



AIB Ireland Manufacturing PMI®

Irish manufacturing ends 2020 with stronger expansion as end of Brexit transition period looms

Key Findings

Fastest increases in output and new orders since July

Pre-Brexit business boost reported by firms

Suppliers' delivery times lengthen markedly

Ireland Manufacturing PMI



The Irish manufacturing sector saw a boost to business in December as firms prepared for the end of the Brexit transition period, the latest PMI® data from AIB indicated. New orders and output both rose at the fastest rates since July's post-lockdown bounce, and purchasing accelerated as firms sought to expand inventories to guard against a potential hard Brexit. Suppliers' delivery times lengthened to one of the greatest extents in the survey history as a result.

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

"The AIB Irish Manufacturing PMI jumped to 57.2 in December from 52.2 the previous month, coming very close to matching July's two year peak of 57.3. Stockpiling ahead of the end of the Brexit transition period was one factor behind the sharp rise in the index. Although manufacturing is performing well globally at the present time. The flash manufacturing PMIs rose to 57.3 in the UK and 55.5 in the Eurozone in December, so the strong Irish figure is not out of line with elsewhere."

The same factor also saw manufacturers ramp up their purchases and stocks of inputs.

"Not surprisingly, higher work volumes saw firms increase their workforce for the third consecutive month, with employment expanding at its strongest rates since April 2019. Supply chains remain under pressure, with manufacturers reporting shortages in raw materials as well as delays in deliveries owing to congestion at ports and on roads. Price pressures continue to build, with a further sharp increase in input prices in particular."

"All five components of the PMI rose again in December for the second month running and all are well into positive growth territory. New orders increased strongly in the month, which translated into a marked rise in production. This was partly due to customers bringing forward orders with the Brexit transition period expiring at the end of the month."

"Firms remain optimistic about the 12-month outlook for production, no doubt hopeful that the recent positive news on Covid vaccines will help bring about an improvement in economic conditions over the course of 2021."

Manufacturing PMI
sa, >50 = improvement since previous month



Overview

The headline AIB Ireland Manufacturing PMI® is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the sector.

The PMI rose sharply from 52.2 in November to 57.2 in December. This signalled a sixth overall improvement in manufacturing business conditions in the past seven months, and the strongest growth since July. Moreover, the five-point rise in the headline figure was the third-largest on record since the survey began, behind only those registered in June and July as the sector reopened following the first coronavirus lockdown.

As was the case in November, all five components of the headline figure were in growth territory and all provided positive directional influences on the PMI in December. The greatest uplifts came from the new orders and output sub-indices, which boosted the PMI by 2.0 and 1.7 points respectively, followed by suppliers' delivery times (+0.6), employment (+0.4) and stocks of purchases (+0.3).

New orders received by Irish manufacturers rose for the second month running in December, and at the fastest rate since July. Firms reported improving demand and also advance orders placed by customers preparing for potential disruption following the end of the Brexit transition period. Orders related to the European auto industry were also mentioned.

Production followed the same trend as new business inflows, rising for the second month running and at the strongest rate since July.

Moreover, excluding the July spike in growth, the rate of expansion in December was the fastest since September 2018. Some firms reported that production had been aided by an easing of lockdown restrictions.

Manufacturers ramped up purchasing operations at the end of 2020 both to support current workloads and to build safety stocks for 2021 as the Brexit transition period ends. The volume of inputs ordered rose the most since March 2019, contributing to the strongest increase in stocks of purchases since April 2019. Rising demand for inputs placed pressure on supply chains, however, with December data indicating the greatest lengthening in suppliers' delivery times since May (and the fourth-greatest on record). Delays were attributed to congestion at ports and on roads, and shortages of raw materials including wood in particular.

Shortages of raw materials and rising demand contributed to another round of input cost inflation in December. The rate of inflation was slightly softer than in November, but still the second-fastest of the past 22 months. Meanwhile, manufacturing output prices rose for the third consecutive month and at a rate that remained above the long-run series average.

Manufacturers were optimistic regarding output growth over the course of 2021. Sentiment eased slightly since November, partly reflecting rising uncertainty surrounding a UK-EU trade deal, but was still the second-highest for ten months. Firms generally expect a recovery in business levels in 2021, despite the ongoing impact of the pandemic and a new UK trading relationship.



Output Index



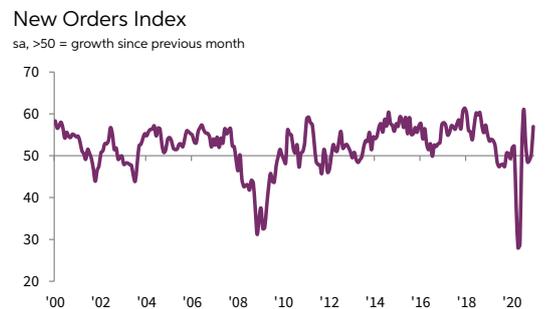
Manufacturing output in Ireland rose for the second month running in December. Moreover, the rate of growth accelerated sharply to the fastest since July, when the strongest increase in over 20 years was reported as the sector emerged from the first lockdown. Excluding the July bounce, the rate of growth in December was the fastest since September 2018. Higher output was partly linked to new orders placed in advance of the end of the Brexit transition period.



New Orders Index



December data signalled the strongest rise in new orders since July, and the second-strongest in just over two years. Firms reported improving demand, partly linked to customers bringing forward orders in preparation for the end of the Brexit transition period. Stronger demand from the European automotive sector was also reported.



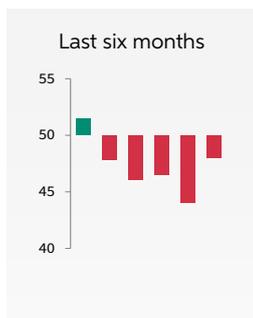
New Export Orders Index



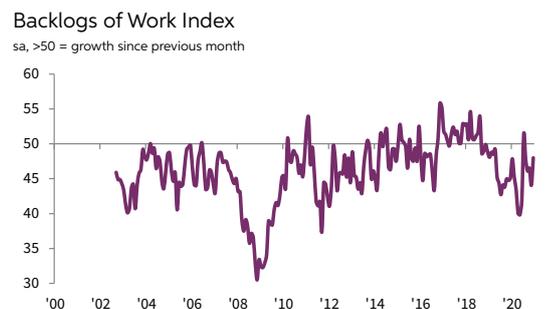
The volume of new export orders rose for the second month running in December. Firms reported auto-related demand, new products and new customers. The overall rate of expansion was broadly in line with the long-run survey trend.



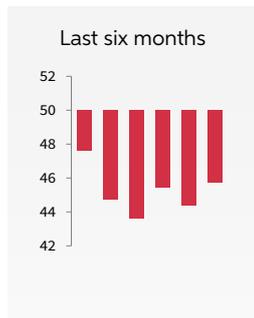
Backlogs of Work Index



Although new orders rose sharply in December, spare capacity remained as backlogs of work fell further. That said, the rate of decline in outstanding business was the slowest in the current five-month sequence of falling backlogs. Moreover, the seasonally adjusted Backlogs of Work Index was above its long-run trend level of 46.1.



Stocks of Finished Goods Index

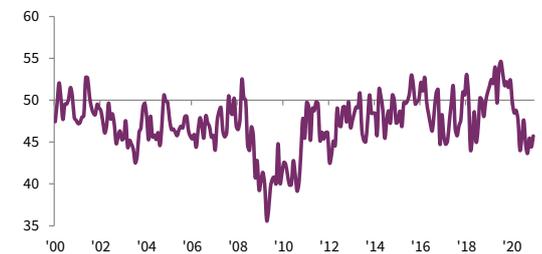


Irish manufacturers continued to deplete their inventories of finished goods in December. The current sequence of destocking now stretches to 12 months, the longest in over seven-and-a-half years.

The overall rate of decline was the slowest since July, however, as a number of firms reported efforts to rebuild stocks which had been depleted during the year.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index



December saw another increase in manufacturing employment, completing a full quarter of continuous job creation in the sector for the first time since the second quarter of 2019.

Moreover, the rate of workforce growth accelerated to the fastest since April 2019. Companies reported increasing headcounts to deal with greater workloads.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index



Purchasing activity by Irish goods producers was ramped up at the end of 2020 as firms guarded against a potentially disruptive end to the Brexit transition period. Firms linked higher purchases to both greater inflows of new orders and stocking up in preparation for new UK trading arrangements. The overall rate of expansion was the fastest since March 2019, and strong in the context of historic survey data.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



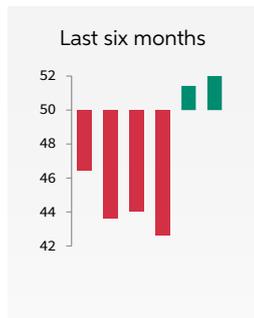
Survey data revealed greater pressure on manufacturing supply chains in December, reflecting higher purchasing activity, global raw material shortages and congestion at ports and on roads. Average lead times lengthened the most since May, during the spring coronavirus lockdown. Moreover, the seasonally adjusted Suppliers' Delivery Times Index fell to the fourth-lowest level on record.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



The level of inputs held in stock at Irish manufacturers continued to rise in December as firms took measures to minimise disruption to production following the end of the Brexit transition period. The rate of growth quickened since November to the fastest since April 2019. Survey respondents also linked stockbuilding to improved demand.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index



Average input prices rose for the sixth month running in December. Firms reported that shortages of raw materials, especially wood, had driven prices up.

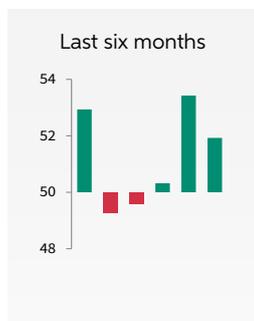
The overall rate of input cost inflation eased slightly from November's 21-month high, but was nevertheless sharper than in any prior month stretching back to February 2019.

Input Prices Index

sa, >50 = inflation since previous month



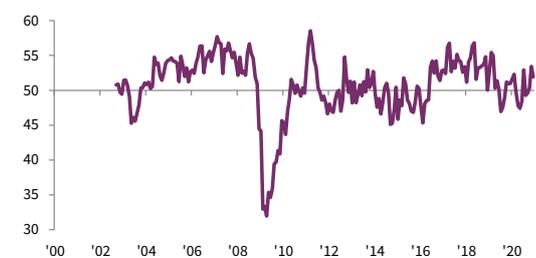
Output Prices Index



With input prices rising sharply in December, manufacturers raised their output charges for the third month running. The rate of inflation eased from November's 20-month high, but was relatively strong nonetheless. Anecdotal evidence widely linked higher output charges to increased supplier prices.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index



Irish manufacturers maintained an optimistic outlook for the next 12 months in December, despite the risk of a disorderly end to the Brexit transition period. The Future Output Index eased slightly from November's recent high, but was still higher than in any prior period over the past ten months. The Index remained below its long-run trend level (since 2012) of 70.4, however.

Future Output Index

>50 = growth expected over next 12 months



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Methodology

The AIB Ireland Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 250 manufacturers. 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 Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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 4-16 December 2020.

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

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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.

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