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AIB Ireland Services PMI®

Sharp downturn continues in February, but confidence improves

Key Findings

Further sharp, albeit slower, falls in activity and new work

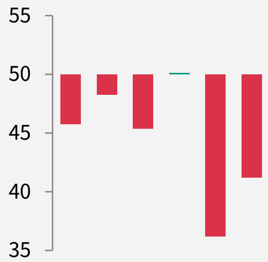
Expectations for activity strengthen noticeably

Input price inflation rises but remains below long-run trend

Ireland Services Business Activity Index

FEB
41.2
JAN: 36.2

Last six months



Ireland's services economy remained in a steep downturn in February as lockdown restrictions remained in place, latest PMI® survey data from AIB showed. Business activity and new work both continued to fall sharply, albeit at weaker rates than in January. More positively, the 12-month outlook brightened greatly as firms expect a revival once restrictions are lifted and vaccination campaigns take effect. Cost pressures built up but remained below par, while charges declined further as firms sought to remain competitive.

Commenting on the survey results, Oliver Mangan, AIB Chief Economist, said:

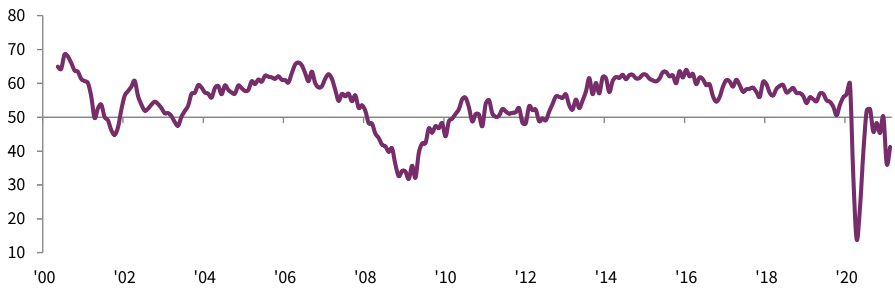
"The AIB Irish Services PMI remained at a weak level in February, which is hardly surprising with much of the sector still in lockdown. Although the business activity index rose to 41.2 from 36.2 in January, it remained well below 50 and so deep in contraction territory. The PMI, though, has not plummeted to the levels seen last spring during the first lockdown. However, the Irish reading of 41.2 is well below the corresponding flash February PMI figures of 49.7 for the UK and 44.7 in the Eurozone, pointing to a more extensive lockdown here.

"The main components of the survey were consistent with ongoing very weak business conditions in service industries. The impact of the continuing lockdown was very evident in a further decline in new business in the month, as tight restrictions suppressed demand, both domestically and in the UK in particular. This reduction in new business resulted in a further marked decline in the volume of outstanding work, and saw another round of job cutting in the sector.

"The sub-sector data show that the Transport, Tourism & Leisure sector remains the hardest hit by the lockdown. However, there were also marked contractions in business activity in Technology/Media/Telecoms as well as Business Services, while Financial Services remained static.

"Hope springs eternal, though, with expectations for the 12-month outlook rising sharply to the strongest level in over a year. Firms expect that the roll out of the vaccine programme will see lockdown restrictions gradually lifted, leading to a rebound in business activity as the year progresses, a clear ray of hope in an otherwise weak survey."

Services Business Activity Index
sa, >50 = growth since previous month



Overview

The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The index therefore varies between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

The Services Business Activity Index registered 41.2 in February, indicating another sharp drop in Irish services output. The Index rose from 36.2 in January, however, pointing to a slower decline. Data for the first quarter so far (Index average of 38.7) are signalling a much softer overall reduction in activity than that seen during the second quarter of 2020 during the first coronavirus lockdown (25.7), although it is still the second-worst outcome from the survey since the second quarter of 2009 (38.0).

Latest activity data by sub-sector revealed sharp declines in three segments in February. The Transport, Tourism & Leisure (TTL) sector again fared worst, although the rate of contraction slowed since January. Technology, Media & Telecoms (TMT) posted the second-fastest decline in output since last May (38.3), and Business Services the second-strongest since last June (40.9). Financial services was the exception, with no change in activity (50.0).

Activity continued to be weighed down by a sharp reduction in the volume of incoming new business. This was linked by companies mainly to ongoing lockdown restrictions both domestically and in the UK in particular. The rate of decline eased since January, however, and remained slower than the record falls registered last spring. New work declined across all four sub-sectors for the second month running, with the TTL sector again posting the steepest drop. New export business fell for the twelfth straight month, with weak UK demand highlighted.

Incomplete workloads at service providers continued to contract in February, reflecting the sharp reduction in new business. The rate of decline was softer than in January, but still strong in the context of historical data. Financial Services was the only sub-sector to record growth in outstanding business, and this was only a fractional increase.

With lockdown restrictions stifling demand and both new and outstanding business in decline, service providers cut their workforces again in February. Service sector employment has fallen every month since March 2020 except for a brief increase last December. That said, the rate of job shedding was only modest in the latest period. Companies in the TMT sector raised headcounts for the fifth consecutive month.

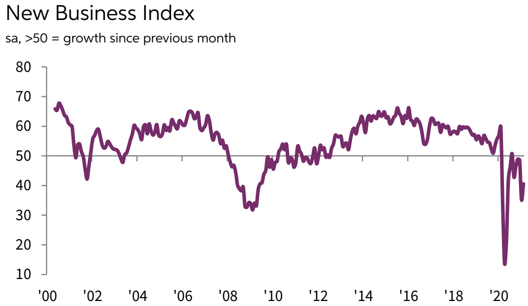
February data signalled the strongest upward pressure on firms' input costs in three months. There were a variety of sources reported, including UK customs charges, fuel, insurance, wages, and higher shipping costs in general due to the impact of the pandemic on supply chains. That said, input price inflation remained below the long-run survey average, especially for business and financial service providers.

Although input costs rose for the eighth successive month, prices charged continued to fall. This reflected efforts by firms to remain competitive during the current lockdown restrictions. All four sub-sectors registered lower charges in February.

The main positive finding from the February survey was a notable uplift in firms' expectations for activity over the next 12 months. The Future activity Index posted its fourth-largest one-month gain on record (8.2 points) and signalled the strongest sentiment since January 2020. Companies widely expect a revival in business once lockdown restrictions are lifted as vaccination programmes are established.

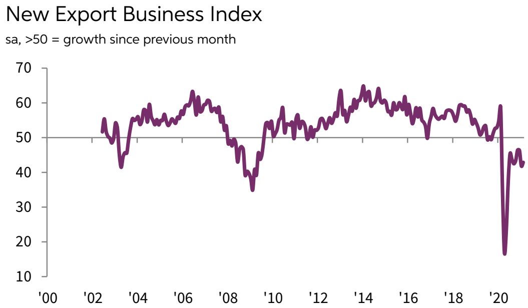
New Business Index

Irish service providers reported a decline in new business in February, mainly linked to lockdown restrictions. Demand in the sector has fallen in each month since March 2020, except for a brief increase last August. The rate of contraction remained sharp overall, but slowed from January's eight-month record. The seasonally adjusted New Business Index increased by 5.3 points, the largest monthly gain since last June.

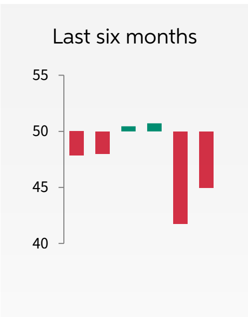


New Export Business Index

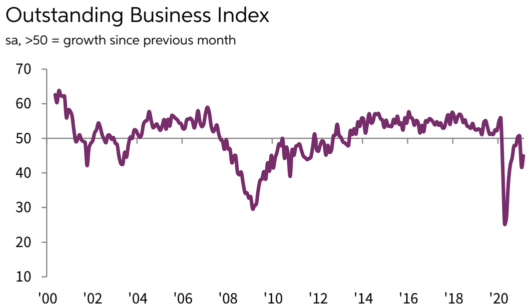
New work from international markets decreased for the twelfth successive month in February. The main reason provided by survey respondents for lower exports was tough coronavirus lockdown measures stifling client demand. Companies also mentioned lower work from the UK, due to both COVID-19 and Brexit. The rate of contraction in the latest period was sharp overall, but eased since January and was softer than the trend over the current downturn.



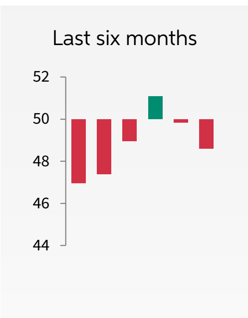
Outstanding Business Index



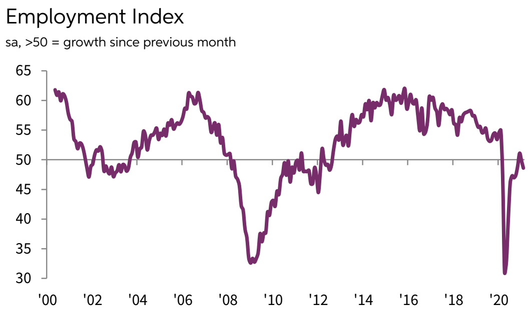
The continued fall in new work was reflected in under-utilised business capacity in February. Outstanding work fell for the tenth time in the past 12 months. A number of firms linked declining levels of work-in-hand to the postponement of new contracts as clients waited for lockdown restrictions to be lifted in a number of cases. The rate of contraction in outstanding business was solid overall, but slowed noticeably since January.



Employment Index

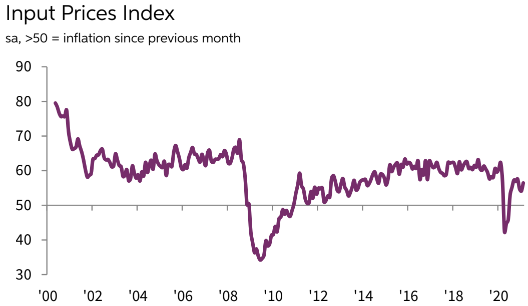


A lack of incoming new work resulted in a further round of job shedding by Irish service providers in February. Employment in the sector has declined every month since March 2020 except for a modest increase last December. Companies linked lower staffing to layoffs due to the ongoing coronavirus crisis. The rate of reduction was faster than in January, but modest overall and slower than those registered between March to October last year.

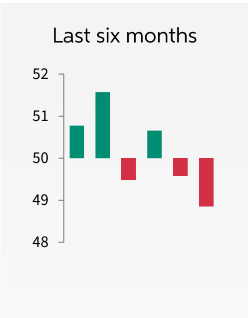


Input Prices Index

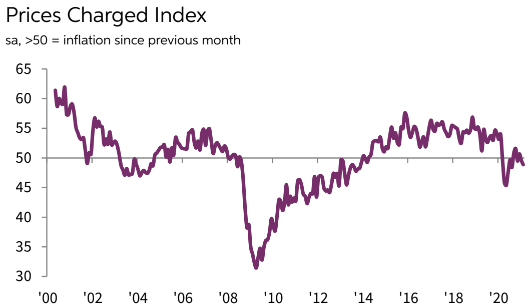
Cost pressures faced by Irish service providers strengthened in February. Firms reported a range of sources of higher costs, including UK customs charges, general freight costs (linked to the impact of the pandemic), fuel, insurance and labour. The seasonally adjusted Input Prices Index rose from January's six-month low, to a three-month high. The rate of inflation was strong overall, and above the average over the current eight-month sequence of rising prices, although the Index remained below its long-run trend level of 58.7.



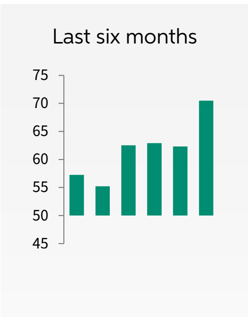
Prices Charged Index



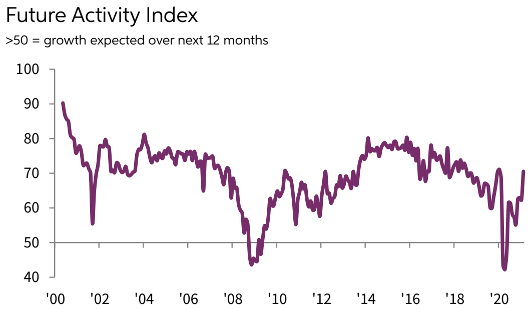
Although input costs rose more sharply in February, service providers remained restricted in their pricing power. Average prices charged for services fell for the second month running, and at a slightly faster rate than in January. Moreover, charges have risen only three times in the past year. Companies reported a reluctance to raise charges due to lockdown restrictions and efforts to boost competitiveness.



Future Activity Index



Although new business continued to fall sharply in February, the 12-month outlook strengthened noticeably. The Future Activity Index rose sharply since January to a 13-month high, and was above its long-run average (69.5). The month-on-month increase in the Index, at 8.2 points, was the fourth-largest since the survey began in 2000. Companies widely expected a revival in business as lockdown restrictions are gradually removed and vaccinations rolled out.

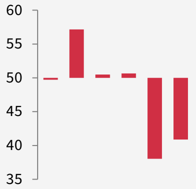


Services Sub-sectors

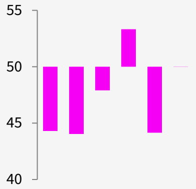
Business Activity Index

Last six months

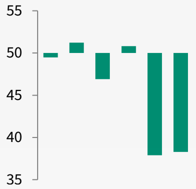
Business Services



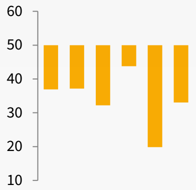
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Activity at business service providers fell for the second month running in February, following a three-month sequence of growth. The rate of decline was only slightly slower than in January, which was the fastest since last May. New business continued to fall sharply, more than in any other sector except Transport, Tourism & Leisure. More positively, expectations were the strongest in nearly three years.

Financial Services

The level of financial services activity in Ireland was unchanged in February, representing the best trend among the four sub-sectors monitored. New business fell modestly despite a rise in international work, although outstanding business increased slightly. Employment fell but companies grew more confident at out the 12-month outlook.

Technology, Media & Telecoms

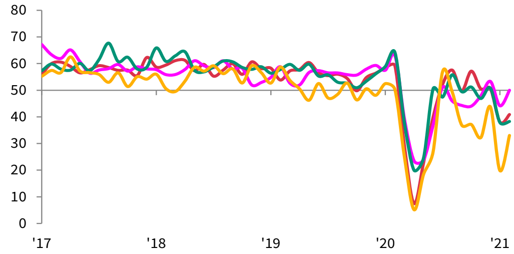
February data revealed another marked decline in activity in the Technology, Media & Telecoms sector. The rate of decline was little-changed from January's eight-month record. Both new and outstanding business fell sharply, but the 12-month outlook was the strongest for a year. Firms lowered their charges for the twelfth consecutive month.

Transport, Tourism & Leisure

Firms operating in the Transport, Tourism & Leisure sector suffered further severe declines in business activity and new work in February. In both cases the rate of contraction slowed since January, but remained stronger than the averages for the fourth quarter of 2020. Expectations for activity were the strongest in seven months, but still much weaker than for the three other sub-sectors monitored.

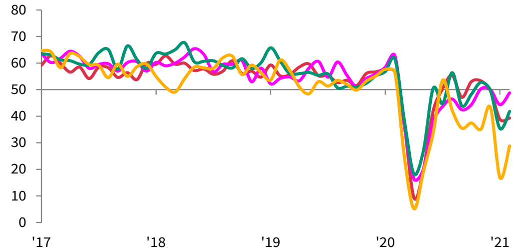
Business Activity Index

sa, >50 = growth since previous month



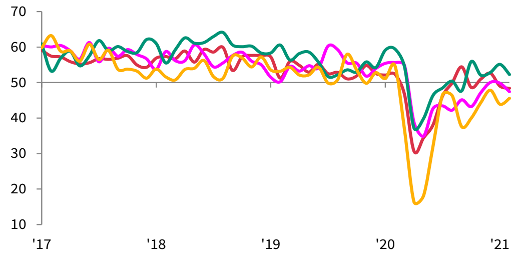
New Business Index

sa, >50 = growth since previous month



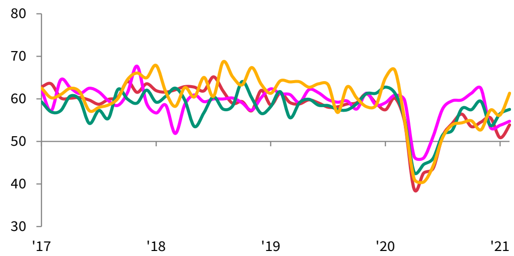
Employment Index

sa, >50 = growth since previous month



Input Prices Index

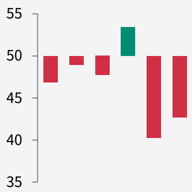
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Private sector output falls sharply in February, but outlook improves

Private sector output in Ireland fell sharply for the second month running in February, as lockdown restrictions continue to stifle demand. Rates of decline in activity and new business both eased since January, however, and the 12-month outlook was the strongest since before the pandemic struck.

The seasonally adjusted Ireland Composite Output Index remained well below the no-change mark of 50.0 in February, at 42.7, signalling a further sharp drop in activity. The rate of decline eased since January (40.3) but was still the second-strongest since May 2020. Manufacturing output fell at the fastest pace since May 2020, although services continued to record the sharper overall decline despite registering a slower reduction than in January.

New business fell sharply again, albeit less so than in January. Both manufacturing and services registered weaker declines.

Private sector employment rose for the third consecutive month in February. This wholly reflected recruitment at manufacturers, as services jobs declined modestly.

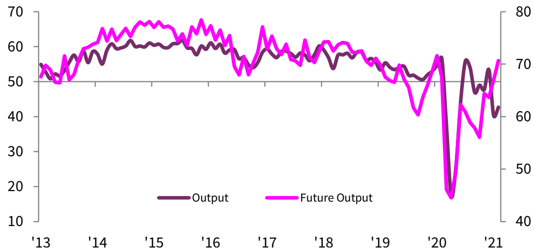
Inflationary pressures strengthened as input prices rose at the fastest rate in two years. Charges increased for the sixth month running.

The 12-month outlook brightened further in February, as firms expected a revival in demand as lockdown restrictions are lifted alongside vaccination rollouts.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

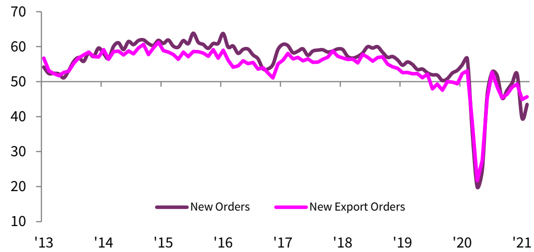
Output Index | Future Output Index

sa, >50 = growth since previous month | >50 = growth expected over next 12 months



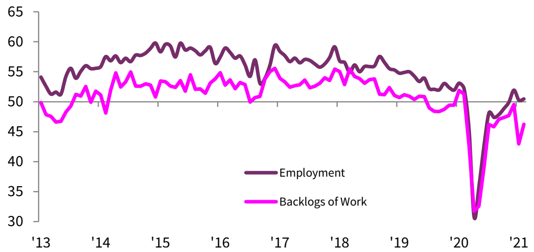
New Business Index / New Export Business Index

sa, >50 = growth since previous month



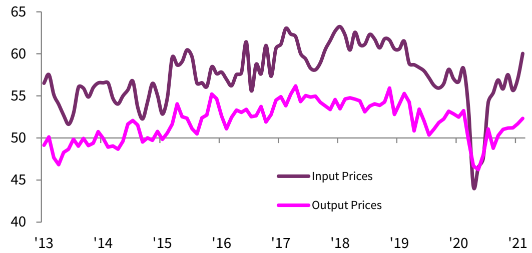
Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



Input Prices Index / Prices Charged Index

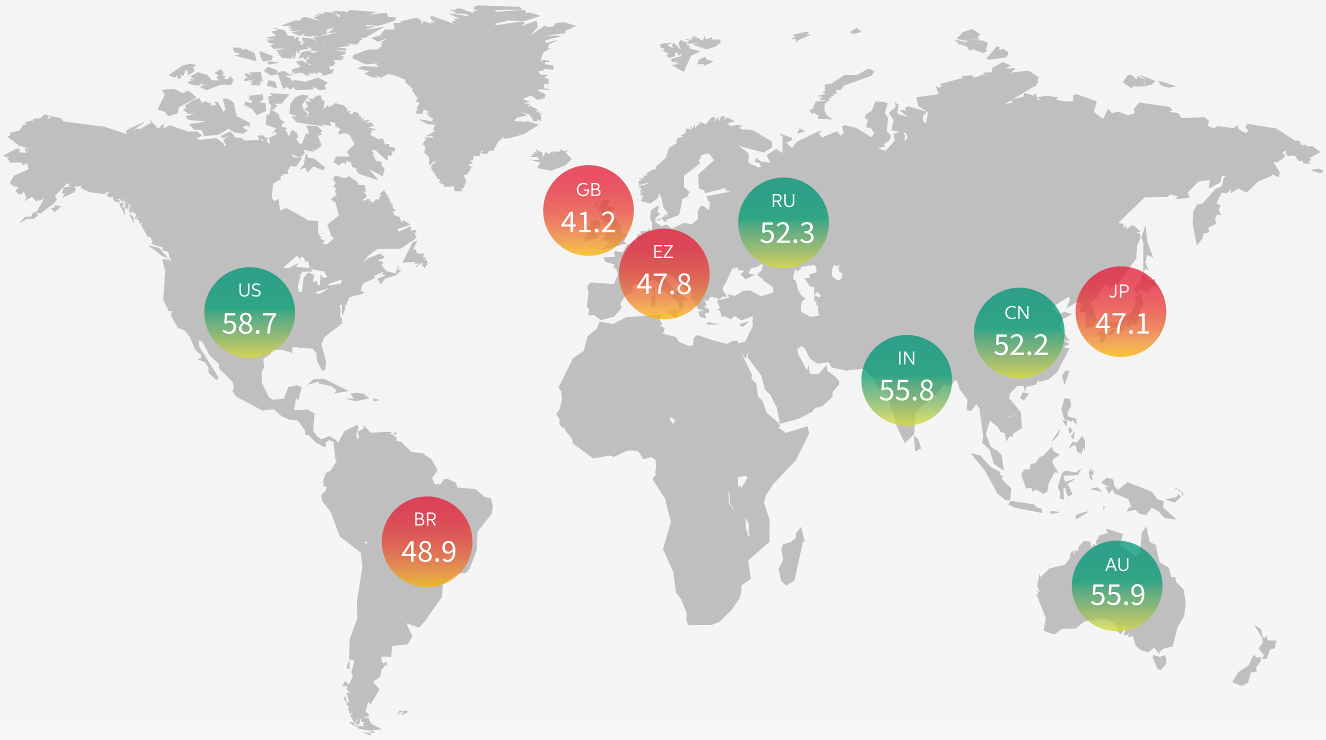
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Jan ‘21

sa, >50 = growth since previous month



Composite Output Index

sa, >50 = growth since previous month

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Methodology
The AIB Ireland Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Data were collected 11-23 February 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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.

About PMI
Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. https://ihsmarkit.com/products/pmi.html