



Irish Business Activity Insight Report

November 2021



Executive Summary



Business outlook strengthens, but inflation expectations soar

Irish companies were their most confident on growth since early-2017, according to the October AIB Ireland Business Activity Report. The latest survey findings also revealed record inflation expectations, reflecting the ongoing global supply chain crisis, surging energy prices and shortages of labour and raw materials.

The net balance for business activity in the combined manufacturing and services sector rose slightly from +55% in June to +56% in October, indicating the strongest sentiment regarding output over the next 12 months since February 2017. The figure has risen continuously since hitting a record low of +20% in October 2020.

The improvement in sentiment since the summer reflected stronger confidence among manufacturers. The respective net balance stood at +58%, up from June's +49% and the highest since October 2015. Moreover, expectations at goods producers were stronger than those at

service providers for the first time since February 2018. The services net balance dipped from +60% in June to +55% in October, although the latest figure was still the second-highest in three years.

Ireland had the strongest outlook across Europe in October and was alone in seeing a slight improvement since the summer. The UK (+45%), Spain (+43%), Italy (+38%), Germany (+35%) and France (+34%) all posted lower net balances for activity than in June. The EU average fell to +38% but was still the second-highest since early-2018.

Companies in Ireland reported record inflation expectations in October, both in terms of staff and non-staff input costs. Manufacturers reported stronger cost pressures than service providers on both metrics, and also expected comparatively steeper increases in output prices. The overall net balance for charges also rose to a record high in October. Record price pressures reflected a combination of rising demand for raw materials and labour and associated shortages, plus higher energy and fuel prices and the continuing impact of Brexit.

Companies planned to expand workforces over the next 12 months as market conditions continue to recover from the pandemic. Service providers were slightly more optimistic on jobs than manufacturers. As was the case for activity, the employment outlook in Ireland was stronger than those seen in the other European economies covered.

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

% net balance



Hiring and investment plans

Irish firms remain confident of raising workforce levels

The outlook for Irish private sector employment remained among the highest registered over the past six years in October, with positive hiring intentions at both service providers and manufacturers.

The net balance for employment was unchanged from June at +36% in October. This signalled the joint-strongest jobs outlook for the Irish private sector economy since the end of 2015.

Service providers remained more optimistic on hiring over the next 12 months than manufacturers. This has been the case for every survey period stretching back to February 2017 except for June 2020, which reflected the greater exposure of services companies relative to manufacturers to lockdown restrictions.

Irish firms were more optimistic on employment growth than their counterparts in the UK, Germany, France, Italy and Spain.

In terms of planned capital spending, Irish companies were the most optimistic since June 2018 in October. The net balance edged up to +24%, from June's +23%, and was the joint-second highest since late-2015.

Manufacturers were especially upbeat on investment, with the net balance of

+32% the highest in six years and the second-highest since the series began in 2006. Meanwhile, service providers were slightly less confident on capital investment than June's three-year high.

Companies planned to raise spending on research & development over

the next 12 months, on average. The net balance of +15% was the highest since the combined manufacturing and services series was first compiled in early-2019. Manufacturing R&D sentiment (+19%) was stronger than the historic trend since 2006 (+12%).

Oct '21
+36%

Jobs outlook at three-year high



Inflation and profit expectations

Record cost inflation expectations driven by manufacturing sector

Private sector expectations for input costs were the highest ever recorded in October, while forecasts for selling prices also set an all-time high. Despite this extreme inflationary pressure, companies remained upbeat about their profits over the next 12 months.

The net balance for non-staff input prices set a new record high again in October, rising from +46% in June to +58%. The series for the combined manufacturing and services sector began in October 2009.

Cost expectations for non-staff inputs were greater in manufacturing than services for the fifth survey running. The manufacturing net balance soared to +63%, the highest since this measure for services rose to +54%, also a record since 2006.

Expectations for staff costs also rose in the October survey. The net balance increased to a new high of +68%, above June's then-record +63%.

Wage pressures at manufacturers (+74%) were expected to be greater

than in the services sector (+64%) and were the highest since that series began in 2019. That said, service sector wage forecasts were still among the strongest on record since that series began in 2006.

For both staff and non-staff costs, Irish firms expected higher inflation than those in France, Italy and Spain, but lower than firms in the UK and Germany.

With surging costs expected, Irish companies were forecasting record increases in their own prices charged in October. The combined net balance rose to a new high of +53%, surpassing the previous record of +44% set in October 2018.

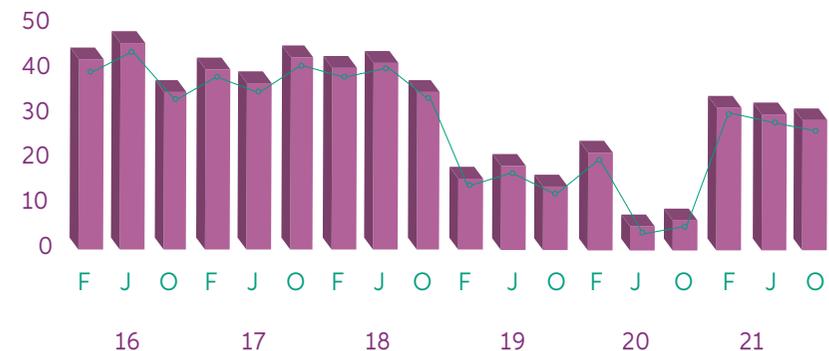
Manufacturers held record output price inflation expectations (+67%), while the equivalent net balance for service provider charges was the second-highest on record (+43%).

Despite surging cost pressures, profits were forecast to improve over the next 12 months. The net balance rose to +34%, the highest since June 2018. Service providers (+40%) were more upbeat on profitability than manufacturers (+26%).

Oct '21
+58%

Profits expectations remain positive

% net balance



Data

Composite net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Feb '20	37	21	23	17	9	30	55	34
Jun '20	28	5	7	-1	0	6	22	14
Oct '20	20	6	6	1	6	16	34	22
Feb '21	46	28	17	17	10	27	47	38
Jun '21	55	26	36	23	11	41	63	46
Oct '21	56	34	36	24	15	53	68	58

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

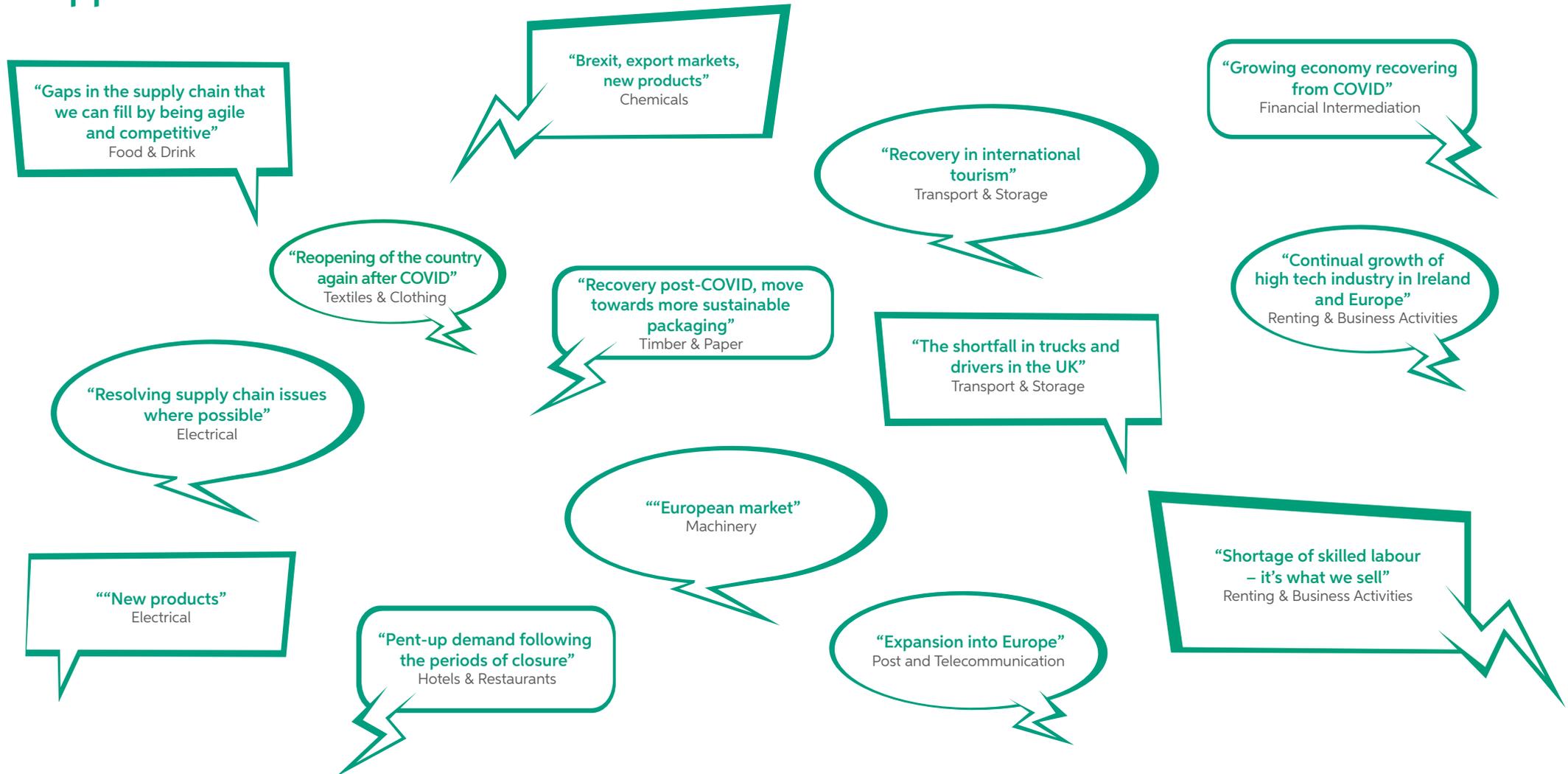
	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Feb '20	34	18	16	15	14	26	53	33
Jun '20	25	2	11	10	6	13	25	19
Oct '20	14	3	3	0	10	18	37	22
Feb '21	46	26	20	24	18	38	52	45
Jun '21	49	13	31	23	16	55	60	51
Oct '21	58	26	34	32	19	67	74	63

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Feb '20	33	18	21	17	7	29	54	34
Jun '20	39	24	28	18	6	33	57	34
Oct '20	30	7	4	-9	-5	2	19	11
Feb '21	24	7	8	2	2	15	32	21
Jun '21	46	28	28	12	5	19	43	33
Oct '21	60	36	41	23	7	30	65	43

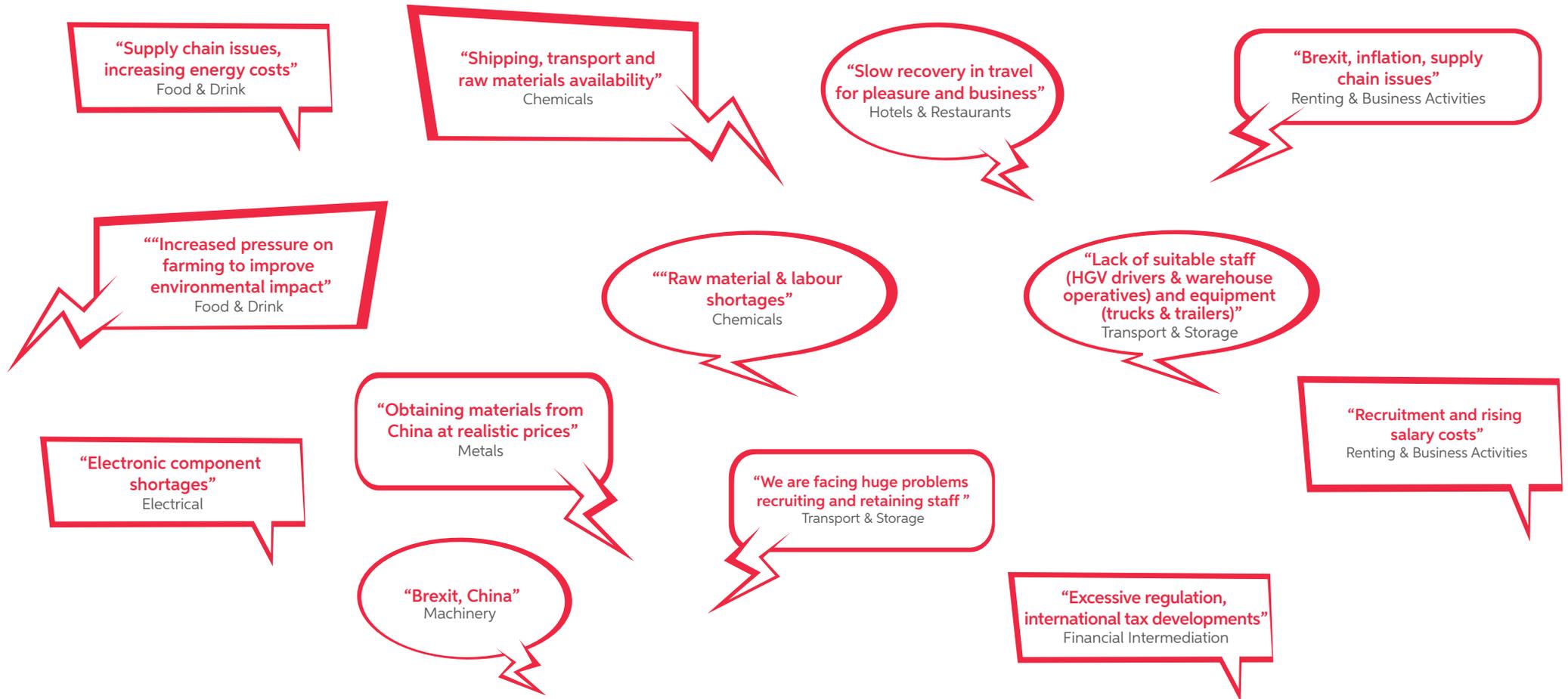
Comments from survey respondents

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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