



AIB Ireland Manufacturing PMI®

Severe manufacturing downturn continues in May

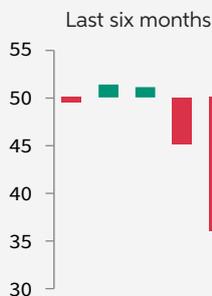
Key Findings

Further rapid falls in output and new orders

Most indices improve since April but remain historically weak

Output expectations pick up slightly

Ireland Manufacturing PMI



May PMI® from AIB showed a further severe deterioration in Irish manufacturing business conditions as large swathes of the local and global economies remained locked down to contain the spread of the coronavirus pandemic. Although many indicators recovered some of the ground lost in April's collapse, they still signalled rapid falls. Output, new orders and exports all dropped at the second-strongest rates on record. The 12-month outlook brightened but remained very weak.

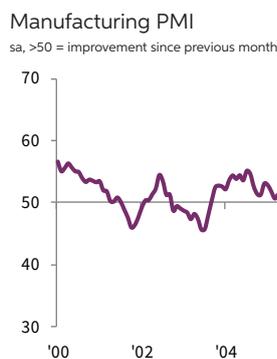
Commenting on the survey results, Oliver Mangan, AIB Chief Economist, said:

"The AIB Irish Manufacturing PMI data for May paint a downbeat picture of the sector for the third month in a row as the lockdowns associated with the coronavirus pandemic continue to depress activity. At least the headline index managed to rise to 39.2 from 36.0 in April. It is also the case that the index fell to even lower levels in the 2008-09 recession, when it troughed at 33.2. Furthermore, the 12-month outlook improved, although it still remains at a relative low level historically."

"The marked weakness of new orders saw a further depletion in the volume of backlogs, which dropped at their quickest pace since September 2011. With production running at low levels, manufacturers continued to destock at a rapid pace. Stocks of inputs also fell further, while input purchase volumes continued to decline, with severe disruptions to supply chains also being reported by firms."

"Manufacturing output remained weak, with nearly 60% of respondents reporting lower production in May. Total new orders, including for exports, are mired at historically low levels, although their rates of decline eased. Employment in the sector continued to contract, but the pace of job shedding did slow appreciably from April."

"The Irish data are in line with global trends. The flash readings for the Eurozone, UK and US manufacturing PMIs also saw modest rises in their May headline indices to 39.5, 40.6 and 39.8, respectively, very similar to Ireland. The indices should continue to move higher as lockdown restrictions are eased and economic activity picks up again."



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 April's 11-year low of 36.0 to 39.2 in May. The latest figure represented a slower month-on-month overall deterioration in operating conditions than in April - the first full month of lockdown - but still a rapid contraction nonetheless. The May figure was the eighth-lowest on record, falling far short of March's 45.1.

The output and new orders components both registered higher figures in May but still indicated stronger declines than in any survey period prior to April, dating back to May 1998. The new orders index rose by only a single point from April, as demand remained very weak in the midst of the lockdown measures. The employment component regained more territory but still signalled the second-fastest rate of job shedding in nearly 11 years. Suppliers' delivery times lengthened by less than in April, but the index still served to elevate the level of the headline PMI relative to output and new orders. The fifth component, stocks of purchases, signalled the slowest rate of input destocking in seven months.

With many markets still in lockdown, the volume of new export orders continued to fall at a historically marked rate in May. The pace of contraction was the second-fastest on record, behind April's plunge.

Although many factories remained shut down in May, survey respondents reported that backlogs of work fell at the fastest rate since September 2011, reflecting the severe decline in new orders over the past three months.

Purchasing activity continued to be cut back drastically due to suspended output and the collapse in demand due to the global coronavirus pandemic. The volume of inputs ordered by manufacturers fell at the second-strongest rate in the survey history in May while input stocks contracted for the seventh month running, albeit at a slower rate.

With demand for inputs remaining very low and continued weakness in global oil prices, average input prices fell for the third month running in May. That said, the rate of reduction eased since April. Meanwhile, manufacturers cut their charges for the third month running and at the strongest rate since July 2019.

Irish manufacturers reported overall optimism regarding future output in May, following a record degree of pessimism in April. The Future Output Index rose to a three-month high and above 50.0 as more firms predicted growth (38%) than decline (31%) by May 2021. That said, the strength of sentiment remained historically weak.



Output Index



Manufacturing output in Ireland continued to decline at a historically severe rate in May. The seasonally adjusted Output Index recovered slightly from April's all-time low, but was still lower than in any previous period in the 22-year survey history.

Nearly 60% of survey respondents reported lower production in May, compared with nearly 70% in April, with 17% reporting growth.

Output Index

sa, >50 = growth since previous month



New Orders Index



The New Orders Index rose from April's record low in May but remained well short of the 50.0 no-change mark, indicating another marked decline in new business placed at Irish manufacturers. The rate of decline was the second-strongest on record, still faster than the pre-coronavirus low set in November 2008.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



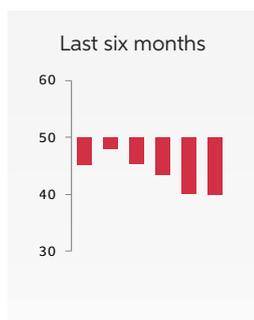
International demand for Irish manufactured goods remained historically weak in May, as the global economy remained locked down to combat the coronavirus pandemic. The rate of decline in new export orders eased slightly from April's record, but was still the second-fastest since the survey began in May 1998.

New Export Orders Index

sa, >50 = growth since previous month



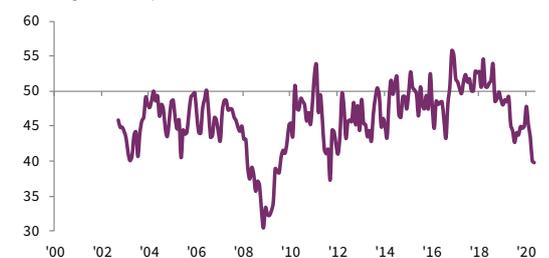
Backlogs of Work Index



Although output continued to contract rapidly in May, the volume of backlogs dropped at the quickest pace since September 2011. This reflected the historic declines in new orders since April when the lockdown was fully engaged. That said, the drop in backlogs was still not as severe as those seen in late-2008 to early-2009 during the global financial crisis.

Backlogs of Work Index

sa, >50 = growth since previous month



Stocks of Finished Goods Index

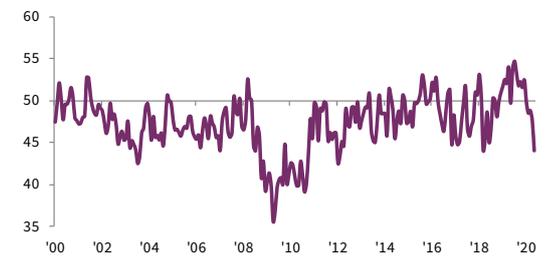


Irish manufacturers continued to run down stocks of final goods in May, reflecting ongoing factory closures and severe declines in incoming new orders.

The current sequence of destocking runs to five months, and the rate of contraction in the latest period was the fastest since February 2012.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index

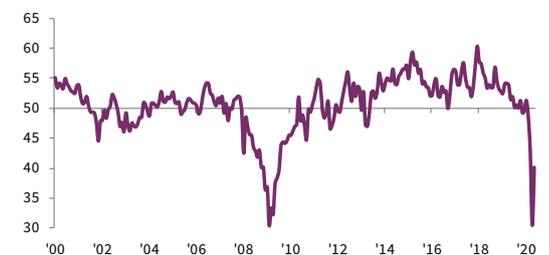


The extent of job shedding at Irish manufacturers eased back in May compared with April's record-equalling pace, but remained among the strongest ever recorded. The seasonally adjusted Employment Index almost returned to March's level, but was still the second-lowest in nearly 11 years.

Around 29% of firms cut staff during the month, down from 41% in April.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index



With many factory operations remaining suspended, the volume of inputs purchased by manufacturers continued to drop sharply in May. Moreover, the rate of decline was little-changed from April's record pace, in contrast to the weaker fall in output, reflecting firms' concerns surrounding the medium-term impact on demand and workloads once restrictions were lifted.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



May data signalled further severe disruption to manufacturing supply chains, as 43% of survey respondents reported longer delivery times than in April. This was, however, down from 58% in the previous month. The Suppliers' Delivery Times Index rose from April's record low but was still the second-lowest in the survey's 22-year history.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



The level of inputs held in stock in the Irish manufacturing sector fell for the seventh consecutive month in May, amid ongoing supplier delays and a lack of purchasing activity. The rate of stock reduction eased from April's eight-year record, however, to the slowest in the current sequence of destocking.

Stocks of Purchases Index

sa, >50 = growth since previous month



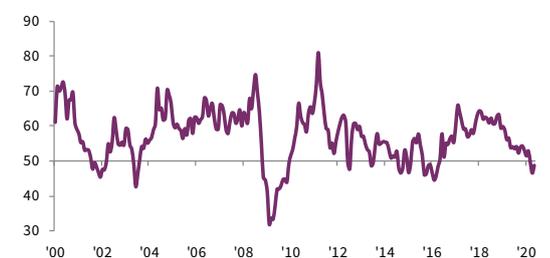
Input Prices Index



Average input prices paid by Irish manufacturers fell for the third month running in May, reflecting very weak global demand for raw materials and components. Firms also mentioned weak oil prices as a contributory factor. The rate of reduction eased from April and was only marginal, however.

Input Prices Index

sa, >50 = inflation since previous month



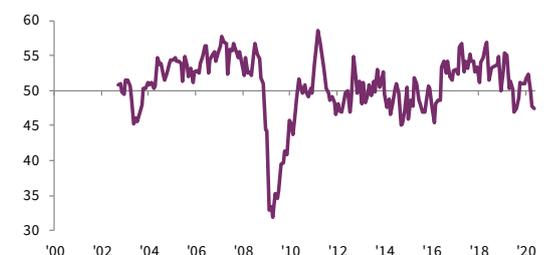
Output Prices Index



Irish manufacturers lowered their output prices for the third successive month in May, reflecting weak demand and falling input prices. The rate of discounting accelerated since April and was the fastest since July 2019.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index



May data marked a return to overall positive sentiment among Irish manufacturers regarding the 12-month outlook for production. The Future Output Index rose above the neutral threshold of 50.0 to a three-month high. Around 38% of firms expect growth at their units by May 2021, compared with 31% forecasting a decline.

Though positive overall, sentiment remained weaker than at any other period prior to March since data were first collected in July 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 12-21 May 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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