

AIB Ireland Services PMI®

Sentiment strengthens despite sharper decline in services activity

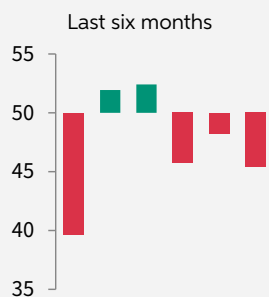
Key Findings

Fastest decline in services output since June

Expectations for activity strengthen amid vaccine hopes

Jobs only slightly lower than in October

Ireland Services Business Activity Index



Total business activity in Ireland's service sector economy fell at a faster rate in November but other indicators were more promising, according to the latest AIB PMI® data. New business declined only slightly, contributing to a rise in outstanding work for the first time since February. Employment shrank further, but at the slowest rate in the current nine-month period of retrenchment, while sentiment regarding the 12-month outlook for activity was the strongest since January amid growing hope for a coronavirus vaccine in 2021.

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

"As expected with much of the sector back in lockdown during the month, the AIB Irish Services PMI lost some ground in November, with the business activity index declining to 45.4 from 48.3 in October. The Irish index, though, was well above the flash PMI reading for the Eurozone, which fell to 41.3 in November and broadly in line with the UK flash number of 45.8. As elsewhere, the fall in the Irish Services PMI in this lockdown has been nowhere near the collapse it experienced during the first lockdown in the spring.

"Not only that, there were some encouraging trends in many of the indicators within the survey. Despite the shutdown, the rate of decline in new business was very modest and eased since October. Indeed, the volume of order backlogs increased for the first time since February. Furthermore, there was a move to near stabilisation in employment levels

in November, which have been in decline since February.

"The sub-sector data show that the Transport, Tourism & Leisure sector again posted by far the sharpest contraction in activity, reflecting the fact that it has been the most impacted by Covid restrictions. Encouragingly, the other three sectors saw new business expand and rising order backlogs.

"One concern is a margin squeeze, with input prices rising at their fastest rate since February but output prices declining as a result of the impact of Covid restrictions on demand. Firms, though, became much more optimistic about the 12-month outlook for activity, driven by the hope that the positive news on vaccines will allow for a return to more normal business conditions over the course of next year."

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 Business Activity Index fell to 45.4 in November, from 48.3 in October. It was the second correction in the headline figure in the past three months, and indicated the strongest month-on-month decline in Irish service sector output since June. Outside of the pandemic period, the latest figure was the lowest registered since January 2010.

The latest sub-sector data revealed weakening trends across three out of four categories monitored. Transport, Tourism & Leisure again posted by far the strongest decline in activity, and the sharpest since June. The Technology, Media & Telecoms (TMT) sector registered a renewed drop in activity, while Business Services achieved only a fractional rise in output following strong growth in October. Financial services bucked the overall trend in terms of direction, with the slowest reduction in activity in the current four-month sequence.

The latest data on new business were more encouraging than the trend in total activity. Although new business also fell for the third consecutive month, the rate of reduction was only modest and slowed since October. Moreover, the decline was centred on Transport, Tourism & Leisure as the three

other sectors posted growth, led by Business Services.

With new work falling more slowly than total activity in November and rising in three out of four sub-sectors, the total level of outstanding business increased for the first time since February. As was the case with demand, Transport, Tourism & Leisure was the only sub-sector to register falling backlogs in November.

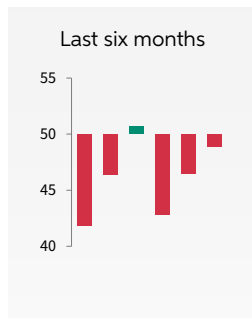
The service sector labour market continued to show signs of recovery in November. Employment fell for the ninth month running, but at the weakest rate in this sequence. The overall fall mainly reflected job cuts in Transport, Tourism & Leisure and, to a lesser extent, Financial Services.

The near-stabilisation in employment and higher levels of outstanding business were reflected in business confidence in November. Companies were the most optimistic regarding expected activity in 12 months' time since February, with nearly half of firms (46%) predicting growth. That said, just over one-in-five companies predict declines (21%), mostly concentrated in the Transport, Tourism & Leisure sector. The overall strength of sentiment remained weaker than the long-run survey trend level as a result.

Average input prices for service providers rose at the fastest pace since February. Companies linked rising costs to wages, insurance premiums and fuel. The overall rate of input price inflation remained weaker than the long-run survey average, but pressure on profits grew as prices charged fell for the first time in three months.



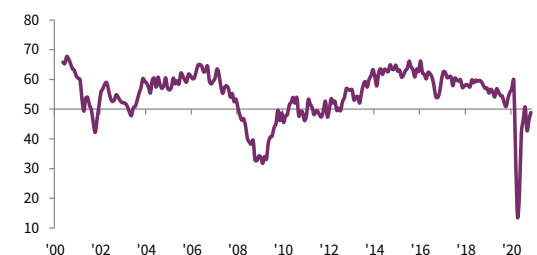
New Business Index



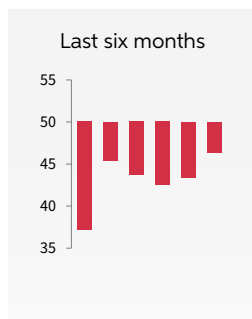
The volume of new business received by Irish service providers fell for the third month running in November. Firms widely linked lower demand to business shutdowns and restrictions put in place to stem the rising number of COVID-19 cases. That said, the rate of decline eased for the second month running and was only modest.

New Business Index

sa, >50 = growth since previous month



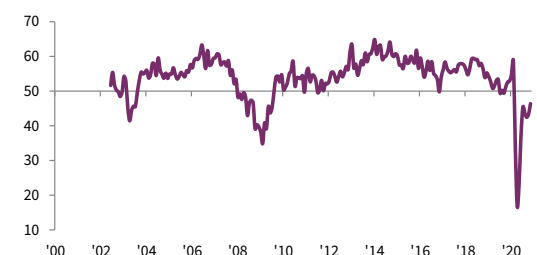
New Export Business Index



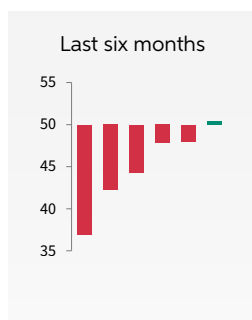
The seasonally adjusted New Export Business Index remained below the no-change mark of 50.0 for the ninth successive month in November, indicating a sustained downturn in international demand for Irish services. Lower exports were linked to COVID-19 and travel restrictions. The pace of contraction was, however, the slowest in the current sequence.

New Export Business Index

sa, >50 = growth since previous month



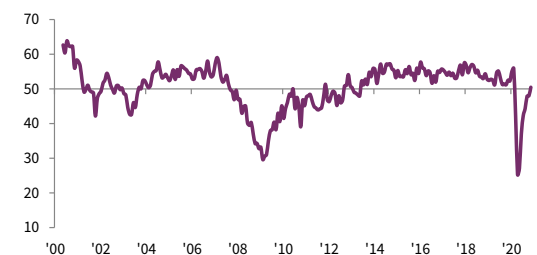
Outstanding Business Index



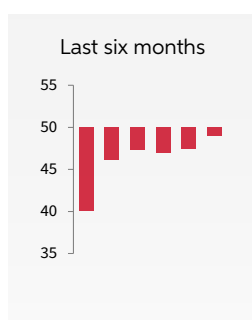
With overall activity falling more quickly than new business during November, the volume of outstanding work increased. The seasonally adjusted Outstanding Business Index rose for the seventh consecutive month and posted above 50.0 for the first time since February. That said, backlogs increased only marginally and slower than at any time in the six-and-a-half years prior to the pandemic.

Outstanding Business Index

sa, >50 = growth since previous month



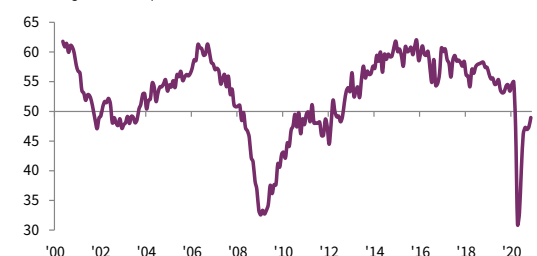
Employment Index



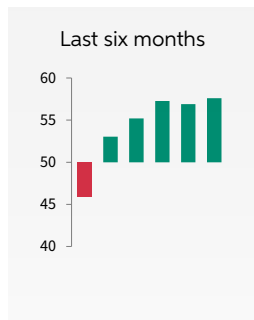
The downturn in Irish service sector employment slowed further in November. Staffing declined for the ninth month running, but the rate of job shedding eased for the sixth time in seven months to the weakest in the current sequence. Only 12% of firms shed staff during the month, while 11% boosted workforce numbers.

Employment Index

sa, >50 = growth since previous month



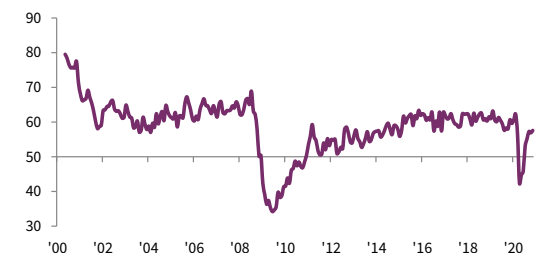
Input Prices Index



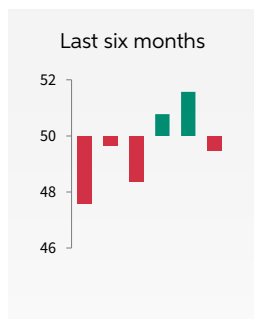
Cost pressures at Irish service providers continued to build in November. Average input prices rose for the fifth month running and at the fastest rate since February, albeit one that remained weaker than the long-run survey average.

Firms mainly linked greater costs to higher insurance premiums and fuel costs, as well as expenditure on salaries.

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



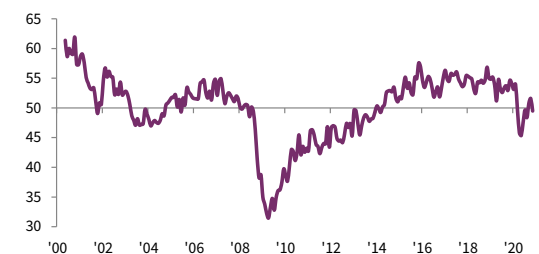
Prices Charged Index



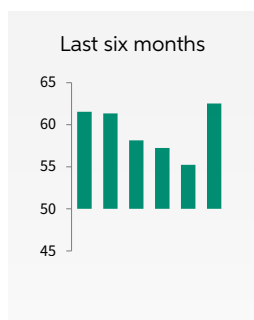
Following two successive monthly increases, average charges levied by Irish service providers fell in November. Firms reported having to reduce prices due to the impact of COVID-19 on market conditions.

That said, the rate of discounting was only marginal and weaker than the trend shown earlier in the year.

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

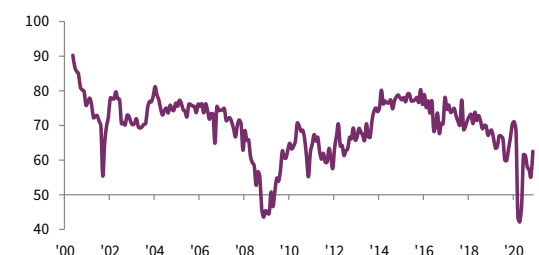


Future Activity Index



The 12-month outlook for service sector output brightened significantly in November. The Future Activity Index rose by 7.3 points since October, the fifth-highest one-month gain in the series history, and signalled the strongest overall sentiment among service providers since February. Firms widely linked positive forecasts to hopes that a vaccine will allow normal business levels to resume.

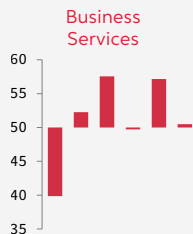
Future Activity Index
>50 = growth expected over next 12 months



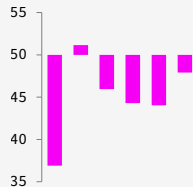
Services Sub-sectors

Business Activity Index

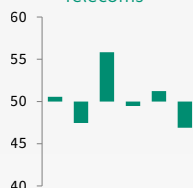
Last six months



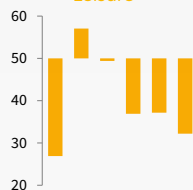
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Business services activity in Ireland rose for the fourth time in five months in November. That said, the rate of expansion was only fractional. New business increased at a comparatively faster rate, leading to a strong rise in outstanding work. Higher employment was registered for only the second time in nine months. Sentiment improved but remained weak relative to the long-run trend.

Financial Services

Financial services activity fell for the fourth successive month in November, despite a rise in new business for the first time since February. Outstanding work subsequently rose for the second month running. Jobs were shed further, albeit at the slowest rate in the current eight-month sequence. Business expectations were the strongest since February.

Technology, Media & Telecoms

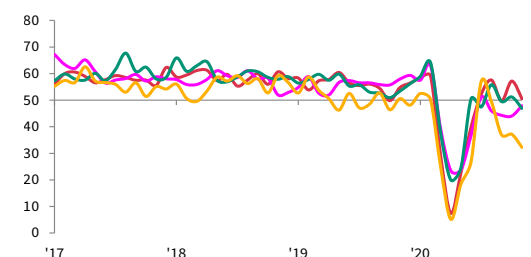
Business activity in the Technology, Media & Telecoms sector fell at the sharpest rate since May in November, following a modest increase in October. More positively, new and outstanding business both increased, and expectations for activity were the strongest since February. Subsequently, employment rose for the second month running.

Transport, Tourism & Leisure

The Transport, Tourism & Leisure sector continued to record a much steeper decline in activity than other sectors in November. The rate of contraction was the fastest since June, reflecting a steeper drop in new business. Employment fell sharply, albeit at one of the weakest rates in the current nine-month sequence. Sentiment turned negative for the first time in six months.

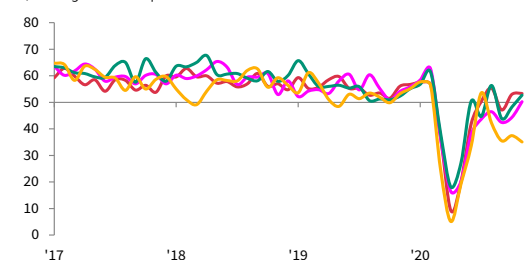
Business Activity Index

sa, >50 = growth since previous month



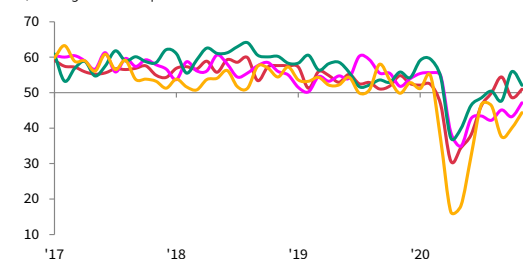
New Business Index

sa, >50 = growth since previous month



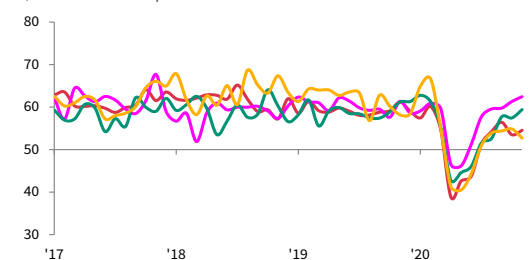
Employment Index

sa, >50 = growth since previous month



Input Prices Index

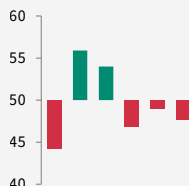
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Output falls for third month running but expectations brighten on vaccine hopes

November survey data revealed a stronger fall in private sector output in Ireland, extending the second downturn of 2020 to three months. That said, the rate of decline was not as severe as in September or during the spring lockdown. New business declined only fractionally, and the 12-month outlook was the strongest since February as firms hoped a vaccine would allow business levels to return to normality in 2021.

The seasonally adjusted Composite Output Index fell to 47.7 in November, from 49.0 in October. This signalled a solid reduction in activity, albeit one not as steep as those registered during the spring. Service sector activity fell the most since June, offsetting a slight rise in manufacturing production.

New business also fell for the third month running in November, but the rate of decline was only marginal. Outstanding work declined again, but

the fall was the slowest in the current nine-month sequence.

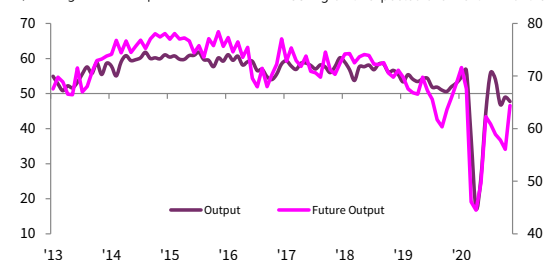
Private sector employment was broadly stable in November, as higher staffing at manufacturers was matched by a slight reduction in service providers' payrolls.

The 12-month outlook for private sector output improved in November, to the strongest since February. Sentiment brightened notably across both manufacturing and services.

*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

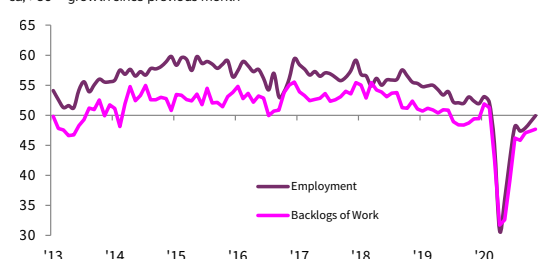
Future Output Index
>50 = growth expected over next 12 months



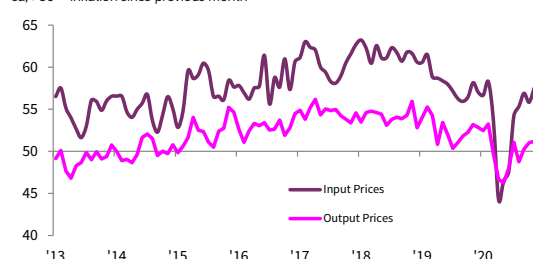
New Business Index / New Export Business Index
sa, >50 = growth since previous month



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



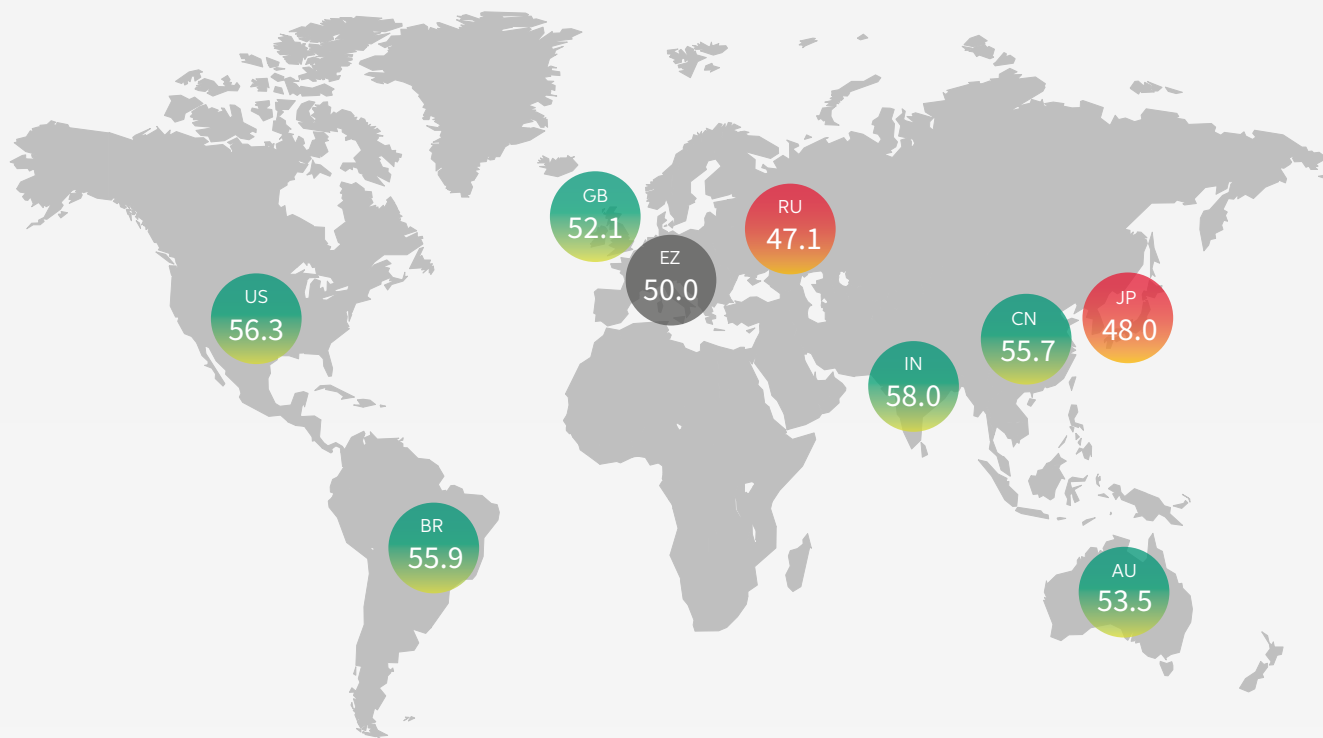
Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



International PMI

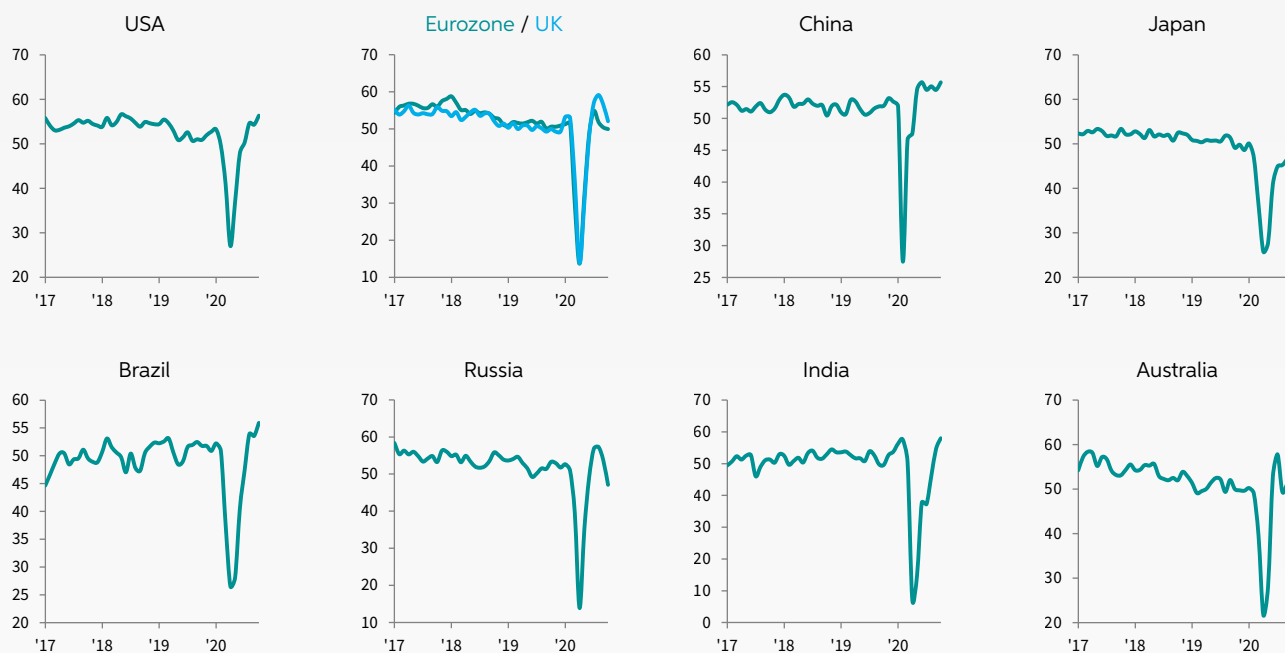
Composite Output Index, Oct '20

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 12-25 November 2020.

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

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