



AIB Ireland Manufacturing PMI®

Manufacturing sector grows at slowest rate since March

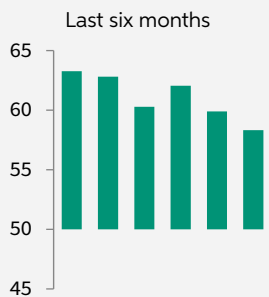
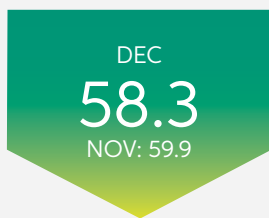
Key Findings

New order growth weaker than output expansion for third straight month

Exports remain subdued

Supply chain pressures weakest for a year

Ireland Manufacturing PMI



Growth of the Irish manufacturing sector continued to moderate in December, according to the latest PMI® survey data from AIB. Output and new orders both rose at the weakest rates since March, with a further modest rise in exports weighing on total demand. Suppliers' delivery times lengthened markedly, albeit to the weakest degree for a year. This led to some easing of input price inflation during December, but cost pressures remained elevated overall.

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

"The AIB Irish Manufacturing PMI for December shows a continuing strong rate of growth in the sector, though the pace of expansion has eased back from its summer highs. The headline index fell to 58.3 in the month, down from 59.9 in November and 62.1 in October. While this is the lowest reading since March, the index remains at an elevated level historically. The Irish index is also just above the strong flash December readings for the Eurozone and UK of 58.0 and 57.6, respectively.

manufacturers were very positive on the 12-month outlook for production, with sentiment hitting its best level since July.

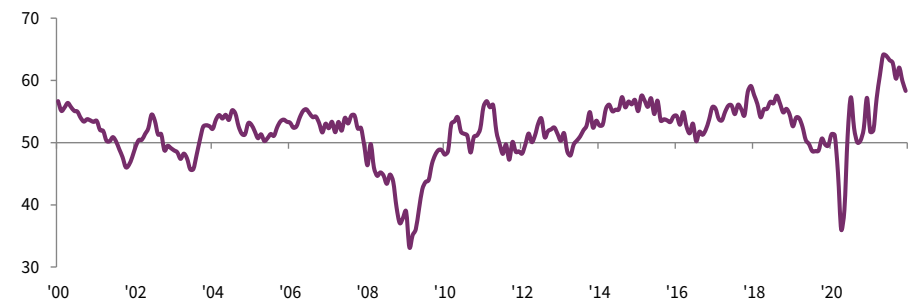
"Capacity constraints are still very evident in the sector. Backlogs of unfinished work continued to rise sharply. The delivery times for inputs also lengthened again, reflecting the ongoing pressure on supply chains. Not surprisingly then, firms saw a marked rundown in their inventories of finished goods.

"The subcomponents of the Irish PMI survey also registered strong readings, while continuing to move down from the highs seen around mid-year. Manufacturing production is still expanding at a rapid pace, with new orders recording another marked rise, though growth in export orders remains muted. Employment in the sector continued to grow at a solid pace. Meanwhile,

"The combination of strong demand, continuing disruptions to supply chains and sharp upward pressure in raw materials, energy and transportation costs, resulted in a further marked increase in firms input prices. Manufacturers, though, are passing on these higher costs to customers, with output prices continuing to rise at a rapid pace, increasing at the third-fastest rate since the series began in 2002."

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 registered 58.3 in December, down from 59.9 in November. The headline figure has now eased six times in the past seven months since hitting a record high of 64.1 in May, although the latest figure was still indicative of a marked overall improvement in manufacturing business conditions. In comparison, since the survey's inception in May 1998 the PMI has trended at 52.2. Over the fourth quarter as a whole, the PMI registered 60.1, down from 62.1 in the third quarter and 62.9 in the second, but still higher than in any previous quarter throughout the survey history.

The downward movement in the PMI in December was reflected in all five components. The greatest directional influence was provided by the suppliers' delivery times sub-index (-0.8 points), followed by output (-0.3), new orders (-0.2), stocks of purchases (-0.2) and employment (-0.1).

Manufacturing production rose for the tenth consecutive month in December, linked to higher demand. The rate of expansion slowed to the weakest since March, but remained strong overall and well above the long-run survey trend. Growth has lost momentum since hitting a record high in May. More positively, output expectations strengthened to a five-month high.

New orders registered a similar trend to output, increasing for the tenth month running but at the softest rate since March. Moreover, new

business increased at a slower pace than production for the third month running, a reversal of the pattern observed throughout the third quarter.

December data signalled that export demand continued to weigh on overall growth of new work. New export orders increased but the rate of growth was only modest, as was the case in October and November.

Although demand increased more slowly in December, manufacturers reported a further build-up in outstanding business. Backlogs rose for the tenth month running and the rate of growth remained solid despite easing to a nine-month low. Higher levels of incomplete orders were linked to a combination of demand, supply delays and staff shortages due to COVID isolation requirements. Companies attempted to boost workforces and overall employment in the sector rose solidly. That said, the rate of job creation eased to a ten-month low amid reports of candidate shortages.

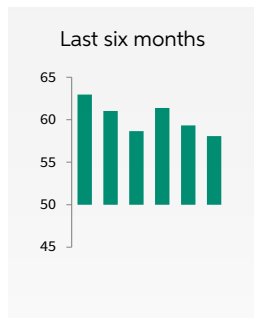
Demand for inputs increased further in December, while suppliers' delivery times lengthened again due to ongoing global shortages of raw materials and components, transportation bottlenecks and the impact of Brexit. As a result, input costs continued to surge, leading to another rapid rise in output prices. That said, the incidence of delays was the lowest in 2021, and input price inflation eased to a three-month low.

Manufacturers continued to increase their input stocks in December to guard against future supplier delays, although the rate of growth was the slowest since May. In contrast, stocks of finished goods fell at the fastest rate in four months.





Output Index



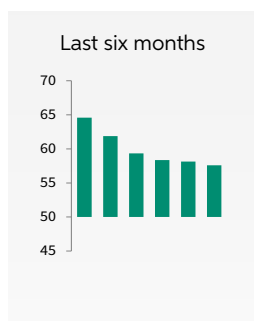
Irish manufacturing production rose at a strong overall pace in December, extending the current sequence of expansion to ten months. Firms linked higher output to improving demand. The seasonally adjusted Output Index fell for the second month running to signal the slowest rate of growth since March, although it remained well above its long-run average.

Output Index

sa, >50 = growth since previous month



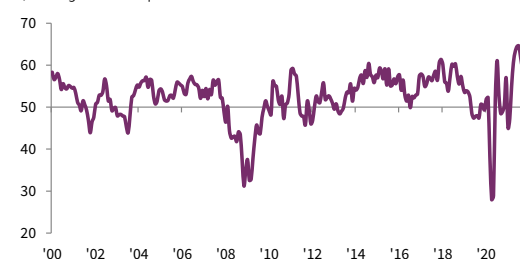
New Orders Index



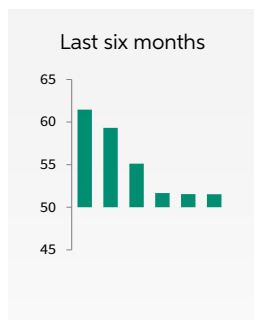
New orders placed at Irish manufacturers rose for the tenth consecutive month in December. The rate of expansion remained marked in the context of historical data, but eased for the fifth month running to the weakest since March. Moreover, new order growth remained weaker than that of production for the third month running, in a reversal of the pattern seen throughout the third quarter.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



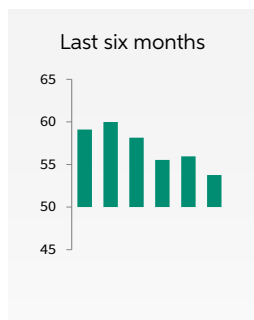
December data signalled another muted rise in new business received from international markets. The seasonally adjusted New Export Orders Index remained little-changed from October and edged down to a ten-month low. Moreover, it has registered just below its long-run average of 51.9 throughout the fourth quarter.

New Export Orders Index

sa, >50 = growth since previous month



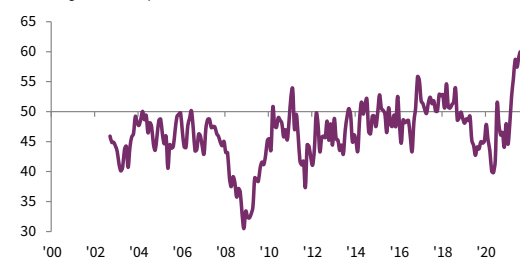
Backlogs of Work Index



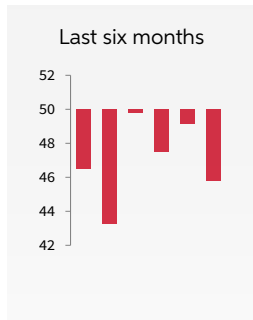
Although new business growth eased further in December, it remained sufficiently strong to generate another rise in outstanding work. Backlogs of work increased for the tenth consecutive month, albeit at the slowest rate since March. Higher levels of incomplete orders were linked to a combination of demand, supply delays and staff shortages due to COVID isolation requirements.

Backlogs of Work Index

sa, >50 = growth since previous month



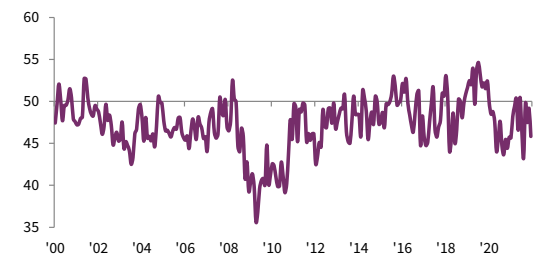
Stocks of Finished Goods Index



The level of finished products held in stock in the Irish manufacturing sector declined for the sixth month running in December. The rate of destocking accelerated since November and was the second-fastest in 2021. Firms linked falling inventory levels to demand and supply chain delays holding up output.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



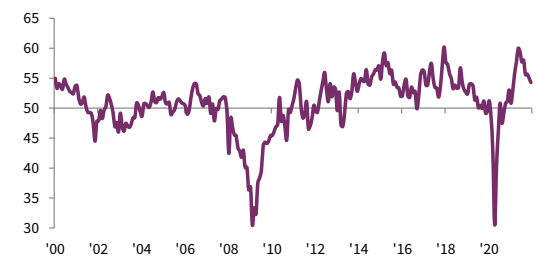
Employment Index



Manufacturers continued to expand their workforces in December in line with rising demand and in preparation for new projects in 2022. Employment in the sector has risen every month since October 2020. The rate of job creation eased further to the weakest since February, but remained well above the long-run survey average.

Employment Index

sa, >50 = growth since previous month



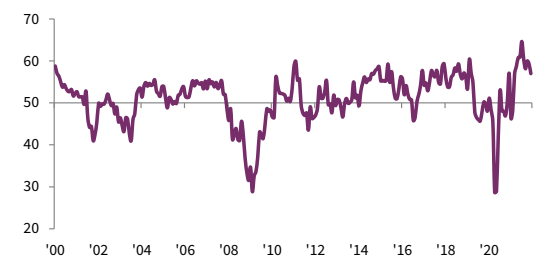
Quantity of Purchases Index



Rising demand for manufactured goods and efforts to secure supply chains led to another sharp increase in purchasing activity in December. In line with the trends for output and new work, the volume of inputs ordered rose for the tenth month running, but at the softest rate since March. Nevertheless, growth remained stronger than the long-run survey average.

Quantity of Purchases Index

sa, >50 = growth since previous month



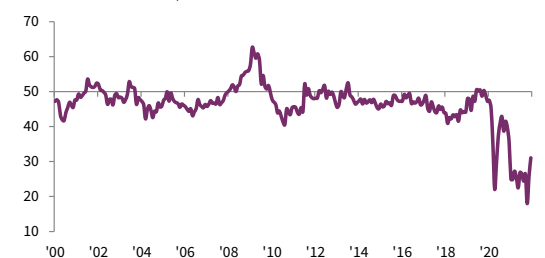
Suppliers' Delivery Times Index



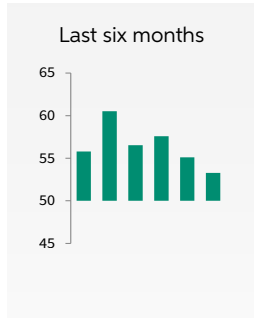
The time taken for suppliers to deliver inputs to manufacturers in Ireland continued to lengthen substantially in December. Supplier performance has deteriorated every month since November 2019. Delays were linked to transport issues, raw material and component shortages, Brexit and COVID issues. That said, the degree to which times lengthened in December was the smallest since December 2020.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



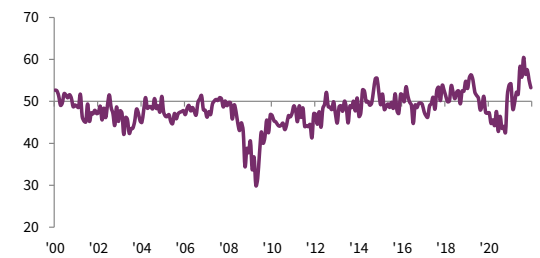
Stocks of Purchases Index



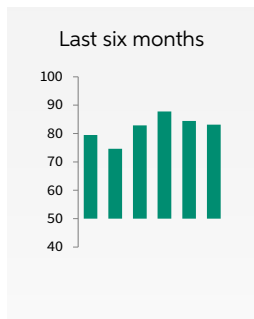
The level of stocked inputs in the Irish manufacturing sector rose for the ninth consecutive month in December. Firms reported higher stock levels due to advance bulk purchasing to guard against supplier delays, and to avoid future price increases. The rate of growth slowed for the third time in four months from August's record high, however, to the weakest since May.

Stocks of Purchases Index

sa, >50 = growth since previous month



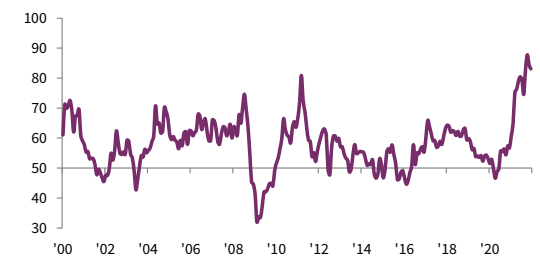
Input Prices Index



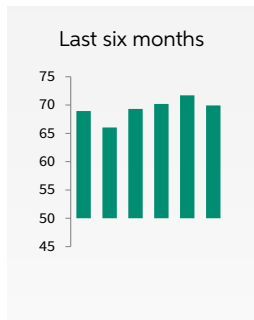
Cost pressures remained intense in the final month of 2021. Raw materials (especially chemicals and paper), fuel, energy and transport charges were all cited as drivers of inflation. The seasonally adjusted Input Prices Index eased to a three-month low, but was still higher than any survey period prior to October's peak. Around 61% of firms reported higher average input prices during December.

Input Prices Index

sa, >50 = inflation since previous month



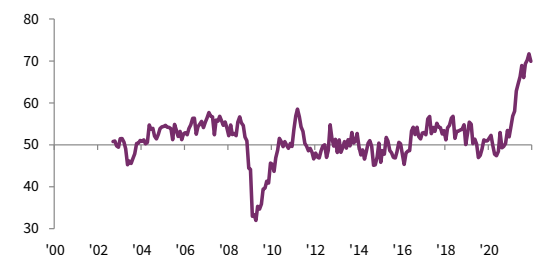
Output Prices Index



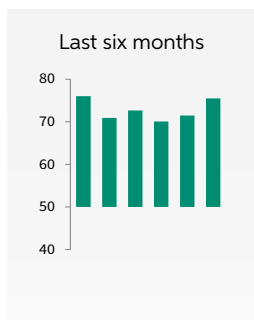
Surging input prices led to another rapid rate of output price inflation in December as manufacturers passed on greater costs to customers. The seasonally adjusted Output Prices Index eased slightly from November's all-time high, but was still the third-highest on record since the series began in 2002. Charges have risen every month since October 2020.

Output Prices Index

sa, >50 = inflation since previous month



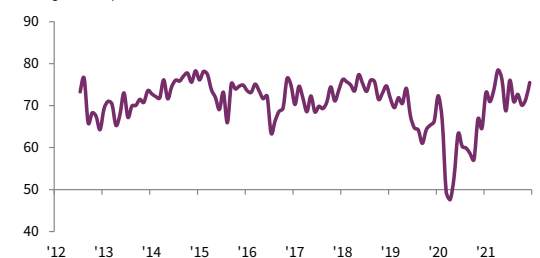
Future Output Index



Output expectations among Irish goods producers remained strongly positive in December. Around 52% of respondents expected higher output in December 2022 than current levels, compared with less than 1% that forecasted a decline. Overall sentiment improved to a five-month high, and remained above the long-run trend level since 2012.

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 6-16 December 2021.

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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