AIB

AIB Ireland Manufacturing PMI®

Marked drop in demand leads to renewed fall in output in November

Key Findings

Sharpest contraction in new orders since May 2020

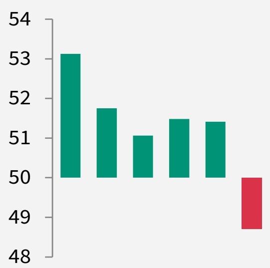
First decline in employment since September 2020

Supply and price pressures ease further

Ireland Manufacturing PMI

NOV
48.7
OCT: 51.4

Last six months



Demand conditions in the Irish manufacturing sector deteriorated further in November leading to a fresh decline in output, PMI® survey data from AIB revealed. Excluding the pandemic, the falls in new work and production were the strongest since August 2009. November also saw the first drop in employment for over two years. More positively, input price inflation eased to a 21-month low and supply chains showed further signs of recovery.

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

"The AIB Irish Manufacturing PMI moved into contraction territory in November, with the headline index dropping below 50 to 48.7, having been confined to a narrow 51-52 range over the previous four months. The fall in the index is no surprise as new orders have been in decline since June, and this has eventually resulted in a downturn in activity in the sector.

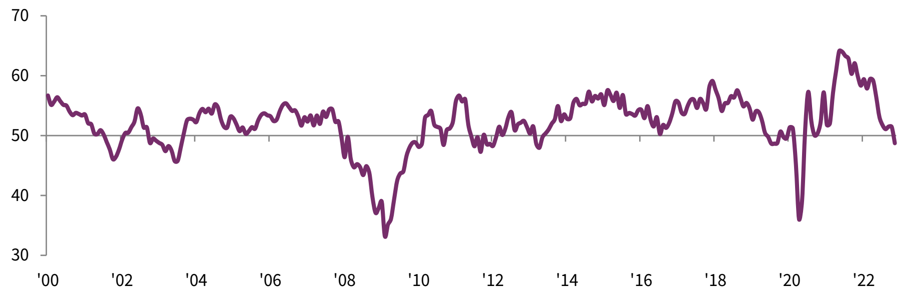
"It brings Ireland into line with the trend seen elsewhere in recent months - the flash manufacturing PMIs stood at 47.6, 47.3 and 46.2 in the US, Eurozone and UK in November. Overall, this was a weak Irish report. New orders, including export orders, declined for a sixth consecutive month, registering quite a sharp fall in November. This led to a renewed drop in output, the fifth decline in the past six months.

"Meanwhile, the level of finished stocks rose for the fifth month running, while order backlogs fell for a seventh consecutive month as weak demand allowed firms catch up on existing orders. With backlogs easing and new orders falling sharply, firms cut employment for the first time in over two years, albeit only marginally.

"There was a further easing of supply chain pressures, with only 18% of firms reporting longer suppliers' delivery times, the lowest in over two years. Inflationary pressures, while still elevated, are easing, with the rate of increase in input prices at its lowest in 21 months and output price inflation at a 20-month low. In terms of the 12-month outlook, sentiment while still positive, fell to its joint-lowest level in the past two years, as fears of a recession mount."

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 fell for the seventh time in eight months to 48.7 in November, from 51.4 in October and signalling the first overall deterioration in operating conditions in the goods-producing sector since the first lockdown in May 2020. The 2.7-point fall in the headline figure was reflected in four of its five components, most notably output. Stocks of purchases was the exception, with a slightly stronger increase than in October.

Central to the overall downturn was a sustained drop in incoming new orders at goods producers. New business declined for the sixth consecutive month, the longest sequence of contraction in over 13 years. Moreover, the rate of decline in the latest period was the fastest since August 2009, when excluding the pandemic period. Weak demand reflected pessimism regarding a potential recession, high inflation deterring customers and previous overstocking at clients. More positively, new export orders fell at the slowest rate of the current six-month sequence of decline.

The stronger drop in new orders led to a renewed fall in output in November, the fifth in the past six months. As was the case for new work, the rate of decline in production was the sharpest since August 2009 when excluding the pandemic. The level of finished goods held in stock rose for the fifth month running, however, as some firms continued to build buffer stocks and maintained output at a higher level than incoming new orders.

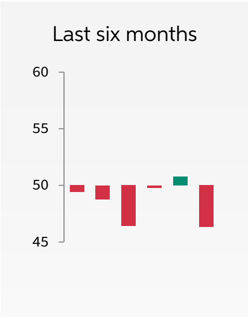
Pressure on capacity eased further, as signalled by a seventh successive monthly drop in backlogs and at the fastest rate since June 2020. With new orders falling sharply, manufacturers cut employment for the first time since September 2020, albeit marginally.

Weaker demand conditions resulted in fewer purchases of inputs in November. Buying activity by manufacturers fell for the fourth time in five months, and at the strongest rate since June 2020. That said, input stocks rose overall for the twentieth month running, reflecting lower output and receipt of previously ordered items. Lead times lengthened to the smallest degree since August 2020, in a further sign of recovering supply chains. The proportion of firms reporting longer suppliers' delivery times fell to 18%, compared with the long-run average of 12%.

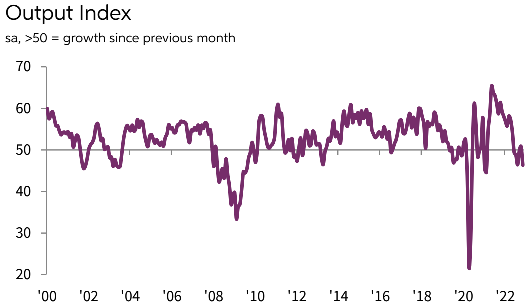
Reduced demand for inputs contributed to a further easing of cost pressures in November. Input price inflation slowed to a 21-month low, but remained elevated overall reflecting high energy and raw material prices. Similarly, output price inflation slowed to a 20-month low, but remained at a higher level than in any period prior to April 2021.

The 12-month outlook for production remained positive overall in November, but was the joint-lowest in over two years and among the weakest on record (since 2012). While some firms were optimistic on growth in 2023, others highlighted the rising risk of recession and high inflation deterring customers from placing new orders.

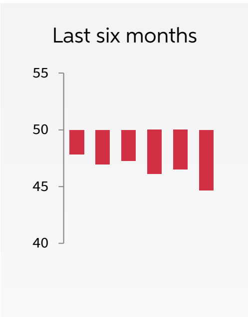
Output Index



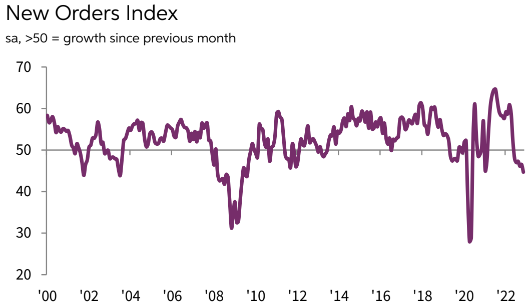
November saw a renewed fall in Irish manufacturing output, the fifth contraction of the past six months. Moreover, the rate of decline in the latest period was the fastest since February 2021. Companies mainly linked lower production to falling demand, although delays linked to shortages were also mentioned. Excluding the pandemic period, the downturn in output in November was the strongest since August 2009.



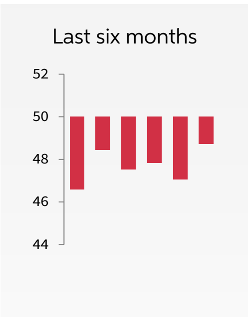
New Orders Index



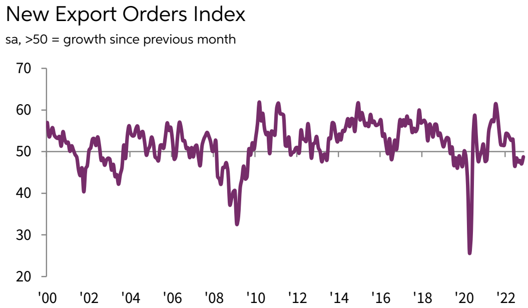
The volume of new orders received by Irish manufacturers fell for the sixth month running in November, the longest downturn in over 13 years. Furthermore, the pace of contraction was the fastest since May 2020, and since August 2009 when excluding the pandemic period. Anecdotal evidence generally revealed slower demand, partly linked to overstocking at customers.



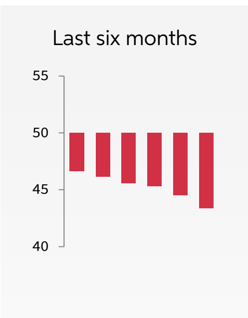
New Export Orders Index



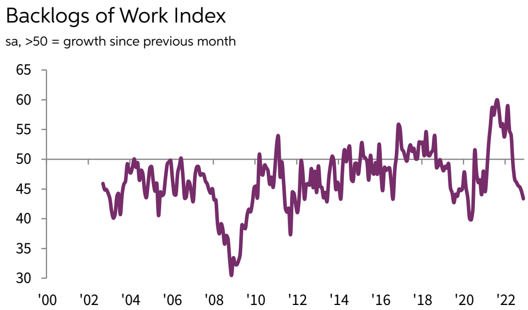
November marked the longest downturn in international demand for Irish-produced goods since the second half of 2019, as new export orders fell for the sixth month running. Asia and the UK were reported as sources of weak demand. That said, the overall rate of decline was the weakest over the current sequence.



Backlogs of Work Index



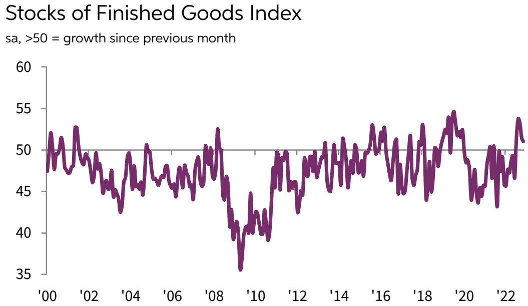
Manufacturers continued to reduce their work-in-hand in November, with backlogs falling for the seventh consecutive month and at the fastest rate since June 2020. Previously, outstanding business had risen for 14 straight months. Survey respondents widely reported being able to catch up on existing workloads due to a downturn in new orders, and improving supply chains.



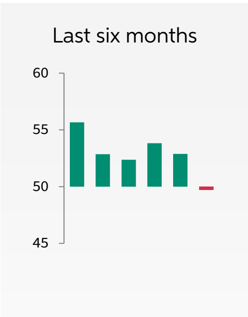
PMI® by S&P Global

Stocks of Finished Goods Index

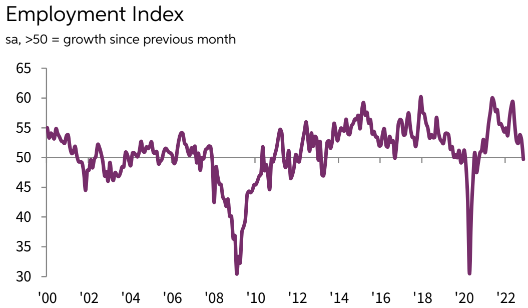
The level of finished goods held in stock rose for the fifth successive month in November. Some firms attributed a build-up of inventories to buffer stocks and maintaining production at a higher level than incoming new orders. That said, the rate of growth was the slowest over the current sequence of increases, as some firms reported shipping out previously delayed orders.



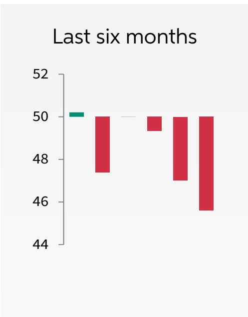
Employment Index



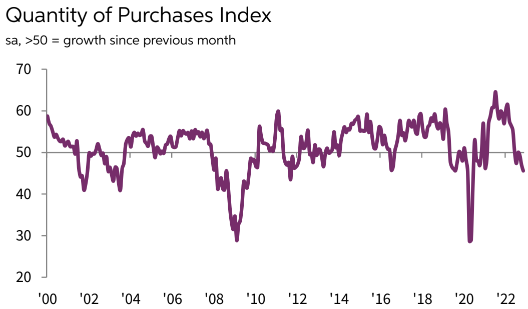
The seasonally adjusted Employment Index dipped below the no-change mark of 50.0 in November, indicating a fall in manufacturing headcounts. Previously, the sector's workforce had expanded every month since October 2020. Lower staffing was linked to weaker demand and the non-replacement of leavers. That said, the overall rate of job shedding was only marginal.



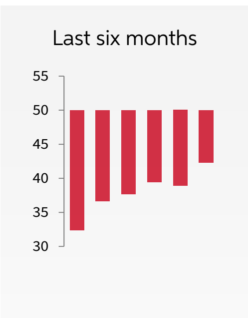
Quantity of Purchases Index



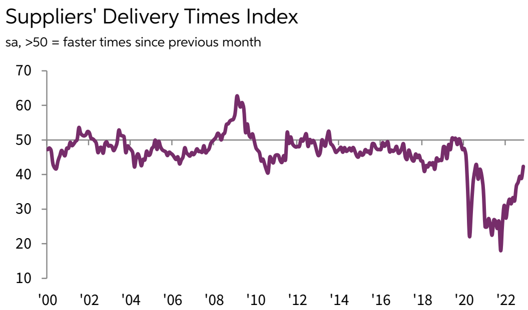
The volume of inputs ordered by Irish manufacturers was cut for the fourth time in five months in November. Moreover, the rate of contraction was the fastest since June 2020. Anecdotal evidence from survey respondents linked lower purchasing activity to reduced demand and surplus stocks from previous months.



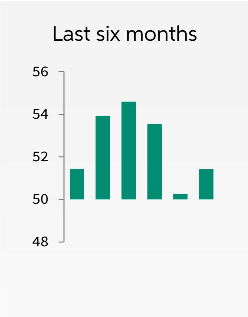
Suppliers' Delivery Times Index



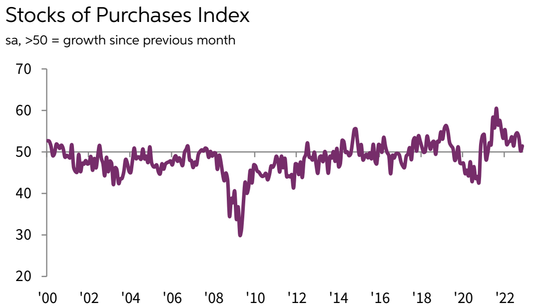
Supplier performance continued to show a relative improvement in November. Average input lead times continued to lengthen, but to the second-weakest degree since the start of the pandemic. Only 18% of firms reported longer times compared with one month previously, the lowest proportion in over two years, compared with the long-run average of 12%. Moreover, 9% reported quicker deliveries, the highest share since May 2010.



Stocks of Purchases Index

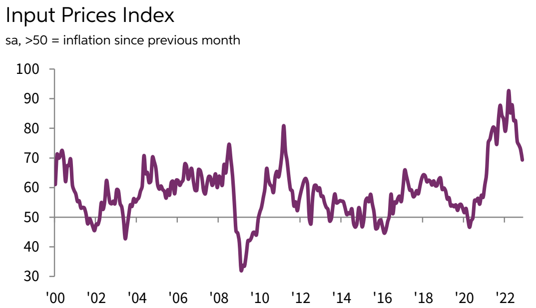


The current record sequence of pre-production inventory growth was extended to a twentieth month in November. Companies continued to report building buffer stocks to guard against shortages, while a slowdown in output was also mentioned. The rate of expansion picked up from October's marginal pace, but was still the joint-second weakest over the current sequence.



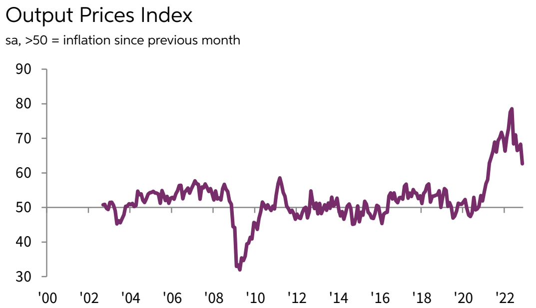
Input Prices Index

Cost pressures facing Irish manufacturers continued to ease in November. The rate of input price inflation slowed for the sixth time since hitting a survey record in March, to a 21-month low. That said, the seasonally adjusted Input Prices Index remained well above its long-run survey average of 58.3, reflecting continued upward pressure on raw material and energy prices, and component shortages.

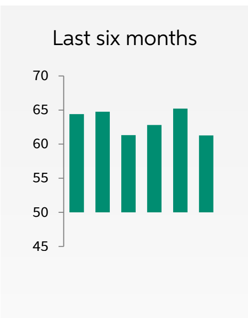


Output Prices Index

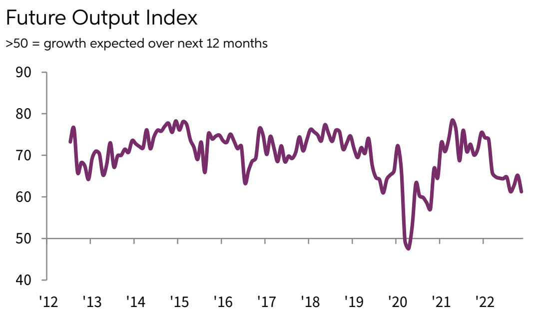
Output prices rose for the twenty-sixth successive month in November as firms continued to pass on higher input costs to customers. The rate of inflation slowed to a 20-month low, but remained at a higher level than in any period prior to April 2021. The output prices series was first compiled in September 2002.



Future Output Index



The 12-month outlook for production remained positive overall in November, but the strength of sentiment weakened to the joint-lowest in over two years. While some firms were optimistic on growth next year, others highlighted the rising risk of recession and high inflation deterring customers from placing new orders. The Future Output Index registered at the ninth-lowest level since it was first compiled in July 2012.



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

S&P Global

Trevor Balchin
Economics Director
S&P Global Market Intelligence
T: +44-1491-461-065
trevor.balchin@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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 11-23 November 2022.

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

About AIB

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.

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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.

PMI® by S&P Global