



AIB Ireland Manufacturing PMI®

Business conditions deteriorate for first time since May 2013

Key Findings

Overall new orders decline at fastest pace since January 2012

Second-fastest rise in stocks of finished goods on record

Business confidence at 34-month low

Ireland Manufacturing PMI



Manufacturing conditions in Ireland deteriorated for the first time since May 2013 in June, as inflows of overall new business fell for the second month running. The rate of contraction of new orders was solid and the fastest since January 2012. Production inched up, however, and manufacturers raised their holdings of finished goods at the second-fastest pace in the more than 21-year series history amid hopes of a pick-up in customer demand in the future. Meanwhile, amid ongoing reports of Brexit uncertainty, sentiment regarding output over the coming year eased to a 34-month low in June.

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

"The AIB manufacturing PMI showed a further loss of momentum in June, with the index dropping below 50 into contraction territory for the first time since May 2013. The PMI declined to 49.8 from 50.4 in May and 52.5 in April. Thus, the sharp slowdown in manufacturing activity globally is now being felt in Ireland, amid a marked weakening in international trade and increasing uncertainty in regard to Brexit. This is not surprising given that Ireland is a very open economy."

contractionary territory for some time, with the flash index at 47.8 in June.

"The weakness in the headline Irish PMI number is reflected in the various components of the survey. Although, output rose marginally, there was a marked decline in new orders, partly due to Brexit uncertainty. For the second month in a row, there was a significant decline in the backlog of orders, reflecting softer demand conditions. Meanwhile, stocks of finished goods accumulated at a fast pace. Employment growth was very modest at just above May's 32-month low. Meantime, sentiment on the outlook among Irish manufacturers while still positive, hit a 34-month low amid continuing uncertainty over Brexit."

"The weak Irish reading is in line with that for manufacturing in our main export markets. The flash US PMI fell to a ten year low of 50.1 in June from 50.5 in May. The PMI in the UK fell below 50 in May, when the index dropped to 49.4. Meanwhile, the manufacturing PMI for the Eurozone has been mired deep in

Manufacturing PMI

sa, >50 = improvement since previous month



Overview

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 49.8 in June, down from 50.4 in May, and signalled the first deterioration in Irish manufacturing operating conditions since May 2013. That said, the degree to which business conditions declined was marginal.

Central to the deterioration in manufacturing operating conditions was a further decline in overall new business. The rate of contraction was marked and the fastest since January 2012. Panellists attributed the fall to softer demand conditions and ongoing Brexit uncertainty. Meanwhile, inflows of new work from abroad increased in June, reversing May's first decline since August 2016. Manufacturers commented that they had received orders from customers in Asia, South America and the UK.

Manufacturing output rebounded from May's decline to post an increase during June. That said, the rate of output expansion was marginal and slower than the long-run series average. Firms stated that greater business from overseas markets contributed to higher production levels in June, but there were also reports of market conditions remaining weak.

Employment growth amongst Irish manufacturers quickened in June. That said, the rate of job creation was modest and only slightly faster than May's 32-month low. Anecdotal evidence from panellists indicated that they had raised their staffing numbers in response to higher production requirements.

In contrast to May's decline, stocks of finished goods among Irish manufacturers rose during June. Moreover, the rate of accumulation was sharp and the second-fastest in the over 21-year series history. Some respondents indicated that they had built up their post-production inventories in the hope of seeing an improvement in new

orders in the future.

Holdings of raw materials and semi-finished items increased for the ninth successive month during June. However, the rate of accumulation was marginal and slowed for the third month running. Panellists commented that they had raised their inventory levels due to greater production requirements, with Brexit stockpiling earlier in the year having been halted.

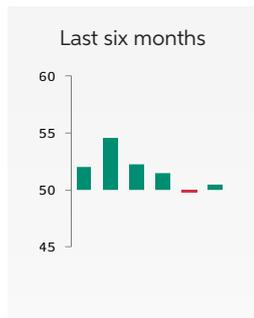
The rise in pre-production inventories was recorded in spite of a further reduction in purchasing activity. The rate of contraction was sharp and quickened from May to a joint 35-month low. Anecdotal evidence from panellists indicated that they had reduced their input buying in response to weaker demand conditions.

Manufacturing backlogs in Ireland declined for the tenth month running during June. The rate of backlog depletion was sharp and the fastest since August 2016. Pressures on supply chains eased in June, with average lead times shortening for the first time since July 2013, amid reports of reduced activity among suppliers. That said, the rate at which delivery times improved was marginal.

Cost burdens increased during June, fuelled by greater raw material prices, particularly for steel and pork. Despite being solid, the rate of inflation was only slightly faster than May's 34-month low. In response to higher input costs, Irish manufacturers increased their selling prices, although the latest increase was marginal.

Sentiment among Irish manufacturers dropped from May to the weakest in 34 months as Brexit uncertainty weighed on optimism. Firms continued to predict output growth over the coming year, however. Expectations of increased customer orders and improved marketing efforts were factors supporting optimism.

Output Index



Irish manufacturing output rebounded from May's fall during June. That said, the rate of output expansion was marginal and slower than the long-run series average amid reports from some panellists of weaker market conditions. Just under 24% of panellists recorded an increase in production in June compared to around 20% that observed a fall.



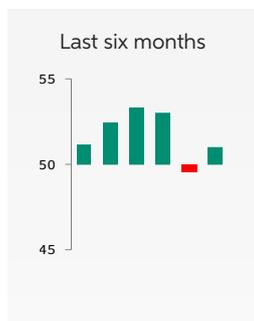
New Orders Index



For the second month in succession, the overall level of new business placed with Irish manufacturers decreased in June. The rate of contraction was solid and the fastest since January 2012. Anecdotal evidence from panellists attributed the decline in order books to Brexit uncertainty.



New Export Orders Index



In contrast to the picture for total new business, inflows of new work from abroad rose in June. That said, the rate of expansion was modest and slower than the long-run series average. Manufacturers reported that they had observed a general improvement in foreign demand conditions with sales from customers in Asia, South America and the UK.



Backlogs of Work Index



Volumes of unfinished orders decreased for the tenth month in a row during June. The rate of backlog depletion was sharp and the fastest in 34 months. Anecdotal evidence from panellists indicated that softer demand conditions and better capacity utilisation meant that they were able to meet current sales demand as well as work through accumulated orders.

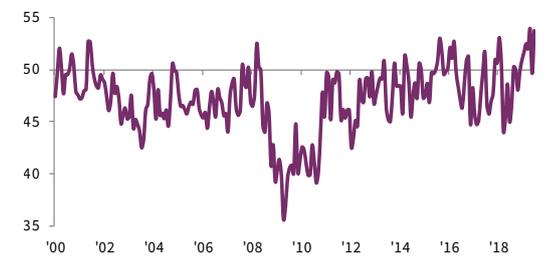


Stocks of Finished Goods Index

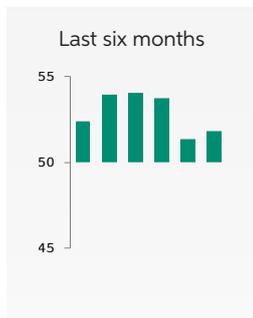


Post-production inventories among Irish manufacturers rebounded from May's decline in June. The rate of accumulation was marked and the second-fastest in the 21-year series history juts behind April's record high. Panellists stated that they had raised their post-production inventories amid hope of an improvement in customer demand in coming months.

Stocks of Finished Goods Index
sa, >50 = growth since previous month

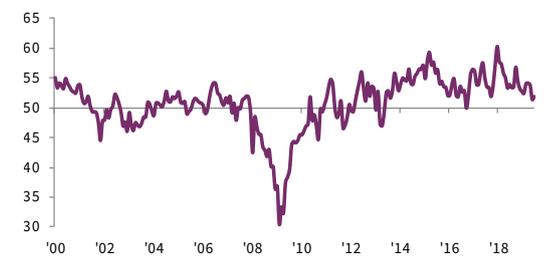


Employment Index



Employment growth amongst Irish manufacturers quickened during June. That said, the rate of job creation was marginal and just higher than May's 32-month low. Anecdotal evidence from panellists indicated that they had raised their payrolls in response to higher production requirements.

Employment Index
sa, >50 = growth since previous month



Quantity of Purchases Index



Purchasing activity among Irish manufacturers decreased for the second consecutive month in June. The rate of contraction was sharp and the joint-fastest since the aftermath of the UK's Brexit referendum in July 2016. Anecdotal evidence from panellists attributed lower levels of input buying to softer demand conditions.

Quantity of Purchases Index
sa, >50 = growth since previous month



Suppliers' Delivery Times Index

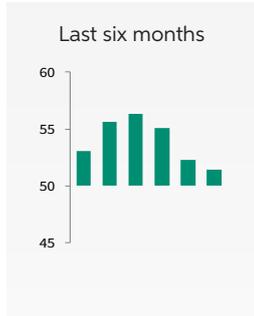


For the first time since July 2013, average lead times for inputs shortened during June. However, the rate at which delivery times improved was marginal. Anecdotal evidence suggested that lower demand for inputs meant that suppliers were less busy and therefore able to speed up deliveries.

Suppliers' Delivery Times Index
sa, >50 = faster times since previous month



Stocks of Purchases Index



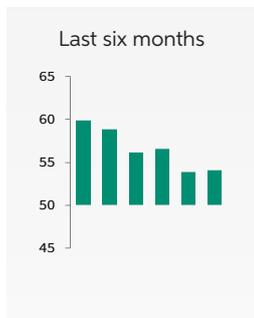
Irish manufacturers saw a ninth successive monthly rise in stocks of purchases in June. However, the rate of accumulation was modest, having slowed for the third consecutive month. In contrast to prior months, panellists stated that they had increased their holdings of raw materials and semi-finished items due to greater production requirements, rather than because of Brexit uncertainty.

Stocks of Purchases Index

sa, >50 = growth since previous month



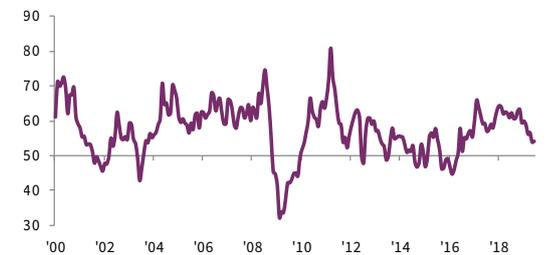
Input Prices Index



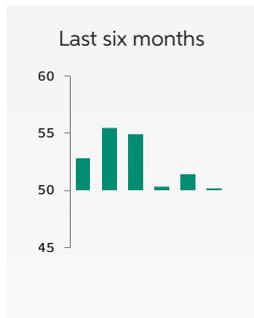
Input costs among Irish manufacturers rose solidly in June. That said, the rate of increase was only slightly faster than May's 34-month low. Firms stated that greater raw material prices had contributed to increased cost burdens, with higher steel and pork costs mentioned specifically. Input prices have now increased for 38 consecutive months.

Input Prices Index

sa, >50 = inflation since previous month



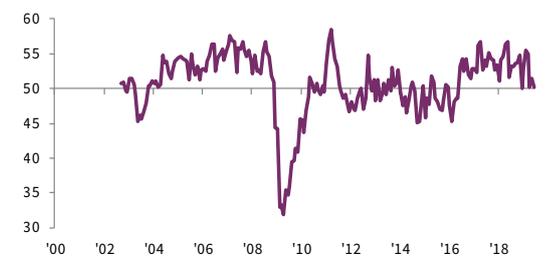
Output Prices Index



In response to increased raw material costs, Irish manufacturers raised their average output charges during June. The rate of inflation was only marginal, however, and the softest in the current six-month sequence of increases.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index



Sentiment among Irish manufacturers softened to a 34-month low during June, amid further reports of Brexit uncertainty. Close to 45% of the survey panel indicated positive output expectations, against just over 9% that forecast lower production. Predictions of greater customer orders, a recovery in foreign markets and improved marketing efforts were cited as reasons to be optimistic.

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.

June 2019 data were collected 12-21 June 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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