



Irish Business Activity Insight Report

November 2019



Executive Summary

Brexit uncertainty weighs on sentiment as optimism hits nine-year low

Optimism regarding business activity at Irish companies is now the lowest since October 2010, according to data from the latest AIB Ireland Business Activity Report.

Growth expectations among Irish firms have been on a downward trend since October 2018, with a net balance of just +27% of surveyed businesses forecasting business activity to be higher than current levels in one year's time, almost half that seen in June 2018.

Fuelling the weaker forecasts for output is lower confidence across a range of categories. Sentiment regarding profits, employment and capex expenditure is lower than seen in June, with profitability expectations the lowest in over eight years.

Manufacturing sentiment around output has weakened notably from June, whereas optimism among service providers is only slightly down on that recorded in the previous survey.

The net balance of manufacturers forecasting a rise in output in the coming 12 months is the lowest since the depths of the global financial crisis in July 2009 at just +18% in October, weakening from June's figure of +28%.

The net balance among service providers, meanwhile, is at +33% in October, down from +35%.

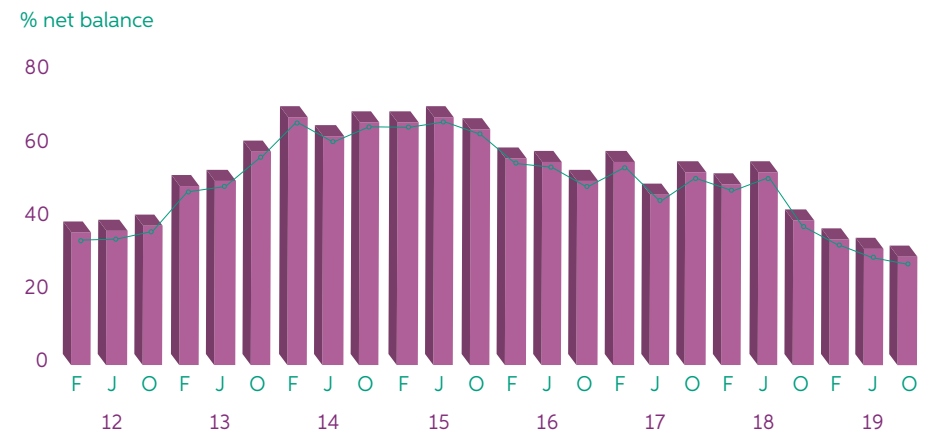
Anecdotal evidence suggests that Brexit-related uncertainty and any changes to future trading relationships with Ireland's largest trading partner, the UK, continue to weigh on sentiment.

Nonetheless, there are brightspots in the latest data, with a higher net balance of Irish companies forecasting greater R&D spending, amid an increase in sentiment at both manufacturers and service providers. Meanwhile, inflationary pressures look set to moderate.

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

‘While still in positive territory the latest round of data gathered for the AIB Ireland Business Activity Report shows a continued period of reduced optimism among Irish businesses. It is clear that the ongoing uncertainty surrounding Brexit and its broader potential impact on the Irish economy is dampening sentiment across sectors with reduced optimism evidenced in many areas such as profitability, future capital expenditure and costs. Positively, projected increase in R&D spending across Irish manufacturing and services sectors is encouraging. R&D investment is a catalyst for new growth and the willingness to invest shows the resilience and forward planning of Irish firms to explore new products and markets and insulate themselves from some of the direct threats of Brexit.’

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



Hiring and investment plans

Hiring and capex expectations tick down from June

Irish companies continue to forecast increases in staffing levels over the coming year, according to October's AIB Business Activity Report.

That said, the net balance for employment ticked down to +19% in October, from +23% in June and below the long-run series average.

At the sector level, extending the trend from February 2017, service providers are more optimistic regarding employment than their manufacturing counterparts. However, the overall degree of hiring optimism among services firms is less than seen in June and the weakest since June 2012.

Meanwhile, the net balance of manufacturers forecasting a rise in employment in one year's time is the same as in June at +16% in October.

The weakening of hiring confidence reflects concerns from Irish firms across many sectors over finding and retaining skilled workers in addition to coping with greater salary costs, according to anecdotal evidence. A net balance of +49% of surveyed firms expect an increase in staffing bills in the coming 12 months.

Moreover, surveyed firms comment that a key headwind regarding employment is Brexit uncertainty from both themselves and their clients, as neither feels confident to place orders or expand capacity without greater confidence in future trading conditions with Ireland's biggest external trading partner, the UK.

In line with the drop in hiring intentions, the net balance of Irish firms looking to increase their capex spending is lower, falling to +14% in October from June's +19%.

The entirety of the decline of capex optimism can be attributed to weaker sentiment among manufacturers, with their net balance more than halving to +10% in October from +22% in June.

Irish companies are more optimistic regarding their Research & Development spending than they were in the summer.

The net balance of firms set to raise R&D spending is up from +8% in June to +9% in October.

The highest net balance of manufacturers since June 2018 forecast greater R&D expenditure, whilst service providers see a slight pick-up in sentiment.

Oct '19
+19%

Planned
expansion in
employment

% net balance



Inflation and profit expectations

Optimism around profits lowest since June 2011

Amid a weakening of sentiment for business activity, employment and investment, profit expectations at Irish businesses have more than halved over the past year.

Indeed, at +15% in October, the net balance is the lowest in over eight years.

The downturn in profit expectations is centred on manufacturers, a net balance of just +11% of firms in October expect an increase in profits over the coming year, down from +17% in June and the lowest reading since June 2011.

The net balance at service providers, on the other hand, is unchanged from June at +18% in October, but nonetheless is at the joint-lowest in seven years.

Cost inflation, meanwhile, looks set to remain relatively strong. However, expectations for a rise in non-staff costs are weaker for the third consecutive survey, with latest data signalling the lowest reading since October 2016.

The fall in the net balance is centred on the manufacturing sector, with its respective reading falling to +24% in October from +31% in June, the lowest since February 2016.

A similar net balance of service providers in October, meanwhile, expect non-staff costs to rise, with the respective net balance only falling to +34% in October from +36% in June.

Staff costs are set to increase strongly, with a net balance of +49% of Irish firms expecting greater wage bills over the coming year. However, in line with non-staff costs there has been a weakening of expectations, with the net balance falling to +49% in October from +56% in June.

Again, there is a notable divergence at the sector level, with the manufacturing net balance falling sharply to +43% in October from +57% in June, while the net balance of service providers expecting an increase is down only slightly to +54% in October.

In line with the picture for costs, the rate of output price inflation looks set to ease. October's output prices net balance is at +25%, down from June's reading of +29% and the lowest since June 2014. This represents a marked turnaround from the record high seen this time last year, with both monitored sectors seeing net balances fall.

Oct '19
+30%

Non-staff cost
inflation set to
slow

% net balance



Data

Composite net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Feb '18	50	38	29	25	n/a	36	n/a	31
Jun '18	53	39	34	25	n/a	38	n/a	32
Oct '18	40	33	28	13	n/a	44	n/a	37
Feb '19	35	17	18	11	7	29	55	35
Jun '19	32	18	23	17	8	29	56	36
Oct '19	27	15	19	17	9	25	49	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
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
Oct '19	18	11	16	10	13	20	42	24

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
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
Oct '19	33	18	21	17	7	29	54	34

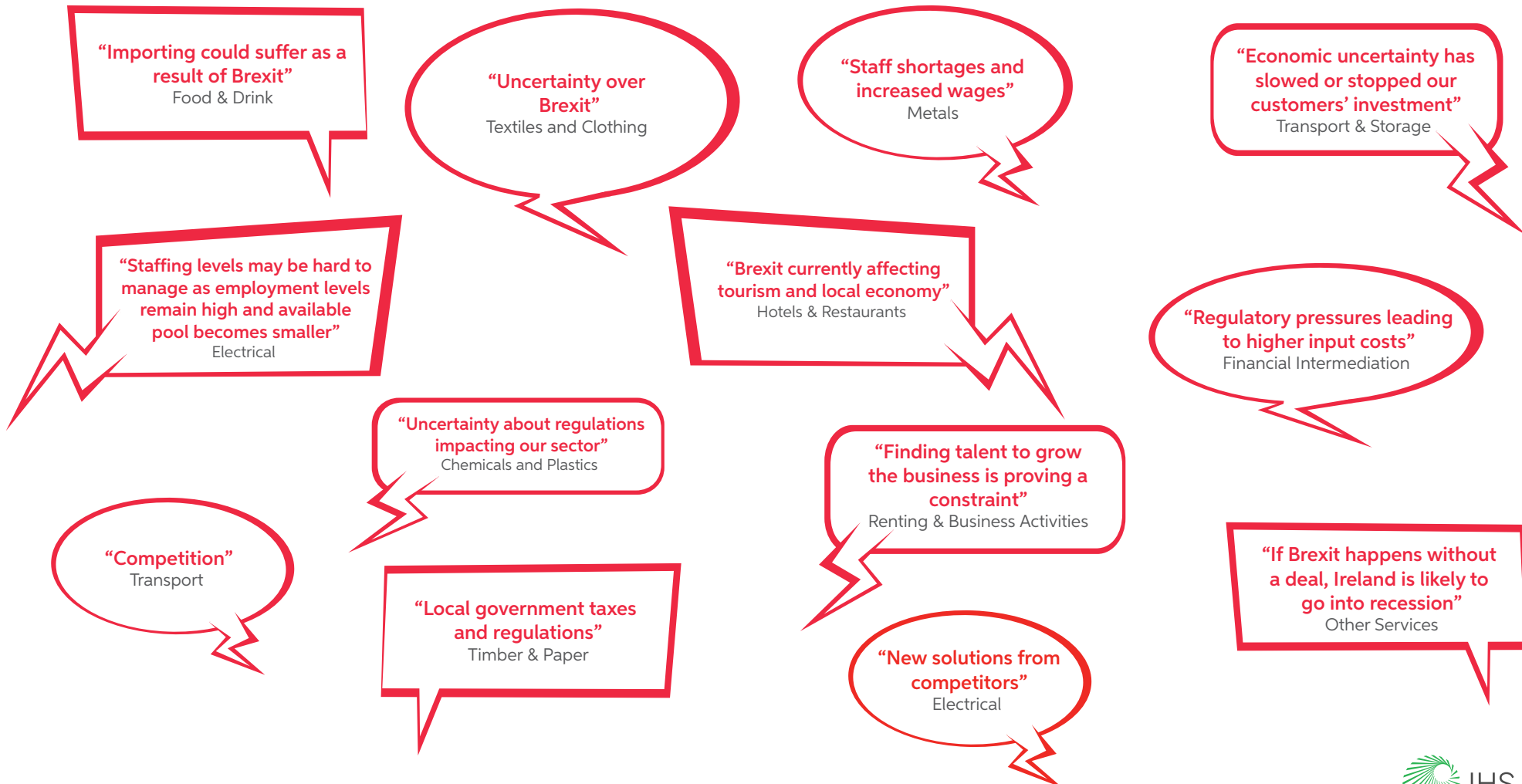
Comments from survey respondents

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.

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