

AIB Ireland Manufacturing PMI®

November PMI data reveal encouraging signs for Irish manufacturing sector

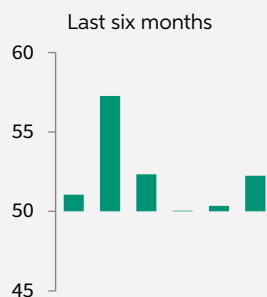
Key Findings

Renewed growth in output and new orders

Strongest outlook for production since January

Back-to-back jobs growth for first time in over a year

Ireland Manufacturing PMI



The Irish manufacturing sector regained some momentum in the penultimate month of 2020 as business confidence improved, the November PMI® data from AIB indicated. New orders and output both returned to growth, and the manufacturing workforce registered a back-to-back rise for the first time in over a year. Consequently, firms' expectations for output over the next 12 months were the strongest since the start of the year.

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

"The AIB Irish Manufacturing PMI for November rose to 52.2 from 50.3 in October. It was the third highest reading since April 2019, which is impressive considering that the Irish as well as some other European economies were back in lockdown in November. The index fell to very low levels during the first Covid lockdown in the spring. However, the manufacturing sector has remained open during this lockdown."

Brexit transition period manifested itself in some stockpiling, with purchases of inputs rising and a sharp jump in the stocks of inputs. Supply chains remained under pressure, with manufacturers reporting difficulties in sourcing inputs and delays in deliveries. Price pressures are also rising, with the strongest increases registered in both input and output prices since early 2019."

"All five components of the PMI rose in November and all were in positive growth territory above 50. New orders increased in the month, which translated into a rise in production. The growth in orders, though, was modest so outstanding backlogs continued to decline. Very encouragingly, employment rose for a second consecutive month, with the pace of job creation the joint-strongest since June 2019."

"Firms, though, are increasingly optimistic about the 12-month outlook for production. Sentiment rose strongly in November on the back of the positive news on Covid vaccines, reaching its highest level since January. Overall, the November PMI data show that, as in other countries, the sector is coping well with the second lockdown and is increasingly confident about prospects for 2021."

"The impact of the imminent end to the

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 rose from 50.3 in October to 52.2 in November. This signalled a fifth month-on-month improvement in business conditions in the past six months, and took the headline figure above its long-run trend level of 51.8 (since May 1998). The latest figure was the third-highest since April 2019.

The month-on-month increase in the PMI was reflected in all five of its components during the month. Intriguingly, the greatest boost came from the stocks of purchases component, which has the smallest weight in the PMI at 10%. The respective index surged by a record 8.8 points since October, contributing 0.9 points to the rise in the PMI. The next highest contributions came from new orders (+0.4), suppliers' delivery times (+0.3), output (+0.2) and employment (+0.1), respectively. Moreover, all five components were in positive territory (i.e. greater than 50.0) for the first time since April 2019 (with the suppliers' delivery times index inverted in the PMI calculation).

November data signalled improving demand for Irish manufactured goods as the volume of new orders rose for the first time in three months. Firms reported markets recovering even as virus-related restrictions remained in place moving into winter. The overall rise in new orders was tempered somewhat by broadly no change in the volume of exports,

although firms did report that concerns surrounding the end of the Brexit transition period had lessened somewhat.

Higher new orders contributed to an increase in production during the month, following a stable trend in October. Output has now risen four times in the past six months. The rate of growth in the latest period was, however, slower than the long-run survey average and partly supported through completing existing work. The volume of backlogs fell at the fastest rate since June.

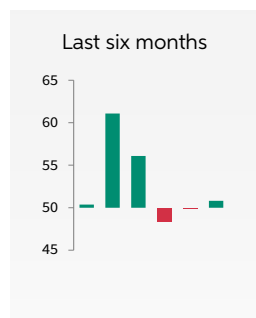
Falling work-in-hand was partly facilitated by higher headcounts, with back-to-back employment gains registered in the sector for the first time since August 2019. Rising employment in part reflected greater confidence regarding future output trends, with firms' expectations the strongest since January.

With new orders rising in November, manufacturers expanded purchasing activity for the first time in four months. This contributed to the first rise in stocked inputs since October 2019. Supply chains remained under pressure during the month, with input delivery times lengthening markedly as one-quarter of manufacturers reported delays. Subsequently, inventories of finished goods continued to fall sharply as firms met orders from existing stock.

Rising demand for raw materials and components led to the sharpest rate of input price inflation since February 2019, and one that was above the long-run survey average. Subsequently, manufacturing output prices rose for the second month running, and at the fastest rate since March 2019.



Output Index



Output at Irish manufacturers rose for the first time in three months in November, following a modest decline in September and broadly no change in October. Firms reported improving demand and returning customers as market conditions stabilised.

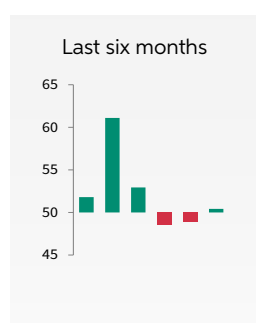
The rate of expansion was only modest, but nonetheless the fourth increase in the past six months as the sector's tentative recovery continued.

Output Index

sa, >50 = growth since previous month



New Orders Index

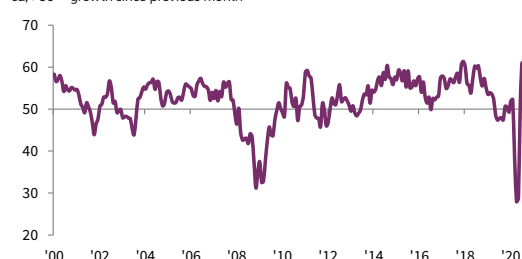


The seasonally adjusted New Orders Index rose above the no-change mark of 50.0 in November, indicating renewed growth of new business at Irish manufacturers following declines in September and October.

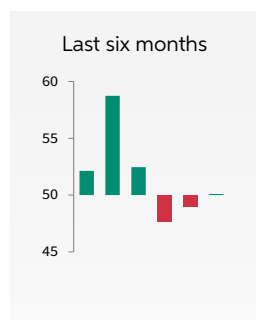
The rate of growth was only marginal, however, and weaker than the previous rebound in June.

New Orders Index

sa, >50 = growth since previous month



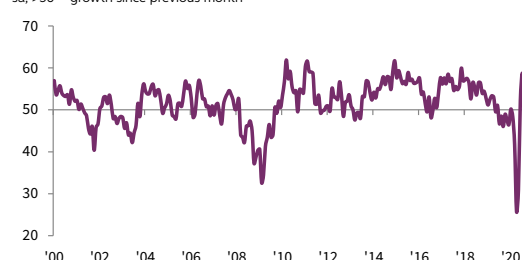
New Export Orders Index



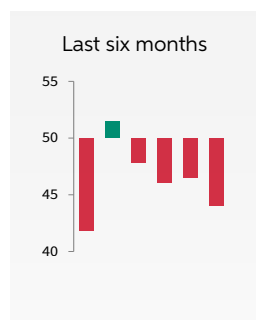
International demand for Irish goods was broadly stable in November, following a two-month period of decline. While some firms reported lost business due to COVID-19, others mentioned that markets had picked up, partly due to diminishing fears around Brexit.

New Export Orders Index

sa, >50 = growth since previous month



Backlogs of Work Index

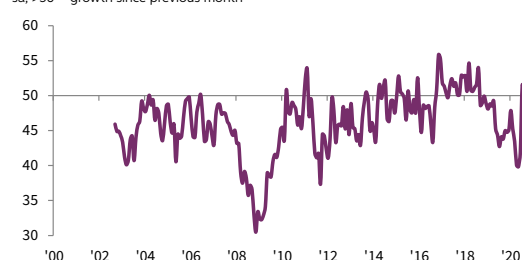


Manufacturers continued to catch up with backlogged orders in November. The volume of outstanding work fell for the fourth month running, and at the fastest rate in this sequence.

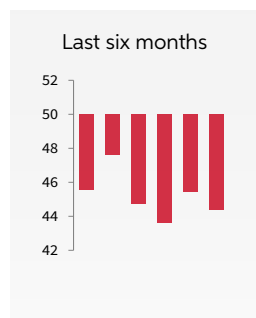
Firms reported being able to complete existing orders due to a lack of new work, notably from non-essential retail markets.

Backlogs of Work Index

sa, >50 = growth since previous month



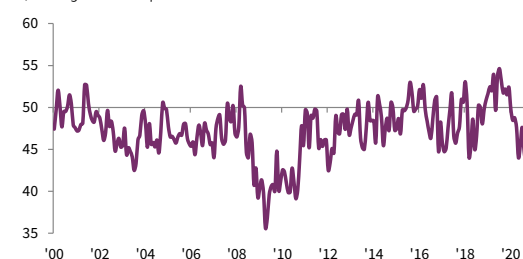
Stocks of Finished Goods Index



The level of completed products held by Irish manufacturers declined further in November, stretching the current sequence of reduction to 11 months. Moreover, the seasonally adjusted Stocks of Finished Goods Index fell since October, indicating a stronger rate of contraction.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index

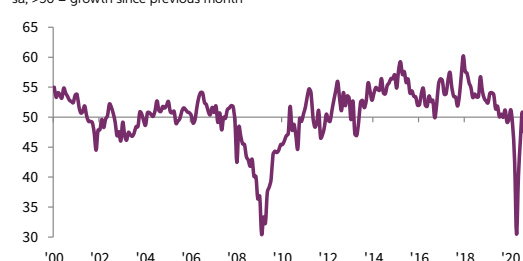


The seasonally adjusted Employment Index remained above the no-change mark of 50.0 in November, indicating the first back-to-back rise in Irish manufacturing staff numbers in over a year.

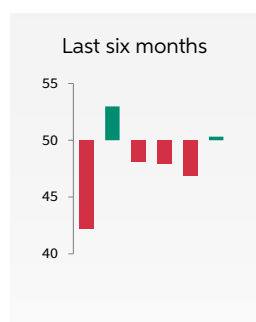
Moreover, the rate of job creation picked up from October and was the joint-strongest since June 2019. Where firms recruited, this was linked to improving demand, new products and compliance needs.

Employment Index

sa, >50 = growth since previous month



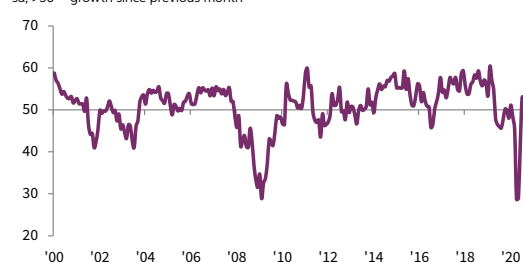
Quantity of Purchases Index



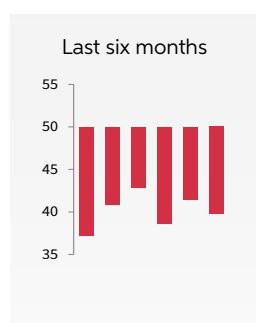
The volume of inputs ordered by Irish manufacturers rose for the first time in four months in November. A number of firms linked higher purchases during the month to preparations for the end of the Brexit transition period. Purchasing activity has expanded only four times in the past 19 months, with the latest increase only marginal overall.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



The time taken for suppliers to Irish manufacturers to deliver inputs lengthened again in November, as has been the case every month since November 2019. Moreover, performance deteriorated to a greater extent than in October.

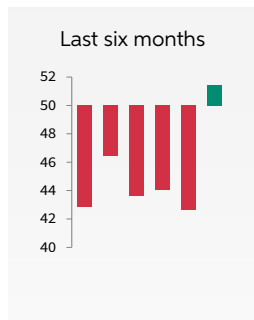
Longer lead times in November were widely linked to problems sourcing inputs from China.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



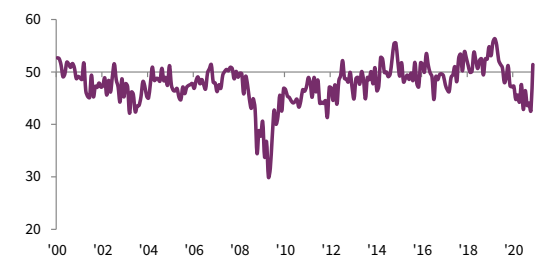
Stocks of Purchases Index



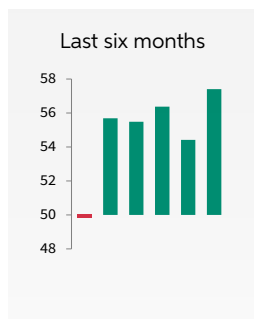
Irish goods producers increased the level of inputs held in stock in November, the first growth registered for over a year. Moreover, the rate of expansion was the sharpest since June 2019. The month-on-month rise in the seasonally adjusted Stocks of Purchases Index was, at 8.8 points, a series record.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index

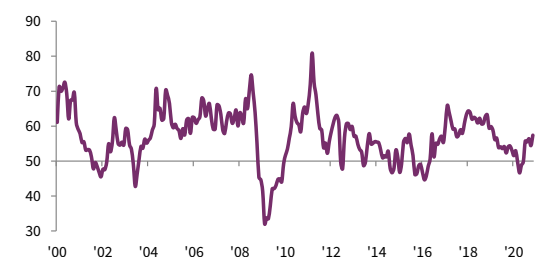


Survey data for November revealed rising cost inflationary pressures in the Irish manufacturing sector. Higher input prices were linked to improving demand, COVID-19 and increased oil prices.

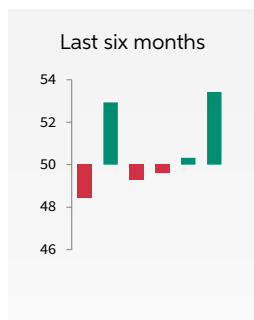
The rate of input price inflation in the latest period was the strongest since February 2019. Average input costs have risen for the past five months.

Input Prices Index

sa, >50 = inflation since previous month



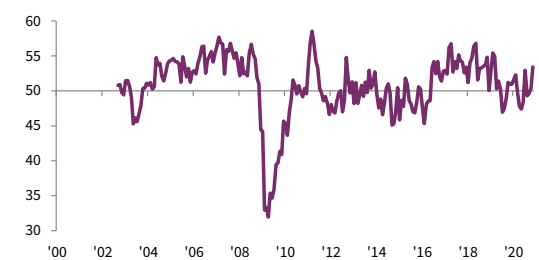
Output Prices Index



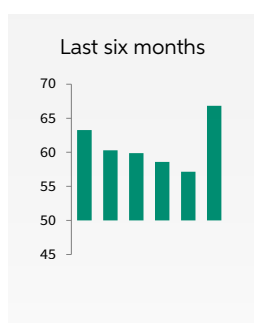
The seasonally adjusted Output Prices Index rose sharply in November, to signal a stronger degree of pricing power at Irish manufacturers. Factory gate charges rose for the second month running, and at the fastest rate since March 2019. Firms reported passing on higher raw material and operational costs to clients. The rate of output price inflation was above the long-run series average in the latest period.

Output Prices Index

sa, >50 = inflation since previous month



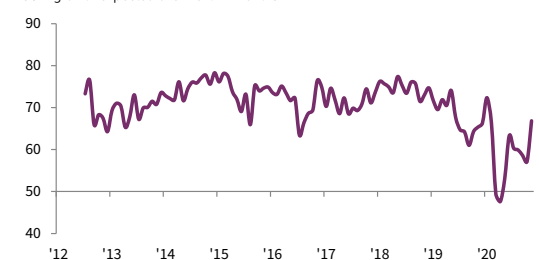
Future Output Index



Manufacturers in Ireland were increasingly confident of higher output over the course of the next 12 months in November. The Future Output Index rose sharply since October, and signalled the strongest sentiment since January. Firms were hopeful of business levels returning to normal as countries learn to manage the coronavirus pandemic and introduce vaccines. New production lines were also mentioned as potential sources of growth.

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 12-23 November 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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