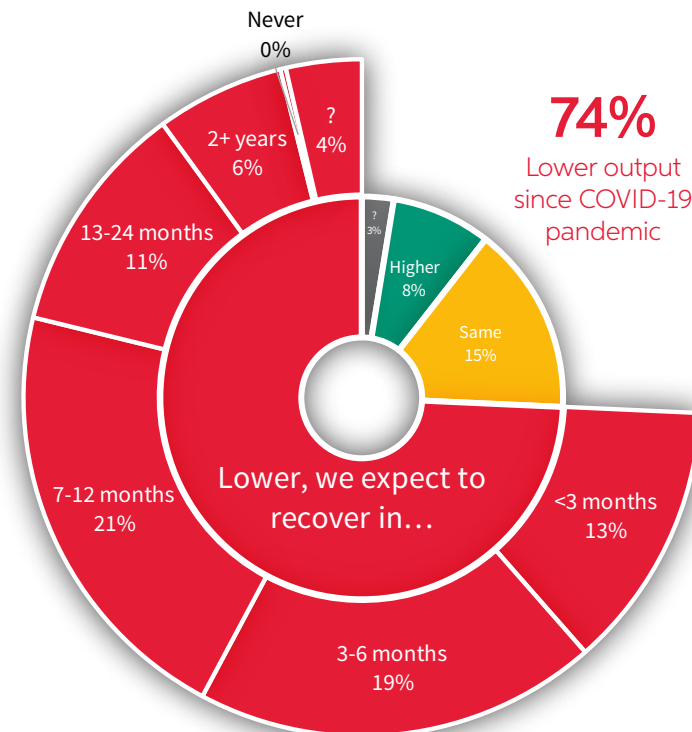
Overall, nearly three-quarters of manufacturers and service providers (74%) report that their output/activity has fallen since the COVID-19 outbreak and resulting lockdown measures. Only 8% report that activity has risen compared with pre-COVID-19 levels, and 15% reveal no change.

In terms of the recovery period, the most common timescale reported is within seven to 12 months (21% of firms), followed by three to six months (19%) and less than three months (13%). That said, 17% expect a return to normal business levels after at least one year, with 6% expecting the recovery to take at least two years. No companies report that they do not expect to ever recover to pre-COVID-19 levels of business.

Firms who report lower levels of business as a result of the pandemic mention that recoveries are dependent on the resumption of travel and retail trade, as well as sufficient government funding to support the economy. Some report that confidence will be slow to recover and will be partly dependent on government support.

Firms reporting higher or stable activity relative to pre-COVID-19 levels are often located in the food, chemicals and healthcare sectors, or are deemed 'essential services'. Companies that are able to work remotely or provide services to enable remote working, such as video conferencing, have also seen stable or higher activity.

As of mid-June, please tell us how the OUTPUT (or business activity) of your company has changed since prior to the COVID-19 outbreak, and (if lower) how quickly you expect to recover to pre-COVID levels?





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.

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