



AIB Ireland Services PMI®

Including AIB Ireland Composite PMI®

Services hit by tighter restrictions in January as second wave worsens

Key Findings

Business Activity Index plunges to 36.2 in January

Steepest fall in new work since last May

Business confidence remains robust

Data were collected 12-26 January 2021.

January PMI® survey data from AIB signalled a difficult start to 2021 for Irish service providers. With lockdown restrictions tightening as a second wave of COVID-19 swept through Europe, activity and new business both fell at the steepest rates since last May. More positively, employment was only fractionally lower than in December and firms' expectations for activity remained upbeat as companies looked beyond the winter crisis to a rebound once vaccination campaigns are established.

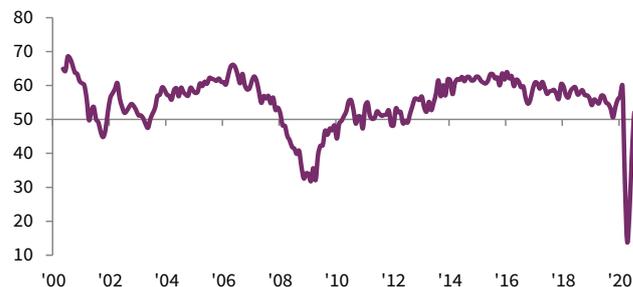
The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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 dived to 36.2 in January, from December's 50.1, indicating the fastest rate of decline in Irish services output for eight months. The month-on-month decline in the headline figure was the third-largest on record, behind those seen in March and April last year. That said, the latest contraction was not as severe as those seen last spring during the first wave of COVID-19.

All four monitored sub-sectors suffered sharp falls in business activity in January, the first broad-based decline in four months. By far the fastest rate of contraction was signalled in Transport, Tourism & Leisure (19.8,) followed by Technology, Media & Telecoms (TMT, 37.9) and Business Services (38.0) respectively. These three sectors all posted the worst downturns since May 2020. The fourth sector, Financial Services, fared comparatively better but still posted a strong decline (44.2, three-month low).

Ireland Services Business Activity Index

sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

New business received by service providers fell rapidly in January as lockdown restrictions suppressed demand. The latest decline was the fastest in eight months and the strongest since April 2009 when the March-May 2020 period is excluded. New UK trading arrangements were also mentioned by survey respondents as a source of lower inflows of new business at the start of the year.

A lack of incoming new work was reflected in a steep drop in outstanding business in January, following slight increases in the final two months of 2020. The rate of backlog depletion was the strongest since June 2020, with the Transport, Tourism & Leisure sector posting the worst reduction. In contrast, outstanding work rose in Financial Services.

Although pipeline business fell in January, service providers retained an optimistic outlook for the next 12 months. Sentiment was little-changed from the levels seen in November and December, with firms expecting the development of vaccination programs to reduce the need for future lockdowns and allow business levels to rebound in the second half of 2021. Firms were also hopeful of successfully adjusting to the new UK trading environment.

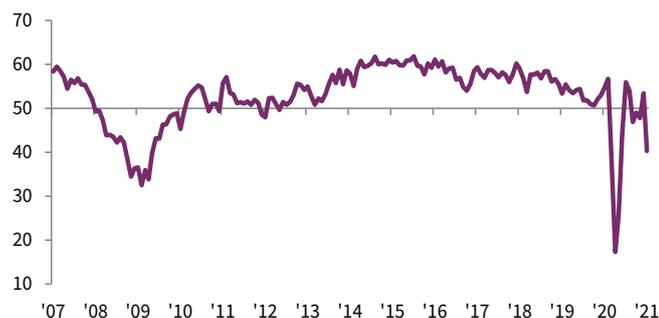
The positive outlook for 2021 was reflected in the latest data on employment at service providers. Although a reduction was signalled in January, it was only fractional and much weaker than those seen during the second and third quarters of 2020. Employment rose strongly in the TMT sector, largely offsetting a sharp fall in Transport, Tourism & Leisure.

Average input prices rose in January, reflecting higher fuel, insurance, salaries and import costs. That said, the rate of inflation eased to a six-month low. Charges levied by service providers fell as firms attempted to boost sales, albeit only marginally.

AIB Ireland Composite PMI®

January sees strongest decline in private sector output since May 2020

Composite Output Index
sa, >50 = growth since previous month



Sources: AIB, IHS Markit.

Irish private sector firms reported a steep drop in output at the start of 2021 as tighter lockdown restrictions imposed to fight a second wave of COVID-19 hurt demand and weighed on business capacity.

The seasonally adjusted Ireland Composite Output Index fell sharply from December's 53.4 to 40.3 in January, indicating the fastest rate of contraction in business activity since May 2020. Moreover, excluding March, April and May last year during the most extreme phase of the first lockdown, the rate of decline in January was the strongest since May 2009.

Both manufacturing output and services activity declined markedly in January. As has been the case throughout the pandemic, services fared comparatively worse than manufacturing.

Demand was severely constrained by lockdown measures in January, with new business also falling the most since May 2020. Manufacturing new orders fell for the first time since last October, albeit at a much slower rate than services new business.

Private sector employment growth was sustained in January, although the rate of job creation eased to a fractional pace. This reflected a slight decline at service providers and slower growth in manufacturing.

The 12-month outlook strengthened to an 11-month high in January, reflecting the strongest sentiment at manufacturers since May 2019.

*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.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Services PMI fell sharply in January, which was not surprising with much of the services economy back in lockdown for the whole month. The business activity index declined to 36.2 from 50.1 in December, its lowest level since last May. Notably, the UK economy which also went back into lockdown in January, saw a similar steep decline in its flash Services PMI to 38.8 in the month. The PMIs, though, have not plummeted to the levels seen last spring during the first lockdown.

"The impact of the latest lockdown was very evident in a sharp fall-off in new business as the tightening of restrictions suppressed demand. The decline was not as severe for new export business as most other countries have not implemented the same extensive lockdown seen in Ireland and the UK. The fall-off in new business resulted in a marked decline in the volume of outstanding business in the month.

"The sub-sector data show that the Transport, Tourism & Leisure sector has been the hardest hit by the lockdown, with its business activity index dropping to 19.8 and new business collapsing completely. The other three sub-sectors posted far smaller declines in activity and new business.

"More encouraging, employment hardly changed in January despite the lockdown, having expanded in December for the first time since last February. Meanwhile, sentiment in regard to the 12-month outlook remained relatively upbeat. Firms believe that the roll out of the vaccine programmes will eliminate the need for further lockdowns and see a return to more normal business conditions as the year progresses."

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

Katherine Smith
Public Relations
T: +1 781-301-9311
katherine.smith@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 January 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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2021 IHS Markit Ltd. All rights reserved.

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>

Disclaimer

This publication is issued by Allied Irish Banks, p.l.c. ("AIB") and is for general information purposes only. This publication should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments or product, securities or any derivative instrument (together, "instruments"), or any other rights pertaining thereto. AIB does not express any opinion as to the present or future value or price of any instruments referred to in this publication.

The information provided in this publication is believed to be valid and accurate on the date it is first published but AIB, along with its directors, officers, or employees, does not accept any liability for any loss arising from the use of the information. The information contained therein, including any expressions of opinion, has been obtained from, or is based on, or compiled from, sources believed to be reliable but its accuracy or completeness is not guaranteed and is subject to change without notice.

Any decision made by a party shall be on the basis of its own research and shall not be influenced or based on any view expressed by AIB in this publication or otherwise. This publication does not address all risks. This publication does not constitute investment advice or a recommendation and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments and/or pursuing any investment strategies. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any instruments, forecasts are not a reliable indicator of future performance.

This publication is not to be reproduced in whole or in part without the prior express written consent of AIB. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.