



AIB Ireland Manufacturing PMI®

Manufacturing sector maintains rapid growth in July

Key Findings

PMI dips further but still third-highest on record

Record expansions in new orders and purchasing

Supply constraints lead to record increase in backlogs

Ireland Manufacturing PMI



Business conditions at Irish manufacturers continued to improve markedly in July, according to the latest AIB PMI® data. New order growth hit a new record high for the third month running, leading to unprecedented increases in both purchasing and backlogs of work. Output rose rapidly but was partly constrained by ongoing supply shortages. Cost pressures remained severe, and output price inflation accelerated to a new survey record pace.

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

"The AIB Irish Manufacturing PMI for July represented another month of robust growth in the sector. The headline index printed at 63.3, down slightly from 64.0 in June, but this is still consistent with a very strong rate of improvement in manufacturing. Indeed, the index has now remained above 60 for a fourth consecutive month.

"The Irish data remain broadly in line with strong PMIs from the some of the key advanced economies. UK, eurozone and US flash readings of 60.4, 62.6 and 63.1, respectively provide further evidence of the upward momentum being maintained in the sector.

"The sub-components of the Irish PMI survey all point to an on-going strong improvement in business conditions in the sector. New orders recorded its third straight record high, aided by a very strong performance from new export orders as well as on-going

strength in domestic orders. The sector continued to add to the size of its workforce, with employment rising for a tenth month running.

"Amid the rapid pace of growth in manufacturing activity, capacity constraints remained very much in evidence. This was reflected in a new record rate of increase in backlogs of work, with supply shortages contributing to the difficulties that firms are facing. Not surprisingly, against a backdrop of shortages and insufficient shipping capacity, price pressures continue to build in the sector. Input prices rose at their third highest pace ever and the passing on of these higher costs to customers saw output prices register another big jump.

"Meanwhile, the 12-month outlook for production improved in July, with over half of firms expecting a pick-up in business over the coming year."

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 a three-month low of 63.3 in July, down from 64.0 in June and May's all-time high of 64.1. Nevertheless, the latest figure still signalled a rapid overall improvement in Irish manufacturing business conditions at the start of the second half of 2021, and stronger growth than in any preceding period since the survey began in 1998.

The 0.7 point fall in the PMI since June reflected the employment, stocks of purchases and output components, although these all still provided strongly positive overall contributions. The suppliers' delivery times and new orders sub-indices had fractionally positive directional influences, with the latter setting a new survey high during July.

Manufacturing new orders continued to boom in July, with the rate of expansion setting a new survey record for the third straight month. The latest data signalled a notable increase in new export orders – the fourth-fastest expansion on record – although the domestic market continued to post stronger overall growth.

With customer spending continuing to rebound as COVID-19 restrictions were lifted, manufacturers boosted output again in July. The rate of expansion was the third-strongest on record since the survey began in 1998, but

eased further in comparison to growth of new orders. This resulted in a new record rate of increase in backlogs of work. Outstanding business rose for the fifth consecutive month, and the rate of expansion surpassed May's then-record pace.

Rising backlogs were partly attributed to ongoing supply shortages. Input delivery times continued to lengthen at one of the most marked rates in the survey history, linked to global raw material shortages and shipping bottlenecks. Brexit-related customs issues were also reported. That said, the proportion of firms reporting delays in July, at 47%, was slightly below the trend over the first half of 2021 (52%).

Wide-ranging raw material shortages and insufficient shipping capacity continued to drive up input prices in July. The rate of inflation eased from June's near-record pace, but was still the third-highest in the survey history. Manufacturers continued to pass on higher costs to customers, with output price inflation setting a new record high for the fourth consecutive month.

Purchasing activity expanded at a record pace in July as firms built safety stocks in expectation of future price increases and shortages. Pre-production inventories grew at the third-fastest rate on record, albeit one notably slower than June's peak. In contrast, post-production stocks declined sharply.

Output expectations rebounded in July following June's brief dip in sentiment. More than half of firms (54%) expect growth over the next 12 months from current levels, compared with less than 3% predicting a decline.



Output Index



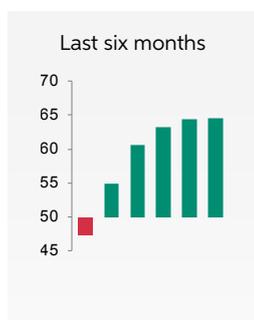
Irish manufacturing production continued to expand sharply in July. The rate of growth eased further from May's record high, but was still faster than in any preceding period since the survey began in 1998. Output has risen for five consecutive months, the longest sequence in over two years. Firms linked higher production to increased customer spending as restrictions were eased.

Output Index

sa, >50 = growth since previous month



New Orders Index



Demand for Irish goods continued to surge higher in July, with the seasonally adjusted New Orders Index hitting a new record high for the third successive month. Firms linked new orders to pent-up demand and the loosening of restrictions. New work has risen continuously since March.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



There was a notable acceleration in the rate of growth of export demand in July. The seasonally adjusted New Export Orders Index remained above 50.0 for the fifth month running and rose sharply since June, indicating the fastest expansion since December 2014. Moreover, the Index was the fourth-highest on record.

New Export Orders Index

sa, >50 = growth since previous month



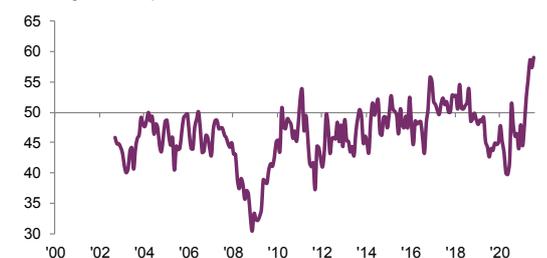
Backlogs of Work Index



Capacity constraints remained evident in July as the volume of outstanding work rose for the fifth consecutive month. Moreover, the rate of growth in backlogs accelerated to the fastest since the series began in late-2002. Higher backlogs were linked to rising demand, supply bottlenecks and staff shortages.

Backlogs of Work Index

sa, >50 = growth since previous month



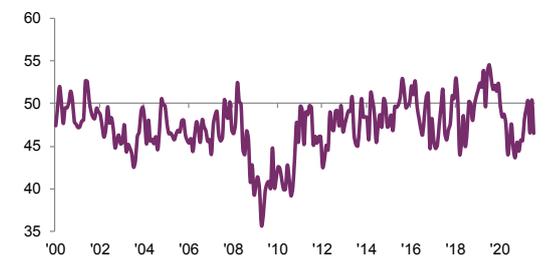
Stocks of Finished Goods Index



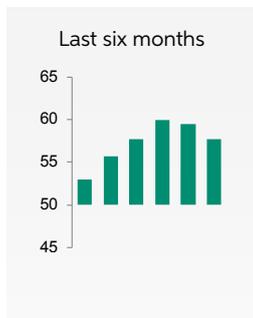
Irish manufacturers utilised existing stock to fulfil orders in July. The overall level of finished goods inventories declined at the fastest rate since January, having risen slightly in June. Post-production stocks have been depleted in 17 of the past 19 months, stretching back to January 2020. Firms reported needing to sell direct from stock due to rising demand and shortages of inputs.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



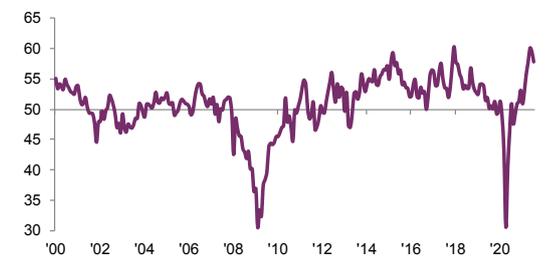
Employment Index



Manufacturers added to their workforces for the tenth consecutive month in July. The rate of job creation eased further from May's near-record pace, but was still among the strongest in the survey history. Anecdotal evidence linked greater recruitment to rising demand and the lifting of restrictions.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index



The volume of inputs ordered by Irish manufacturers increased for the fifth month running in July. Moreover, the rate of growth accelerated to a new survey record high.

Firms linked higher purchasing to improving demand, longer delivery times and expectations of further price increases.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



July survey data indicated further severe pressure on manufacturing supply chains, with input delivery times lengthening markedly. Anecdotal evidence again mentioned global raw material and shipping delays, and also Brexit-related customs issues. The seasonally adjusted Suppliers' Delivery Times Index registered one of the lowest levels on record, albeit one higher than the trend for the first half of 2021 (25.3).

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month





Stocks of Purchases Index

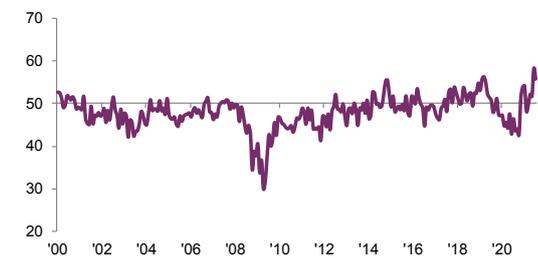


Irish manufacturers continued to grow their input stocks in July, linked to rising demand and efforts to guard against shortages and future price increases.

The rate of expansion slowed from June's record high, but was still the third-strongest on record since the survey began in 1998.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index



Manufacturing input prices continued to rise rapidly in July, reflecting global raw material shortages and shipping delays. The rate of input price inflation eased for the first time in seven months, but was still the third-highest on record (behind March 2011 and June 2021).

Input Prices Index

sa, >50 = inflation since previous month



Output Prices Index

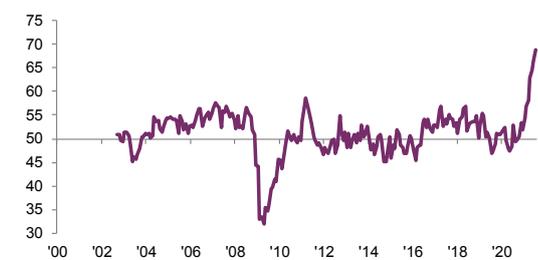


Manufacturers continued to pass on soaring input costs to customers in July. Output prices increased for the tenth consecutive month, and the rate of inflation accelerated to a new record high for the fourth month in a row.

Around 37% of firms reported increasing their prices in July, compared with 36% in June and 33% in May.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index



Sentiment among Irish manufacturers rebounded in July having weakened one month previously. The Future Output Index recovered from June's six-month low to just shy of May's level, and was well above its long-run trend level (since 2012) of 70.6. Firms widely expected a pick-up in business over the coming year as the impact of COVID-19 recedes.

Future Output Index

>50 = growth expected over next 12 months





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

Joanna Vickers
Corporate Communications
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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 12-23 July 2021.

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

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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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