Irish manufacturing rebounds in July

Key Findings

- Strongest rise in output since December 1999
- Rapid expansion in new orders
- Employment rises for first time since January

The Irish manufacturing sector rebounded strongly at the start of the second half of 2020 as lockdown restrictions continued to be lifted and demand returned, July PMI® data from AIB indicated. Output and new orders both expanded at some of the fastest rates ever recorded by the survey, while employment, purchasing and backlogs also rose since June. That said, the 12-month outlook remained relatively subdued as firms continued to adjust to new market conditions.

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 surged to 57.3 in July, from 51.0 in June, signalling the strongest overall improvement in manufacturing business conditions since August 2018. The 6.3-point rise in the PMI was less than in June but still the second-largest on record – the next-highest was a 4.4-point gain in March 2010. The latest PMI reading was the eleventh-highest on record since the series began in May 1998, and well above the long-run trend level of 51.8.

Driving the overall upturn in the sector were historically strong increases in output and new orders. Production rose at the fastest rate since December 1999, with the seasonally adjusted index registering the third-highest reading on record. Similarly, new order growth was the strongest since December 2017 and the fourth-sharpest in the survey history.

New export orders increased at the fastest rate since November 2017, in a sign that international markets were recovering. Panellists frequently mentioned improved demand conditions in European markets, including the UK and Netherlands.

In a sign of returning pressure on capacity, backlogs of work rose in July. This ended a 22-month period of falling backlogs, the longest sequence in nearly seven years.

Firms remained confident of growth of output over the next 12 months, with sentiment underpinned by renewed growth of new orders and higher backlogs in July. That said, output expectations remained weak in the context of the eight-year series trend, reflecting uncertainty over the post-pandemic business environment and renewed Brexit concerns.

With new orders rising rapidly, manufacturers expanded their workforces for the first time since January. The rate of job creation was broadly in line with the long-run survey average.

Purchasing activity also increased for the first time since the economy was locked down. The volume of inputs ordered rose for only the third time in the past 15 months. The rate of expansion was, however, much slower than that for production, as firms continued to run down excess stocks of inputs. Inventories of inputs fell for the ninth month running, albeit at a slower rate than in June.

Although purchasing activity rose in July, supplier performance was the best in five months as supply chains suffered less disruption than during the most severe lockdowns. Times continued to lengthen markedly overall, however.

Renewed demand for manufacturing inputs was reflected in data on prices in July. Cost burdens rose for the first time in five months, and at the strongest rate since April 2019. This trend was reflected in prices charged for finished goods, which also increased for the first time since February and at the fastest rate since March 2019.
**Comment**

Oliver Mangan, AIB Chief Economist, commented:

“The sharp rise in the AIB Irish Manufacturing PMI to 57.3 in July from 51.0 in June and 39.2 in May is clear evidence of a marked improvement in business conditions in the sector as Covid-19 lockdown restrictions are gradually lifted, both here and abroad.

“The headline index has climbed to its highest level since August 2018. It should be noted, though, that the PMI is not an indication of the level of activity but rather the month-on-month change. Thus, the strong reading for July points to a sharp pick-up in activity, but from a low base in previous months during the lockdown period.

“The big jump in the index to 57.3 is clearly good news, which was reinforced by the survey details. There was a near record rise in production in July, with the output index surging to 61.1. This was driven by very strong growth in both domestic and overseas orders, with firms reporting that markets were opening up again as Covid-19 restrictions are lifted.

“The marked pick-up in orders and activity saw both employment and purchases of inputs increase for the first time since January, while work backlogs rose for the first time in almost two years. There were also notable pick-ups in both input and output prices, which had been under downward pressure since March. Firms remain cautiously optimistic on the 12-month outlook.

“The improvement in the Irish data is in line with the trend in other countries. The flash readings for the Eurozone and UK July manufacturing PMIs also saw large rises to 51.1 and 53.6, respectively, as economies re-open for business.”

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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 13-24 July 2020.

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

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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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