

AIB Ireland Services PMI®

Solid rise in activity in March as new business rebounds

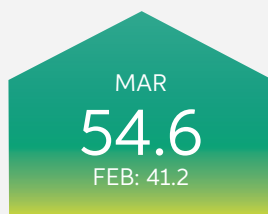
Key Findings

Fastest increases in activity and new work since February 2020

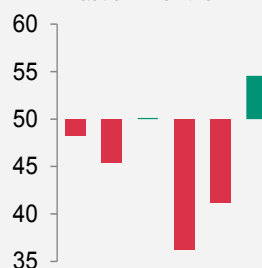
New export business increases for first time in over a year

Strongest outlook for nearly three years

Ireland Services Business Activity Index



Last six months



The latest PMI® survey data from AIB signalled a rebound Irish services output in March, driven by renewed growth in new business and exports. Employment rose for only the second time since the start of the COVID-19 pandemic, and confidence was the highest since mid-2018 as firms expected an economic revival as vaccinations enable the lifting of lockdown restrictions. Cost pressures intensified further, however, while charges levied by service providers rose only modestly as firms attempted to attract new sales.

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

"The AIB Irish Services PMI staged a strong rebound in March, with the business activity index rising to 54.6 from its depressed levels of 41.2 in February and 36.2 in January. This signals improved business conditions in the sector rather than activity returning to more normal levels. Much of the services sector remains in lockdown, but the data suggest some businesses are now better able to cope with Covid restrictions. There was also a marked pick up in the flash Services PMI in the UK in March, which rose to 56.8"

"The March data for Ireland are encouraging as all the main components of the survey showed significant improvements. In particular, there was a sharp pick-up in new business in the month, which rose for the first time since August. Indeed, new export business rose for the first time in over a year. This pick-up

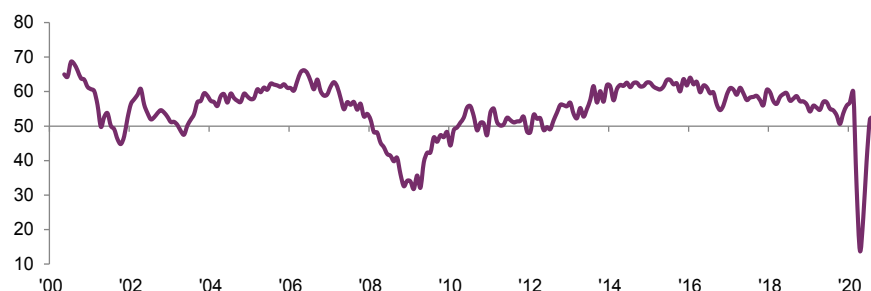
in new business resulted in a rise in the volume of outstanding work and saw employment expand for only the second time since the start of the pandemic.

"The sub-sector data show good recoveries in both business and financial services, driven by the pick-up in new business. Meanwhile, the under-pressure Transport, Tourism & Leisure sector, which has been the hardest hit by the lockdowns, shows signs of stabilising. All sectors are experiencing a severe margin squeeze, with further sharp increases in input costs, but limited ability to pass these on in higher prices.

"Firms are at their most optimistic since June 2018 on the 12-month outlook for business. They expect the roll out of vaccines will see lockdown restrictions gradually lifted, leading to a strong rebound in activity."

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 rose sharply to 54.6 in March, from 41.2 in February. This signalled the first expansion in services activity since last December, and the strongest rate of growth since February 2020. The latest figure was only slightly below the long-run survey average of 54.8. Moreover, the 13.4-point rise in the headline figure at the end of the first quarter was the second-largest on record since the survey began in 2000, behind only the 16.3-point gain in June 2020.

Three out of four monitored sub-sectors registered higher business activity in March. The strongest rate of expansion was in Financial Services, followed by Business Services and Technology, Media & Telecoms respectively. Activity in Transport, Tourism & Leisure declined for the eighth month running, but at the slowest rate since last August.

Growth of overall business activity was spurred by a revival in demand in March, with firms reporting increased customer enquiries and the commencement of new projects held up by the pandemic. New business rose for only the second time in

13 months, and at a much faster rate than the previous increase in August 2020. This partly reflected improving export demand, which grew for the first time since February 2020. Companies reported stronger sales to European and US markets and also the resumption of UK business following a pause at the start of 2021.

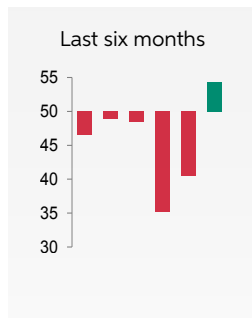
In a sign of strengthening underlying demand, the volume of outstanding business in the Irish services economy rose solidly in March. The increase was only the third since March 2020, and the rate of expansion was stronger than the 12-month trend immediately prior to the onset of the pandemic.

Service providers stepped up recruitment in March to support rising workloads. The workforce expanded for only the second time in 13 months, and at a rate broadly in line with the long-run survey trend. Hiring also reflected improving sentiment among Irish service providers, with expectations for activity in 12 months' time at a 33-month high in March. Companies widely expected normal trading conditions and travel to resume over the coming year, enabled by vaccination programmes and the lifting of lockdown restrictions.

Input price inflation accelerated sharply in March to a 13-month high. Anecdotal evidence from survey respondents linked greater cost pressures to fuel, shipping, insurance, wages, raw materials and Brexit. Firms raised their own charges to protect profit margins, but the rate of inflation was weaker than in recent years prior to the pandemic.



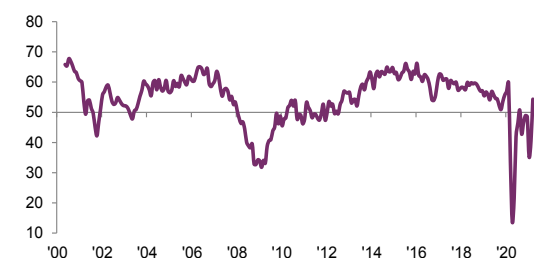
New Business Index



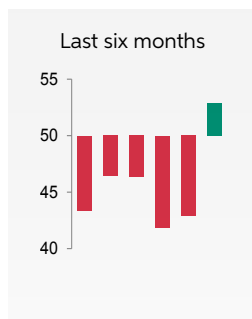
The volume of new work received by Irish service providers rose for the first time since last August in March, following sharp contractions during the first two months of 2021. Moreover, the rate of growth was the strongest since February 2020 and only slightly softer than the long-run survey average (since 2000). Firms linked improving demand to greater client enquiries and preparation for new projects.

New Business Index

sa, >50 = growth since previous month



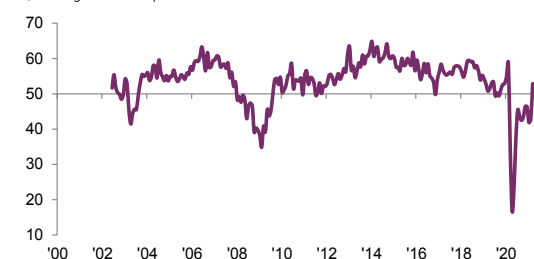
New Export Business Index



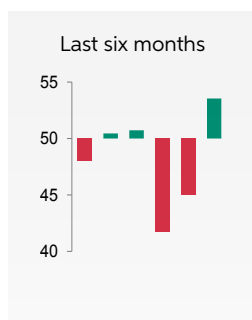
The seasonally adjusted New Export Business Index rose sharply in March, breaching the 50.0 no-change mark to signal growth in international demand for Irish services for the first time since February 2020. The rate of growth was weaker than those registered in the first two months of 2020, but stronger than the 2019 trend. Firms mentioned European and US demand as well as a resumption in UK business.

New Export Business Index

sa, >50 = growth since previous month



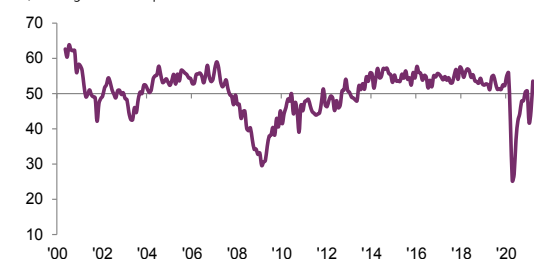
Outstanding Business Index



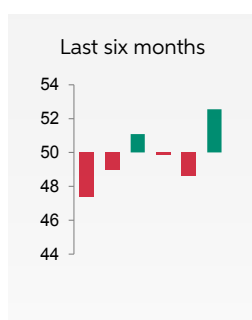
Backlogs at Irish service providers rose for the first time in 2021 so far in March. Moreover, the rate of growth was solid and faster than the previous increases in the final two months of 2020. Higher levels of incomplete work were linked to improving demand, travel restrictions and staff constraints around remote working. The seasonally adjusted Outstanding Business Index was well above its long-run trend level of 50.5.

Outstanding Business Index

sa, >50 = growth since previous month



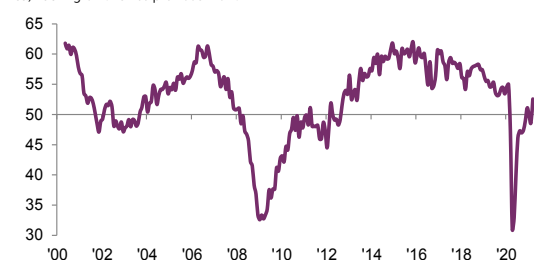
Employment Index



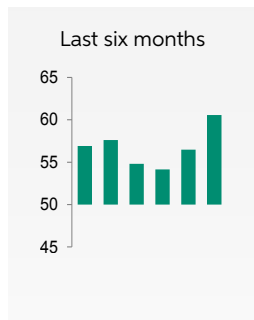
Service sector employment in Ireland rose for the first time in 2021 so far in March, and for only the second time since the onset of the COVID-19 pandemic just over one year ago. The rate of job creation was stronger than the previous increase last December, and broadly in line with the long-run survey average. Firms linked recruitment to rising business levels and investments.

Employment Index

sa, >50 = growth since previous month



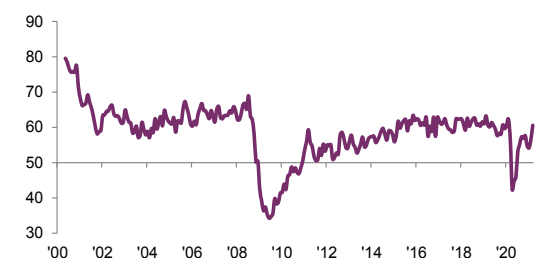
Input Prices Index



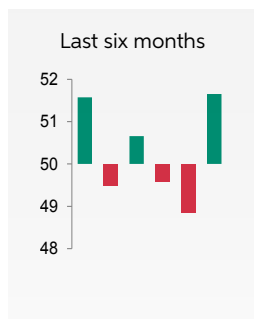
Input price inflation at Irish service providers accelerated sharply in March, with the month-on-month rise in the seasonally adjusted Input Prices Index among the greatest on record. The rate of inflation was the strongest since February 2020, and above the long-run survey average. Firms linked greater cost pressures to fuel, shipping, insurance, wages, raw materials and Brexit.

Input Prices Index

sa, >50 = inflation since previous month



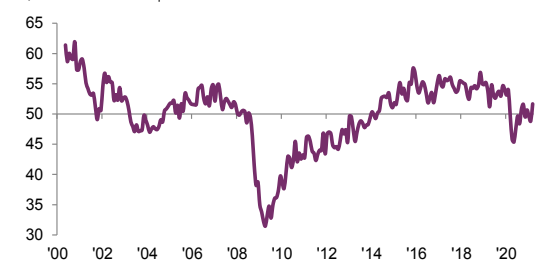
Prices Charged Index



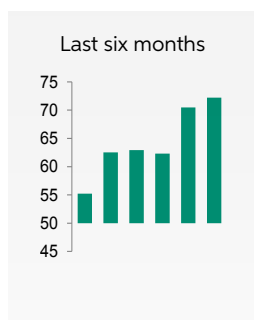
March survey data indicated a renewed increase in prices charged by service providers. It was the fourth increase in charges since September 2020. Moreover, the rate of inflation was the sharpest since February last year. Anecdotal evidence heavily linked increased charges to rising costs at service providers from a variety of sources.

Prices Charged Index

sa, >50 = inflation since previous month



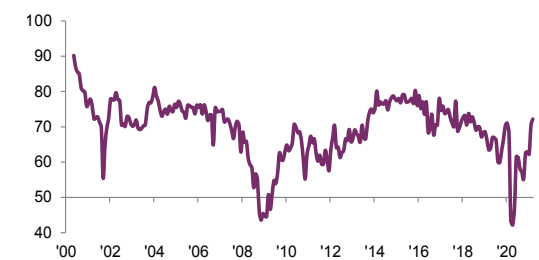
Future Activity Index



The Future Activity Index rose for the fourth time in five months in March, signalling strengthening sentiment regarding the 12-month outlook among service providers. Overall, companies were the most optimistic on growth since June 2018. Firms widely expected normal trading conditions and travel to resume over the coming year, enabled by vaccination programmes and the lifting of lockdown restrictions.

Future Activity Index

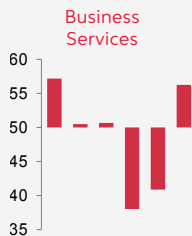
>50 = growth expected over next 12 months



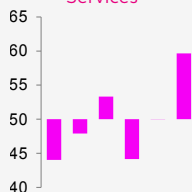
Services Sub-sectors

Business Activity Index

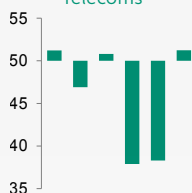
Last six months



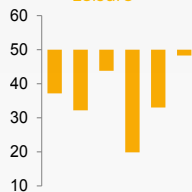
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Providers of business services registered a strong increase in activity in March, following sharp declines in January and February. New business followed a similar trend and exports rose for the first time in over a year. Moreover, employment increased at the fastest rate in over two years, influenced by the strongest rise in outstanding business since January 2007. Input price inflation accelerated but charges fell further.

Financial Services

Financial services registered the strongest rise in activity among the four monitored sub-sectors in March, with the fastest expansion since February 2020. New business followed the same trend, although employment fell slightly. Outstanding business rose the most since January 2020. Financial services firms experienced weaker cost pressures than the other three sub-sectors.

Technology, Media & Telecoms

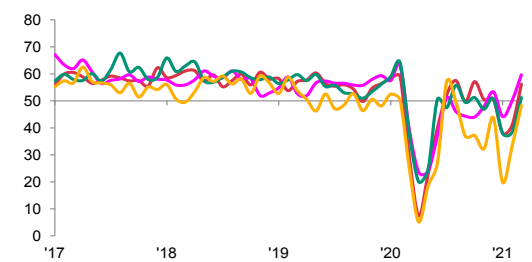
Activity in the Technology, Media & Telecoms sub-sector rose for the first time in three months in March, as new business increased for the first time since last November. That said, the rates of expansion were modest in both cases. Exports rose strongly, although the level of outstanding business continued to fall. Employment rose for the sixth month running and firms remained the most confident about the outlook of the four monitored sub-sectors.

Transport, Tourism & Leisure

Firms in the Transport, Tourism & Leisure sub-sector registered lower activity in March, continuing the current downturn which began in last August. The rate of decline slowed notably to a modest pace, however, as did the trend in new business. Firms remained the least optimistic about the 12-month outlook among the four sub-sectors, and faced the greatest increase in average input prices.

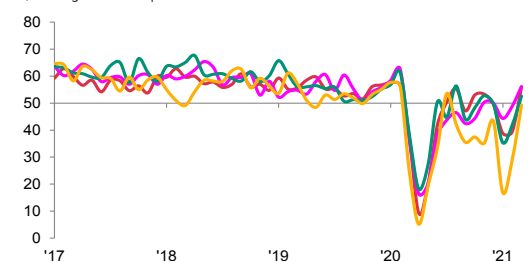
Business Activity Index

sa, >50 = growth since previous month



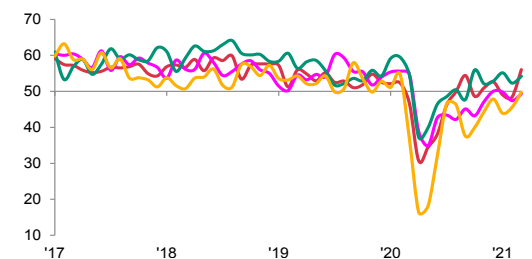
New Business Index

sa, >50 = growth since previous month



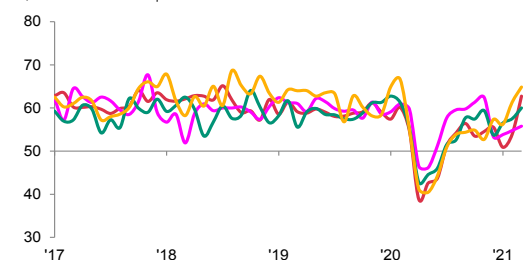
Employment Index

sa, >50 = growth since previous month



Input Prices Index

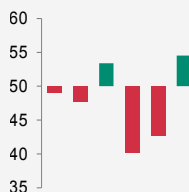
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Private sector output rebounds in March but cost pressures soar

Manufacturing output and services activity both expanded for the first time in 2021 during March, driving overall private sector growth to the highest since last July. Latest data also signalled the strongest employment growth in nearly two years, and the sharpest rate of input price inflation since July 2008.

The Ireland Composite Output Index rose strongly to 54.5 in March, from 42.7 in February. The latest figure signalled the strongest output growth since July 2020, and the 11.8-point increase in the index was the second-largest on record. The Output Index was well above its long-run average of 53.7 during the month.

Manufacturing production and services activity both increased for the first time since last December in March, and at similarly solid rates. New order growth was also robust in both sectors,

aided by rising export sales. Meanwhile, output expectations were the strongest since June 2018.

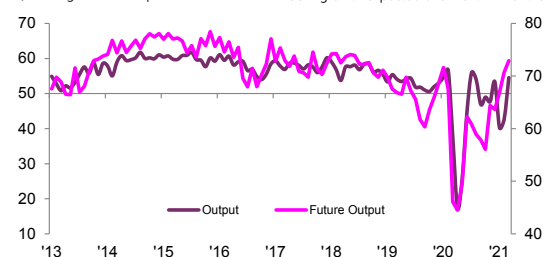
Backlogs of work at private sector firms increased for the first time since February 2020, and at the strongest rate since August 2018. This occurred despite the fastest rise in employment since June 2019.

March data indicated soaring cost pressures. The Composite Input Prices Index posted a record one-month gain and signalled the fastest rate of inflation since July 2008. Cost pressures were much stronger at manufacturers than service providers.

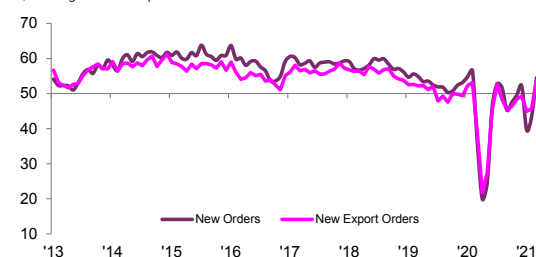
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services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

Output Index
sa, >50 = growth since previous month

Future Output Index
>50 = growth expected over next 12 months



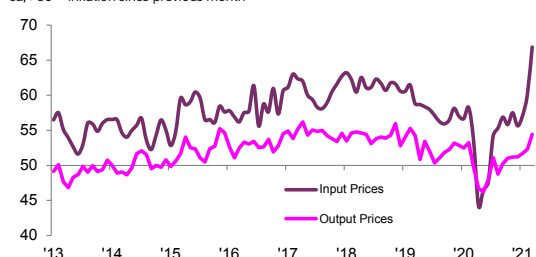
New Business Index / New Export Business Index
sa, >50 = growth since previous month



Employment Index / Outstanding Business Index
sa, >50 = growth since previous month



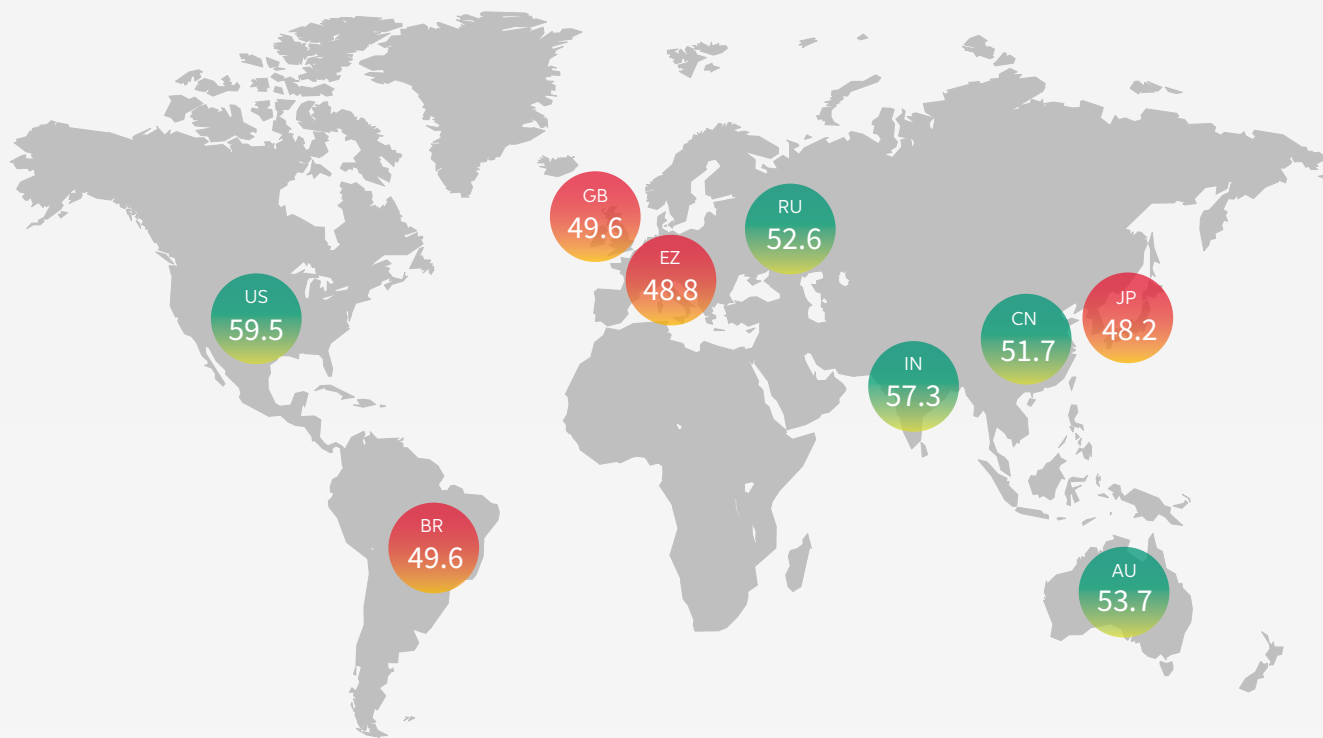
Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Feb '21

sa, >50 = growth since previous month



Composite Output Index

sa, >50 = growth since previous month



Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353-1-6417176
E: AIBeconomics.Unit@aib.ie
W: www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353-1-641-2869
M: +353-87-739-0743
E: paddy.x.mcdonnell@aib.ie

Graham Union
AIB Press Office
T: +353-1-6412430
M: +353-85-2088343
E: Graham.X.Union@aib.ie

IHS Markit

Trevor Balchin
Economics Director
T: +44-1491-461-065
trevor.balchin@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44 44 207 260 2234
joanna.vickers@ihsmarkit.com

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 12-26 March 2021.

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

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