Irish Business Activity Insight Report

March 2021

Executive Summary

Irish outlook strengthens notably at start of 2021

Irish private sector firms are increasingly optimistic about the 12-month outlook at the start of 2021, according to the latest AIB Ireland Business Activity Report.

The net balance for business activity in the combined manufacturing and services economy rose from October's record low of +20% to +46%, the highest since June 2018 and equal to the long-run average (since late-2009). Moreover, the 26-point rise in the figure since the previous period was the largest on record. The outlook in Ireland was stronger than in Italy (+44%), Germany, Spain (both +36%) and France (+28%), but less positive than that in the UK (+57%).

By sector, confidence regarding output levels over the coming year was equally strong across manufacturing and services, with the former posting the greater uplift since October.

The stronger outlook for total activity was reflected in other variables monitored by the survey. In all, five of the remaining seven net balances posted record or joint record increases since last October: profits, employment, staff costs, non-staff costs and capital spending. The exceptions were research & development and output prices, although the latter net balance still recorded the second-largest gain on record on the back of a similar rebound last October.

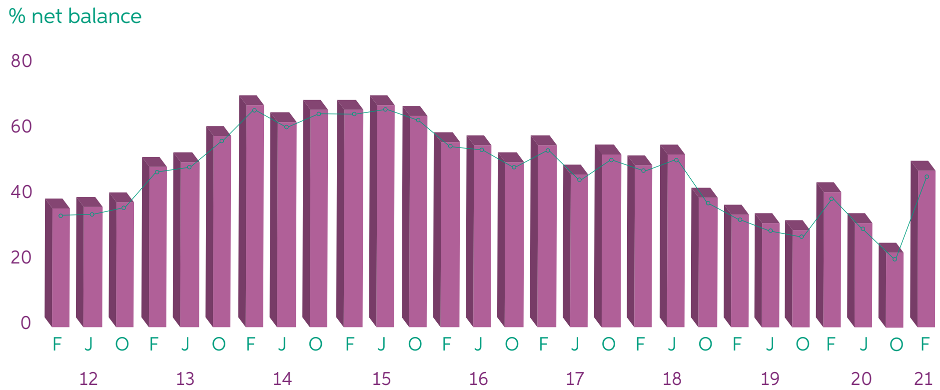
Firms widely reported expectations of a resurgence in business activity once lockdown restrictions are eased as the year progresses. Confidence was also attributed to winning new business as a result of Brexit and investment in digital services. Weighing on sentiment slightly were supply chain problems and higher costs – linked to both Brexit and the pandemic – and a comparatively slow return to normality for consumer-facing sectors such as tourism and hospitality.

The hoped-for revival in demand was expected to result in increased profits and employment over the next 12 months. The respective net balances rose to the highest since October 2018, with service providers slightly more confident than manufacturers in both cases. Profits were expected to rise despite greater upward pressure on both staff and non-staff input costs.

Commenting on the latest results, Hilary Gormley, Head of Business Banking – Corporate, Institutional & Business Banking said:

'The latest AIB Business Activity Report speaks to a renewed level of optimism amongst Irish businesses as firms look beyond the pandemic, to a rebound in demand as lockdown restrictions ease. With the output of many businesses still below pre-pandemic levels and supply chain disruptions impacting operations, it is clear that challenges persist for a significant proportion of Irish firms. Notwithstanding these challenges, sentiment is increasingly positive across both the manufacturing & services sectors. Encouragingly, firms are optimistic for key areas such as employment, capital spending and profitability. Furthermore, it is clear that Irish firms are planning for continued investment in their IT capabilities and R&D as they seek to drive efficiencies and bring new and improved products and services to market.'

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



Hiring and investment plans

Employment outlook rebounds at start of 2021

The 12-month outlooks for both employment and capital spending in the Irish private sector dramatically improved at the beginning of 2021, according to the AIB Business Activity Report.

Rising sharply from +6% in October 2020 to +25% in February, the net balance for employment signalled a much brighter jobs forecast at the start of 2021. At 19 points, the increase in the figure was the largest on record since the series began in late-2009, well ahead of those in February and June 2010. The latest figure was broadly in line with the long-run average of +24%.

Sector data indicated that hiring intentions improved most and were strongest overall in the services sector (+28%), although manufacturing (+20%) still registered its strongest jobs outlook since October 2018.

`

The employment outlook in Ireland was stronger than in Germany (+21%), France (+14%), Spain (+9%) and Italy (+8%), but weaker than that in the UK (+30%).

The capital spending net balance also set a new record increase in February, rising by 16 points from October's +1% to +17%. This meant that private sector firms were as confident regarding capex over the next 12 months as they were in February 2020, just before the pandemic struck. The difference in 2021 was that manufacturers (+24%) were more confident than service providers (+12%), while the opposite was the case in February 2020.

Similarly, projections for spending on research & development improved in February (+10%) to the strongest on record since the series covering both manufacturing and services was first compiled two years ago.

Feb '21

+25%

Hiring intentions strengthen

% net balance

IHS Markit

Inflation and profit expectations

Profits outlook improves despite greater expected cost pressures

Private sector firms in Ireland expected upward pressure on their costs in 2021, driven by both staff and non-staff inputs. Despite this anticipated inflationary pressure, profits forecasts also improved in February as companies expected a rebound in demand as lockdown restrictions are eased.

The net balance for non-staff input costs among Irish private sector firms rose for the second successive survey to +38% in February, recovering further from the eight-year low of +14% last June. The latest figure signalled the highest forecasts for non-staff input costs since October 2018, and was well above the long-run trend level of +22% (since late-2009). Sector data signalled that manufacturers expected greater upward pressure on input costs than service providers, reflecting their comparative exposure to ongoing global supply chain tensions.

Companies also expected average wages and salaries to rise over the next 12 months. The net balance for staff costs rose to +47%, the highest in a year and taking it above its trend level since the composite series began two years ago. Manufacturers expect greater upward pressure on labour costs than service providers.

Ireland's two input cost net balances were broadly comparable with those in the UK (staff: +49%, non-staff: +39%) and higher than those in all four largest EU countries except for Germany's nonstaff costs net balance (+40%).

Although cost pressures were expected to rise, companies were more bullish regarding profitability than they were throughout 2019 and 2020. The net balance rose to +28%, the highest since October 2018 and a record 22-point increase since the previous survey.

Profits forecasts were broadly similar across manufacturing and services.

The brighter outlook for profits reflected expectations of a revival in demand and improved pricing power. The net balance for output prices rose to +27% from +16% last October, the highest for a year. Manufacturers were more upbeat on pricing than service providers.

Feb '21

+28%

Stronger expectations for profits

Data

Composite net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Jun '19	32	18	23	19	8	29	56	34
Oct '19	27	15	19	14	9	25	49	30
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

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
Jun '19	28	17	16	22	10	27	57	31
Oct '19	18	11	16	10	13	20	42	24
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

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Jun '19	35	18	28	17	6	30	56	36
Oct '19	33	18	21	17	7	29	54	34
Feb '20	39	24	28	18	6	33	57	34
Jun '20	30	7	4	-9	-5	2	19	11
Oct '20	24	7	8	2	2	15	32	21
Feb '21	46	28	28	12	5	19	43	33

Comments from survey respondents

Opportunities

"Expansion in other non-EU markets"
Food & Drink

"The switch from plastic to paper in packaging"
Timber & Paper

"Pent-up demand following pandemic"
Financial Intermediation

"There is huge pent up demand - people want to travel"
Transport & Storage

"USA market"
Food & Drink

"Export opportunities post COVID"
Machinery

"Possible additional Brexit work"
Renting & Business Activities

"Tourism recovery"
Transport & Storage

"Meeting increased sales from far east, US markets opening up"
Electrical

"Lifting of C19 restrictions and release of consumer demand"
Hotels & Restaurants

"Very high demand for digital services"
Renting & Business Activities

"Good backlog for the first six months"
Electrical

"Increased demand post COVID restrictions"
Chemicals

"More due to COVID experiences"
Post and Telecommunication

Comments from survey respondents

Threats

"Still unclear as to long term impact of Brexit"
Food & Drink

"Supply chain disruption"
Chemicals

"Ongoing closure and C19 restrictions"
Hotels & Restaurants

"COVID has created big shortage of semiconductors worldwide"
Post & Telecommunication

"COVID restrictions and negative impact on food service and hospitality sectors"
Food & Drink

"Uncertainty caused by Brexit"
Timber & Paper

"The ongoing difficulties of Brexit and the continued uncertainty of COVID-19"
Transport & Storage

"Competition from Britain and delays in shipping"
Metals

"Price increase due to Brexit"
Electrical

"Brexit driving costs up"
Transport & Storage

"Excessive financial services regulation"
Financial Intermediation

"Brexit and customs cost and delivery of supplies due to customs"
Machinery

"Delay in re-opening economy"
Renting & Business Activities

Special question: COVID-19

Majority of firms report output yet to recover one year on from pandemic

The February 2021 special question on the impact on COVID-19 revealed that output was still lower than prepandemic levels at more than half of all companies. More positively, a greater number of firms expected business to recover to pre-pandemic levels within a year compared with the October survey results.

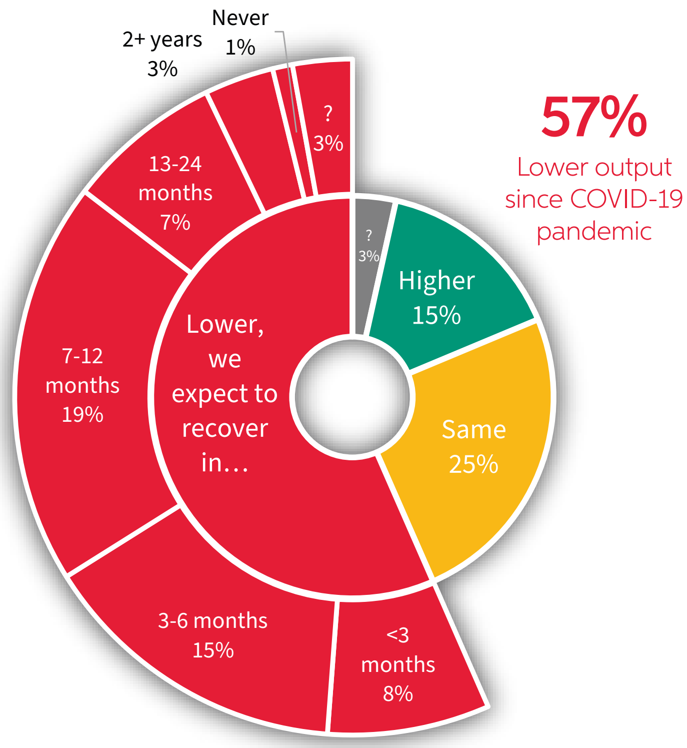
Overall, 57% of firms reported that output at their units was lower as of mid-February when compared with pre-pandemic levels. This was a slightly higher proportion than that reported last October (51%) but below that in June 2020 (74%). The increase since October primarily reflected the economic hit from the latest lockdown restrictions.

Only 15% of firms stated that business had surpassed pre-pandemic levels, little-changed from 16% in October. Where activity was equal to or greater than pre-pandemic levels, firms reported the release of pent-up demand in certain sectors, a strategic shift to online business, their classification as an 'essential service', or a general lack of impact on their business from lockdown restrictions.

A greater proportion of firms expected to recover within a year when compared to the previous survey (42% of all firms in February compared with 28% in October). The latest proportion was still lower than in the June survey (53%), however, reflecting the impact on forecasts of the second wave.

For longer predicted recovery timescales, 7% of all firms expect to hit pre-pandemic business levels within 1-2 years, down from 10% in October, while only 3% expect a recovery to take more than 2 years, down from 5% in October. Anecdotal evidence suggested that those firms reporting the longest anticipated recovery time tended to be those where travel, close contact, the arts, tourism and hospitality were key aspects of their businesses.

As of mid-February, please tell us how the OUTPUT (or business activity) of your company has changed since prior to the COVID-19 outbreak, and (if lower) how quickly you expect to recover to pre-COVID levels?



Special question: Investment in technology

New cloud and cybersecurity technologies attract greatest investment by Irish firms

The March AIB Ireland Business Activity Report contains new survey findings on Irish companies' investment in new technologies. Firms were asked to comment on new technologies that they had already invested in and also on their investment intentions

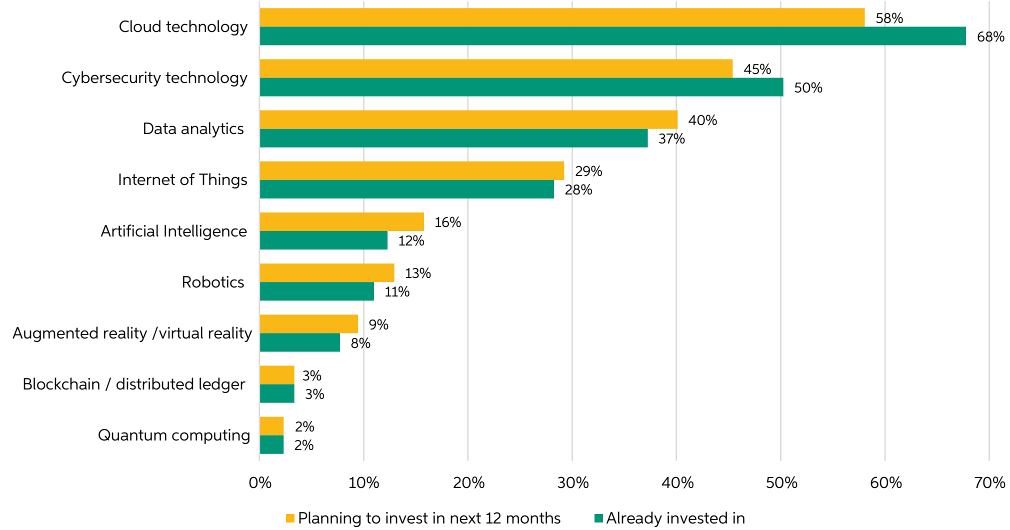
The survey findings revealed that the two most attractive new technologies that firms had either already invested in, or are planning to in 2021, were cloud technology and cybersecurity.

Cloud technology has attracted investment from 68% of firms, with 58% planning to invest in 2021. The proportions for cybersecurity were 50% and 45% respectively. For both technologies, higher proportions of service providers reported actual and planned investment than manufacturers.

More than one-third (37%) of firms have already invested in data analytics, with 40% planning to invest in 2021. The fourth most attractive new technology report by firms was the internet of things, with 28% of firms already investing and 29% planning to in 2021.

Companies were also asked about their reasons for investing in new technologies. The most popular reason given was to increase competitiveness, reported by 60% of firms, followed by increased productivity (53%), profitability (43%) and resilience (43%). A drive to improve the customer experience was reported by 42% of firms, while other reasons put forward for investment in new technology included cost reductions, increasing market share, sustainability, new products, new markets and innovation.

Which of the following technologies:
a) has your business already invested in?
b) do you plan to invest in over the next 12 months?



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.

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.

Contact

AIB

**Ciaran Foley –
Services Sector Specialist:**

E: ciaran.c.foley@aib.ie

T: 087 056 3880

W: www.aib.ie/business

**John McGeown –
Manufacturing Services Specialist**

E: john.j.mcgeown@aib.ie

T: 086 022 9491

W: www.aib.ie/business

IHS Markit

E: economics@ihsmarkit.com