# AIB Ireland Manufacturing PMI®

## Sector stablises amid softer downturn in new orders

### Key Findings

**Lead times shorten for first time since October 2019**

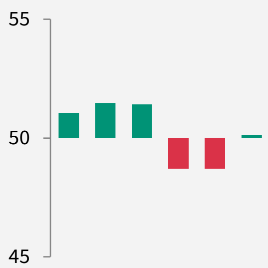
**Post-production inventories expand at second-sharpest rate in survey history**

**Input price inflation dips to two-year low**

### Ireland Manufacturing PMI

JAN
50.1
DEC: 48.7

Last six months




Business conditions in Ireland's manufacturing sector were stable in the first month of 2023, according to the latest AIB PMI® data. While the current lull in demand reportedly continued to contribute to sustained reductions in output and new orders, rates of decline softened for both. As such, firms were more positive about their future and registered the strongest degree of confidence in 11 months.

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

*"After two months in contraction territory, the AIB Irish Manufacturing PMI for January showed a stablisation in business conditions in the sector at the start of this year. The headline index rose to 50.1 from 48.7 in December and November. The Irish reading contrasts with the weak flash manufacturing PMIs for the US, Eurozone and UK in January. While improving, they came in at 46.8, 48.8 and 46.7, respectively, pointing to ongoing declines in manufacturing activity in those economies.*

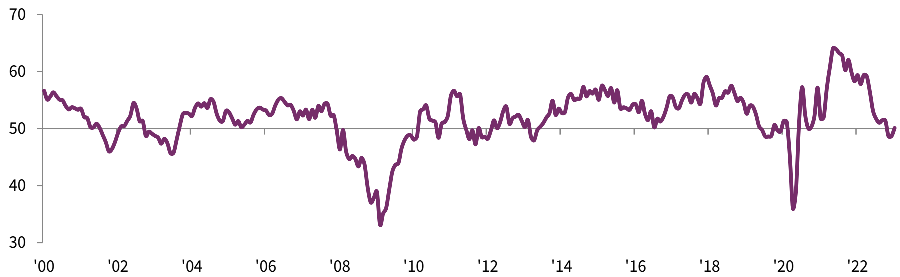
*"Encouragingly, the Irish data showed the smallest fall in new orders since they first began to decline in June last year, though demand remains muted. The pace of contraction in output also eased considerably, with just a small fall in the month. Two factors helped in this regard. There was a further marked decline in order backlogs as firms cleared outstanding work, while stocks of finished goods rose for the seventh month running, recording their second biggest increase in the survey's history.*

*"There were a number of quite positive features in the January survey. Employment expanded at a solid pace, while there was a shortening of suppliers deliver times, the first seen since October 2019 in a clear sign that pressures on supply chains have eased considerably.*

*"Meanwhile, there was also a further marked easing in inflationary pressures. The rate of increase in input costs and output prices, while still quite high, fell to 24 and 22 month lows, respectively. Not too surprisingly then, there was a good improvement in sentiment in regard to the outlook for the year ahead, with confidence rising to its highest level since last February."*

Manufacturing PMI

sa, >50 = improvement since previous month




PMI® by S&P Global

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.

## 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 from 48.7 in December to 50.1 in January to signal a broad stabilisation in overall operating conditions in Ireland's manufacturing sector in the first month of 2023. That said, the latest reading, though only fractionally above the neutral 50.0 threshold, was the strongest in three months, breaking the previous two-month sequence of decline.

A softer reduction in order book volumes contributed to the uplift in January's PMI reading. In fact, the latest fall in new orders was the weakest in the current eight-month sequence of decline and eased markedly from December's 31-month record. That said, overall demand conditions remained relatively muted amid ongoing reports of a general market slowdown. Meanwhile, the downturn in international demand for Irish manufactured goods was sustained and strengthened since December.

Irish goods producers reportedly cut output to adjust for weak demand conditions and subsequently, for the seventh time in eight months, Irish production volumes contracted in January.

To reflect falling orders and lower output, firms cut back purchasing activity for the fifth consecutive month in January. By contrast, there was a sustained and solid accumulation in pre-production inventories.

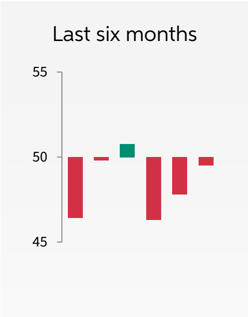
January survey data again displayed evidence of spare capacity in Ireland's manufacturing sector. Against a backdrop of subdued demand, firms focused on working through existing orders and building-up stocks of finished products. As such, there was a reduction in backlogs for a ninth month in a row, and one that was sharp overall and the steepest since June 2020. Meanwhile, post-production inventories accumulated for the seventh successive month and at the second-fastest pace in survey history.

Some positive developments this month came from a second successive month where Irish manufacturing firms added to their workforce numbers. That said, the rate of job creation was weaker than seen in most months seen over the past two years. Another advancement came from a renewed improvement in vendor performance in January. The latest improvement was the most pronounced since July 2013 and followed a 38-month sequence of consecutive deterioration.

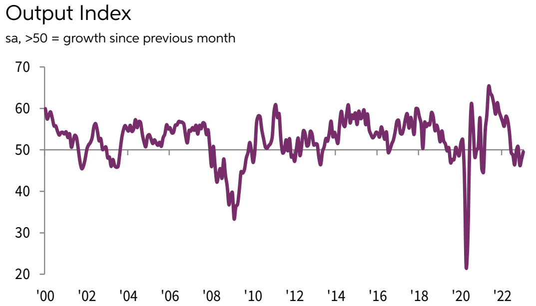
Concurrently, inflationary pressures cooled in January, as indicated by rates of input cost and output price inflation sinking to 24- and 22-month lows respectively. That said, in both cases, rates were stronger than their historical averages. Reportedly, high energy and supplier prices continued to add to average cost burdens.

Finally, optimism remained across Ireland's manufacturing sector. In fact, the overall degree of confidence was the strongest since last February amid hopes for a general market improvement. That said, some concerns about the current inflationary environment remained.

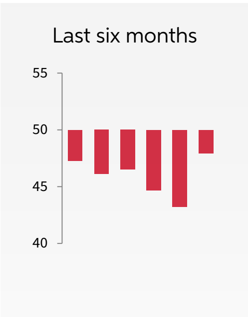
## Output Index



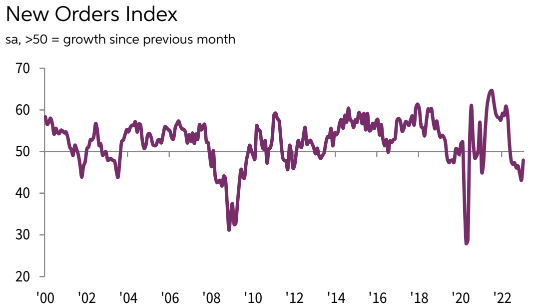

Once again, the seasonally adjusted Output Index posted below the neutral 50.0 threshold in January to signal a third consecutive monthly drop in production volumes at Irish manufacturing firms. Anecdotal evidence suggested that the latest reduction in output reflected a general lack of demand amid slowing market conditions. The rate of decline, however, was softest in the current sequence and only slight.



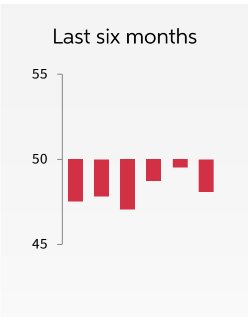

## New Orders Index



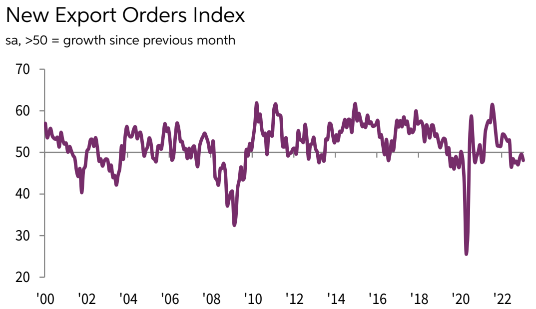

There was a further contraction in order book volumes held by Irish manufacturing firms during the first month of the year. That said, the latest reduction was the weakest in the current eight-month sequence of decline. Panel members frequently reported difficulties in securing new orders amid muted underlying demand conditions and a general market slowdown.




## New Export Orders Index

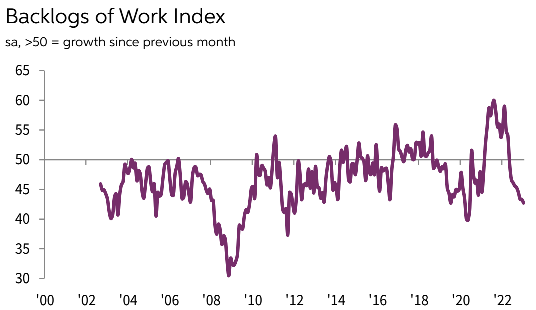



As was the case in each of the seven months prior, foreign demand for Irish manufactured goods fell in January. Notably, the rate of decline accelerated from December to the strongest in three months. Survey respondents often mentioned that international demand conditions remained weak.



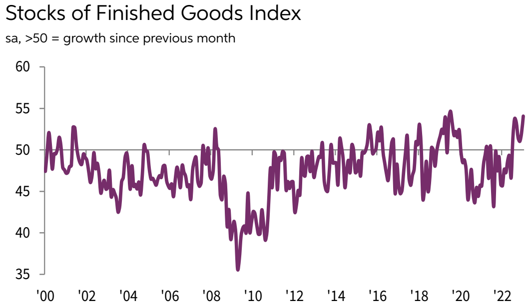

## Backlogs of Work Index


Resources at Irish manufacturing plants were again deployed to clear unfinished orders in January, thereby extending the current sequence of backlog depletion to nine months. Firms reported that the reduction in work outstanding was a direct response to a lack of incoming new orders. The rate of backlog depletion was significant and the sharpest since June 2020.

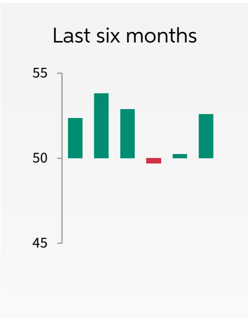


## Stocks of Finished Goods Index

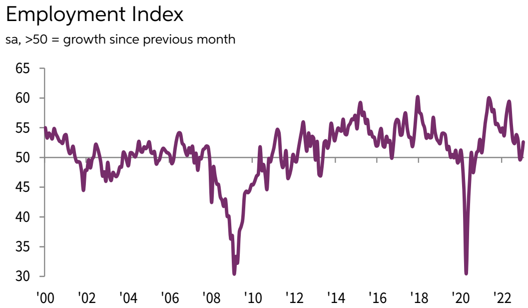

January data was indicative of a seventh monthly expansion in post-production inventory levels across Ireland's manufacturing sector. Moreover, the latest accumulation was solid overall and the second-strongest in survey history. Reportedly, poor sales performances meant that firms instead chose to focus efforts on building up stocks of products.



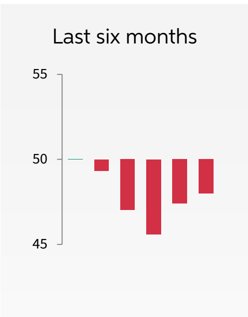

## Employment Index



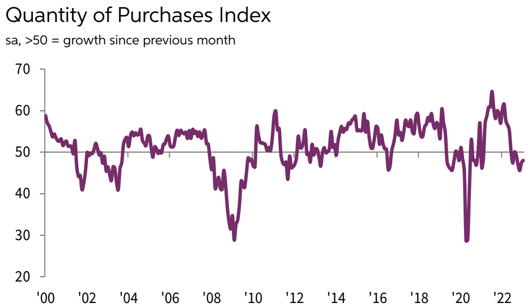

Following a month where staffing numbers broadly stabilised, the seasonally adjusted Employment Index posted above the 50.0 mark of no-change to signal that Irish goods producers added to their workforces in the first month of the year. The rate of job creation was solid overall but weaker than those recorded over much of the past two years.



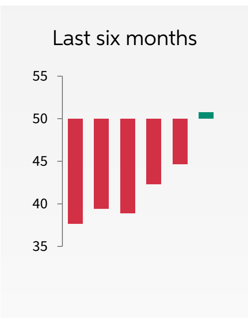

## Quantity of Purchases Index



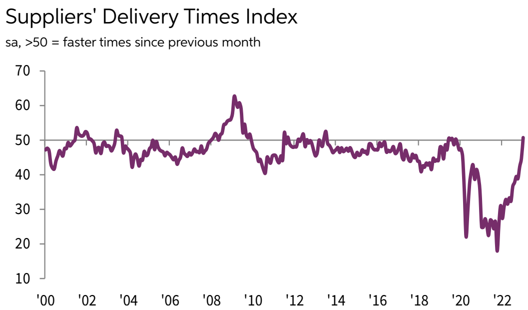

Against a backdrop of falling output and new orders, the requirements for inputs decreased in January and, once again, led Irish manufacturing firms to trim input buying. The decrease was the fifth in as many months but the weakest since last September.



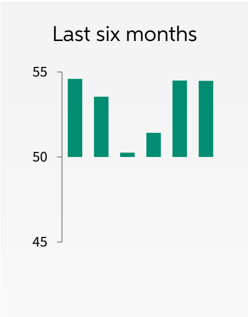

## Suppliers' Delivery Times Index



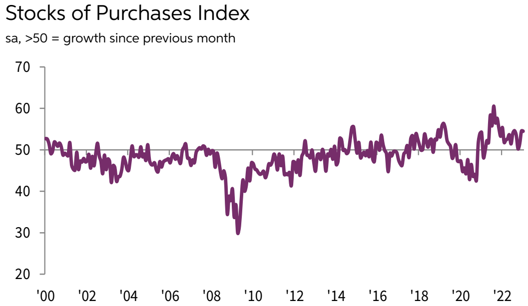

For the first time since October 2019, the seasonally adjusted Suppliers' Delivery Times Index moved above the 50.0 mark of neutrality to indicate a shortening in average lead times in January. Moreover, the extent at which lead times improved was the greatest since July 2013 despite being only mild overall. Anecdotal evidence suggested that the general lack of demand eased the strain placed on supply chains.



## Stocks of Purchases Index

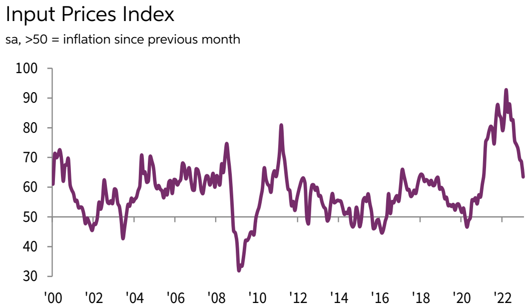



For the twenty-second successive month, holdings of raw materials and semi-finished goods at Irish manufacturing firms accumulated in January. Notably, the rate of increase was unchanged from that recorded in December and hence remained solid overall. Survey respondents linked the latest growth in pre-production inventories to an effort to build safety stocks.



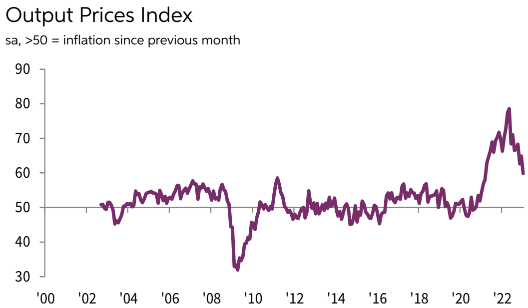

## Input Prices Index


As has been the case since July 2020, average cost burdens faced by the Irish manufacturing sector increased in January. Firms suggested that inflation mainly stemmed from higher energy prices and supplier charges. That said, having now eased for six months in a row, the rate of input cost inflation continued its downward trajectory and dipped to a two-year low.




## Output Prices Index

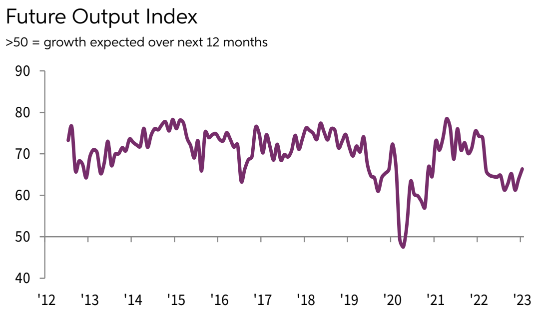

The Irish manufacturing sector experienced another round of sharp selling price inflation in January as firms continued to pass through at least some of the burden of increasing input costs. Notably, the pace of output price inflation was the slowest since March 2021 and much softer than rates recorded over much of the past two years.




## Future Output Index


Looking towards the year ahead, firms remained optimistic in the first month of the year. In fact, the overall degree of confidence strengthened from December and was the most pronounced since last February. According to survey respondents, the positive outlook stemmed from hopes for an improvement in general market conditions as some firms reportedly issued more quotes.

That said, concern about the current inflationary environment continued to undermine confidence and meant that it remained below the historical average.



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## Methodology

The AIB Ireland Manufacturing PMI® is compiled by S&P Global 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 12-24 January 2023.

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

## About AIB

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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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