



AIB Ireland Manufacturing PMI®

PMI surges to new survey high in May with record increases in output and new orders

Key Findings

Record growth rates for output, new orders and backlogs

Soaring costs lead to record rise in output prices

Near-record lengthening in suppliers' delivery times

Data were collected 11-21 May 2021.

PMI® data from AIB signalled a fresh record improvement in the Irish manufacturing sector in May, with demand booming as the economy began to reopen. The PMI ascended to a new peak on the back of record rates of growth in output and new orders and another severe lengthening in suppliers' delivery times. Meanwhile survey indicators for employment, backlogs, input prices and output prices were all either the highest or second-highest on record.

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 for the seventh time in eight months in May to 64.1, from 60.8 in April. The latest figure marked a new high since the series began in 1998, indicative of a rapid overall improvement in manufacturing business conditions. All five of the PMI components had positive contributions to the headline figure in May, and all except stocks of purchases exerted positive directional influences compared with April. The output and new orders indices both high record highs, while the employment and suppliers' delivery times (when inverted for the PMI calculation) indices were the second-highest to date.

The volume of new orders received by Irish manufacturers rose for the third month running in May, and at the fastest rate since the survey began in 1998. Companies reported strong inflows of new work as customers reopened and lockdown restrictions began to loosen. Strong domestic sales were supported by increased demand from European and US markets, with new export orders rising at the strongest rate since July 2020.

Surging new orders led to a record rate of output growth in the manufacturing sector in May, surpassing the previous record expansion set in December 1999. Firms sought to boost

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

capacity by expanding workforces, with overall employment in the sector rising at the second-fastest rate in the survey history, just shy of the peak set in December 2017.

Higher production levels and staff numbers were insufficient to cope with demand, however, leading backlogs to rise at the strongest rate since data for that series were first collected in September 2002. Firms sold off stocks of finished goods to meet sales, and at the fastest rate since January.

The record increase in outstanding business in May reflected both pent-up demand and severe pressure on manufacturing supply chains. Firms increased their purchasing activity at the fastest rate since December 1999, but suppliers' delivery times lengthened to a degree that almost matched the survey record registered in April 2020. Around 60% of firms reported delays from suppliers, with no manufacturers reporting any improvement compared with April.

Global shortages of raw materials and shipping containers continued to drive up input prices in May. Input price inflation soared to the second-highest on record, just below the peak set in March 2011. Firms reported a wide range of raw materials as up in price during the month, including steel, wood, paper, chemicals and plastics.

With input costs surging and demand improving, manufacturers raised their output prices at the fastest rate since the series began in September 2002. Output prices have risen continuously since October 2020.

The 12-month outlook for production remained close to record levels in May. The overall degree of sentiment eased only slightly from April's peak. Firms widely expected significant levels of new business as the economy reopens and recovers from the COVID-19 pandemic.



Comment

Oliver Mangan, AIB Chief Economist, commented:

"May was a record breaking month for the AIB Irish Manufacturing PMI. The index soared to a new record high of 64.1 from 60.8 in April, with activity in the sector picking up strongly as economies re-open following the easing of Covid restrictions. Ireland is participating in a global boom in manufacturing. The Irish data are very much in line with record or near-record flash May manufacturing PMI readings for the UK, Eurozone and US of 66.1, 62.8 and 61.5, respectively, as the recovery in the global economy gathers momentum.

"The sub-components of the Irish PMI survey all point to rapidly improving business conditions in manufacturing. Output rose at a record pace, driven by rebounding demand, with record growth in new orders as businesses re-open, both domestically and in overseas markets. As a result, backlogs of unfilled orders also rose at a record pace, while inventories of finished goods fell. Meanwhile, employment rose for the eight month running, growing at the second fastest rate on record.

"Supply chains remain under severe pressure, with 60% of firms reporting even longer delivery times than in April, owing to new UK Customs arrangements, transport delays in shipping and raw materials shortages. These factors, combined with strengthening demand, saw further marked upward pressure on prices. Input prices increased at their fastest pace in ten years, while output prices rose at a series-record pace.

"Meanwhile, the 12-month outlook for production remained close to the record high hit in April. Firms expect vaccination programmes to lead to a full and permanent reopening of economies, providing a major fillip to business activity."

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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 11-21 May 2021.

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

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