

AIB Ireland Manufacturing PMI®

Manufacturing stalls as output and new orders decline in September

Key Findings

Production and new work both decline since August, albeit modestly

Slower reduction in employment

Input price inflation rises to 17-month high

Ireland Manufacturing PMI



Last six months



The Irish manufacturing sector faced challenges in September as output, new orders and employment all declined, the latest PMI® data from AIB indicated. Although the headline PMI did not signal an overall deterioration in business conditions, this was only due to a marked lengthening in suppliers' delivery times. Exports, backlogs, purchasing and stocks also fell during the latest period, while input price inflation hit a 17-month high.

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

"The AIB Irish Manufacturing PMI for September fell to a four-month low of 50.0, which is well back from the near two-year high of 57.3 hit in July. Thus, the rebound in activity seen over the summer has come to a halt.

"The main factor behind this, which is clear from the survey data, is weakening demand as a result of the second wave to Covid-19 and associated increased restrictions on activity. Brexit and the stalled UK-EU trade talks are also cited as another source of growing uncertainty. Shortages of supplies and transportation difficulties are negatively impacting activity in the sector too.

"The details of the September survey show clear signs of a loss of momentum in manufacturing. Output contracted modestly after three months of expansion. New orders declined, in particular export orders, with lower sales mentioned in both the UK and US.

As a result, backlogs of unfulfilled orders fell further. Not surprisingly then, manufacturers reduced their workforces, although the pace of job shedding was very modest.

"Stocks of both finished goods and inputs continued to decline in September as firms look to minimise inventory levels with demand weakening. However, disruption to supply chains and transportation difficulties arising from the pandemic were also a factor, with a marked lengthening in delivery times. A shortage of supplies is also resulting in higher prices for inputs, which increased at their fastest pace since April 2019.

"Overall, the September PMI data show that Covid-19 continues to result in challenging business conditions in the manufacturing sector. Firms, though, remain hopeful that the business environment will improve next 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 fell from 52.3 in August to exactly 50.0 in September, indicating stagnant overall operating conditions in the Irish manufacturing sector. This ended a three-month recovery in the goods-producing sector as restrictions were eased over the summer, which peaked in July when the PMI hit a 23-month high of 57.3. The headline figure trended at 53.2 in the third quarter, the highest since Q1 2019 (53.5).

The five components of the PMI revealed a weaker situation in the manufacturing sector than the headline figure suggested, however. Indices for output and new orders both sank below the 50.0 mark, indicating declines, while employment and stocks of purchases remained in contraction territory. The weakness of these four variables was fully offset by a marked lengthening in suppliers' delivery times, which in normal times would be indicative of busy suppliers, but currently reflects shortages and transport difficulties arising from the pandemic.

The recent rebound in manufacturing output in Ireland petered out in September as a decline was registered, following a near-record increase two months' previously. The rate of contraction was only modest, however, and much less severe than in the March-May period. The Output Index was broadly in line with its trend level registered during the

second half of 2019.

The renewed dip in production mainly reflected a similar decline in the volume of incoming new work. Firms reported weak demand linked to ongoing uncertainty over COVID-19 and Brexit. The rate of contraction was only modest, however, and much less severe than the falls registered in the spring.

New export orders fell for the first time in four months in September. The main factor behind weak international demand remained COVID-19, but Brexit was also mentioned as a source of uncertainty for foreign clients.

With a renewed fall in new orders, backlogs of work declined at a faster rate in September. Manufacturers reduced workforces for the ninth time in 11 months, linked to weaker sales, cost cutting, the non-replacement of leavers and students returning to education. That said, the overall rate of job shedding was only marginal and eased since August.

Manufacturers reduced their purchasing of new inputs as a result of lower incoming work, resulting in another sharp fall in stocks of raw materials. Inventories of finished goods also declined rapidly as production declined. Despite the drop in purchasing, suppliers' delivery times lengthened markedly due to shortages at suppliers, resulting in the strongest rate of input cost inflation since April 2019. In contrast, manufacturing output prices fell again in September, albeit only slightly.

The 12-month outlook for manufacturing production remained positive in September, but moderated to a four-month low. While the proportion of firms expecting growth (42%) was broadly similar to that seen over the



Output Index

Last six months



Output in the Irish manufacturing sector slipped back into contraction in September, following a three-month period of growth over the summer following the spring lockdown. That said, the rate of decline was only modest, and much less marked than the falls registered during the spring. Firms mainly linked lower output to weak demand as a result of the ongoing coronavirus pandemic.

Output Index

sa, >50 = growth since previous month



New Orders Index

Last six months



The seasonally adjusted New Orders Index fell below the no-change mark of 50.0 in September, indicating lower intakes of new business at Irish manufacturers compared with August. This ended a three-month sequence of growth as the economy reopened over the summer. The rate of contraction in the latest period was only modest, however.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index

Last six months



The volume of new export orders received by Irish goods producers fell for the first time in four months in September. Lower sales were reported from the UK and the US in particular. The main factor behind weak international demand remained COVID-19, but Brexit was also mentioned as a source of uncertainty.

New Export Orders Index

sa, >50 = growth since previous month



Backlogs of Work Index

Last six months

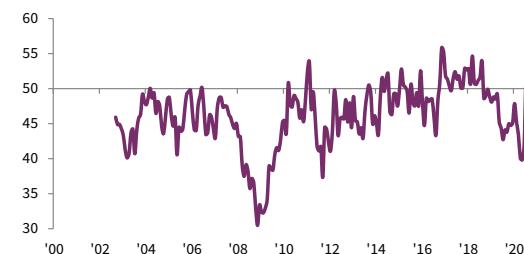


The volume of incomplete work at Irish manufacturers declined further in September, having risen in July for the first time in nearly two years. The latest drop in backlog mainly reflected a renewed downturn in new orders at the end of the third quarter.

The rate of depletion accelerated slightly since August, but remained much slower than those registered earlier in the year.

Backlogs of Work Index

sa, >50 = growth since previous month

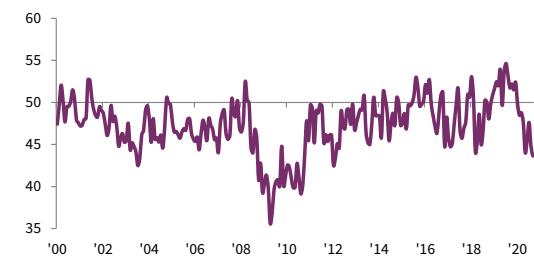


Stocks of Finished Goods Index

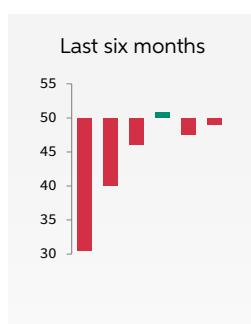


The seasonally adjusted Stocks of Finished Goods Index fell for the second month running in September, indicating an accelerating rate of destocking of final goods by manufacturers. The extent to which inventories were cleared was the greatest since February 2012.

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



Employment Index



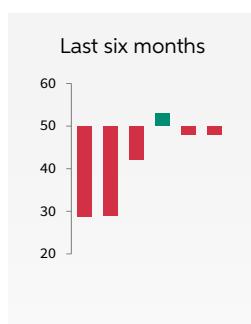
Irish manufacturing employment continued to decline slightly in September, following a brief increase in July. The latest reduction was the ninth in the past 11 months, albeit the weakest decline registered in 2020 so far.

A variety of reasons were put forward for reduced staffing, including weaker sales, cost cutting, the non-replacement of leavers and students returning to education.

Employment Index
sa,>50 = growth since previous month



Quantity of Purchases Index



The seasonally adjusted Quantity of Purchases Index was little-changed in September, remaining below 50.0 and signalling another moderate decline in input buying by manufacturers. Fewer purchases were linked to lower new orders and excess stocks.

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



Suppliers' Delivery Times Index

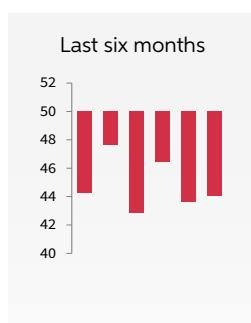


Although demand for production inputs continued to decline in September, data signalled a further lengthening of suppliers' delivery times. Moreover, delays were more widespread than in August. A number of firms commented that low stocks at suppliers were the cause of lengthier deliveries, amid ongoing uncertainty over the impact of COVID-19.

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



Stocks of Purchases Index



Manufacturers in Ireland continued to deplete their stocks of raw materials and components in September, as demand conditions weakened. Pre-production inventories declined for the eleventh consecutive month, and at a sharp rate.

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



Input Prices Index



Cost pressures continued to build in the Irish manufacturing sector in September. Average input prices rose for the third month running, and at the fastest rate since April 2019. Some firms linked higher prices to shortages at suppliers.

The seasonally adjusted Input Prices Index was broadly in line with its long-run trend level during the month.

Input Prices Index
sa, >50 = inflation since previous month



Output Prices Index



Manufacturers cut their output prices for the second month running in September, following a mild increase in July. Firms mainly linked lower prices to efforts to boost competitiveness amid waning demand.

The overall rate of discounting was only marginal, however, and slower than in August.

Output Prices Index
sa, >50 = inflation since previous month

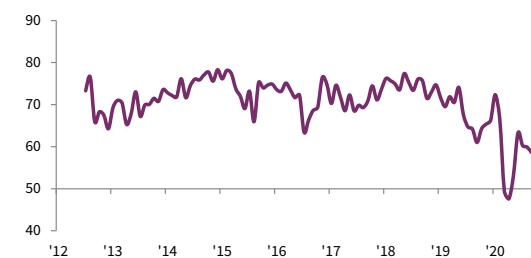


Future Output Index



Although new orders slipped back into decline in September, Irish goods producers remained optimistic of higher output in 12 months' time, once COVID-19 and Brexit had passed. That said, the Future Output Index fell for the third month running to indicate that the strength of sentiment had continued to moderate, reflecting renewed uncertainty around the long-term impact of coronavirus and the terms of any Brexit trade deal.

Future Output Index
>50 = growth expected over next 12 months



Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353-1-6417176
E: AlBeconomics.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
E: trevor.balchin@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 781-301-9311
E: katherine.smith@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 11-23 September 2020.

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 IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

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.

Disclaimer

This publication is issued by Allied Irish Banks, p.l.c. ("AIB") and is for general information purposes only. This publication should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments or product, securities or any derivative instrument (together, "instruments"), or any other rights pertaining thereto. AIB does not express any opinion as to the present or future value or price of any instruments referred to in this publication.

The information provided in this publication is believed to be valid and accurate on the date it is first published but AIB, along with its directors, officers, or employees, does not accept any liability for any loss arising from the use of the information. The information contained therein, including any expressions of opinion, has been obtained from, or is based on, or compiled from, sources believed to be reliable but its accuracy or completeness is not guaranteed and is subject to change without notice.

Any decision made by a party shall be on the basis of its own research and shall not be influenced or based on any view expressed by AIB in this publication or otherwise. This publication does not address all risks. This publication does not constitute investment advice or a recommendation and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments and/or pursuing any investment strategies. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any instruments, forecasts are not a reliable indicator of future performance.

This publication is not to be reproduced in whole or in part without the prior express written consent of AIB. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.