



AIB Ireland Manufacturing PMI®

Manufacturing sector rebounds in March following subdued start to 2021

Key Findings

PMI hits 57.1 as growth of output and new orders resume

Second-fastest rate of input price inflation on record

Output expectations strongest since May 2019

Data were collected 12-24 March 2021.

The Irish manufacturing sector performed strongly in March, according to the latest PMI® data from AIB. Output, new orders and exports all rose solidly and for the first time since the end of 2020. The 12-month outlook for production brightened and jobs were added at the fastest rate in two-and-a-half years. That said, severe supply chain pressures led to the fastest rate of input price inflation since March 2011.

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 57.1 in March, from 52.0 in February, signalling a marked overall improvement in Irish manufacturing business conditions at the end of the first quarter. The latest figure was broadly comparable with the peaks set during the past three years, and well above the long-run trend level (since 1998) of 51.8. Moreover, the month-on-month rise in the headline figure of 5.1 points was the third-largest on record, behind only those registered in June and July last year as the sector rebounded from the first lockdown. Over the first quarter as a whole the PMI averaged 53.6, the strongest quarterly trend since the fourth quarter of 2018.

The upward surge in the PMI mainly reflected much stronger contributions from the new orders and output components, which in the first two months of 2021 had registered firmly in contraction territory. Excluding the post-lockdown bounce in July 2020 and pre-Brexit demand last December, new orders rose in March at the fastest rate since the end of 2018. Similarly, output rose at one of the fastest rates of the past two years.

Survey data indicated improving export demand in March,

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

with the growth of new work from abroad the second-fastest since September 2018. Firms reported improving demand from the European and US markets.

The overall improvement in business conditions also reflected a stronger increase in employment during March. The manufacturing workforce expanded for the sixth month running, and at the fastest rate for two-and-a-half years. Companies linked hiring activity to rising workloads and improving forecasts. Output expectations strengthened in March, with overall sentiment the strongest since May 2019.

March survey data continued to reveal severe pressure on manufacturing supply chains. Average delivery times for inputs lengthened markedly again, with the first three months of 2021 seeing longer delays than in any other period in the near 23-year survey history except for April 2020 during the first COVID-19 lockdown. Firms linked longer suppliers' delivery times to post-Brexit customs checks, global shortages of raw materials and shipping bottlenecks.

Raw material shortages, new UK trading rules and shipping delays placed greater upward pressure on input prices in March. Average input costs rose at the fastest rate in ten years, and at the second-fastest pace on record. Moreover, the same pattern was registered for output prices as firms passed on greater cost burdens to customers.

New order inflows and supply chain problems generated rising backlogs of work in March. Latest data signalled only the second increase in outstanding business in just over two-and-a-half years, the other occasion being in July 2020. Companies continued to sell from stocks, with final goods inventories declining for the fifteenth successive month.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI for March shows a surge in activity in the sector, jumping to 57.1 from 52.0 in February and 51.8 in January. This takes the index back up to its peak readings of recent years. It also sees Ireland join a global rebound in manufacturing, with the March flash PMI readings for the UK, Eurozone and US all at historically high levels.

"The sub-components of the Irish PMI survey all point to a big improvement in business conditions in the sector. Output returned to a strong growth path after contracting in the previous two months, driven by a marked pick-up in orders, including from abroad, as demand strengthened.

"This resulted in a rise in backlogs of unfilled orders for only the second month in the last two-and-a-half years. It also saw purchases on inputs increase at their strongest pace since March 2019. Meanwhile, employment rose for the sixth month running, growing at its fastest pace since September 2018.

"Supply chains remain under severe pressure, with delays in shipping owing to new Customs arrangements, as well as difficulties in sourcing raw materials and inputs, leading to a further marked lengthening in delivery times. These factors, combined with the strengthening in demand, are generating increased inflationary pressures. Both input and output prices rose at their fastest pace in ten years in March.

"Meanwhile, firms have become very optimistic about the 12-month outlook for production, which reached a near two-year high. They expect the rollout of Covid vaccines will see an easing of lockdown restrictions, resulting in a much improved business environment."

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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 12-24 March 2021.

For further information on the PMI survey 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.

ihsmarkit.com/products/pmi.html

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