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AIB Ireland Manufacturing PMI®

New orders fall for fourth month running

Key Findings

Output, new orders and export sales fall in August

Input buying declines at fastest rate since September 2011

Business confidence lowest in over three years

Manufacturing conditions in Ireland deteriorated for the third month running and at the fastest pace in almost six-and-a-half years during August, amid declines in output, overall new business and export sales. As a result, manufacturers decreased their purchasing activity at the fastest rate since September 2011. Meanwhile, amid reports of Brexit uncertainty, sentiment towards activity in the coming 12 months was the lowest in over three years.

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 48.6 in August, down from 48.7 in July, signalling the fastest deterioration in Irish manufacturing operating conditions since April 2013. The health of the manufacturing sector has now worsened for three months running. That said, the degree to which business conditions declined was modest.

Central to the deterioration in manufacturing operating conditions was a further decline in overall new business. However, despite being solid, the rate of contraction was softest in three months. Panellists attributed the fall in total new orders to ongoing Brexit uncertainty which had negatively affected customer demand.

Meanwhile, inflows of work from abroad also decreased in August, for the third time in the past four months. Manufacturers stated that weaker UK orders stemming from ongoing Brexit uncertainty was the principal factor behind reduced export sales.

Manufacturing output fell for the second month running during August. The rate of decrease was solid but eased from July. Anecdotal evidence from panellists indicated that they had reduced production in line with lower demand levels.

There was positive news with regards to employment as staffing levels continued to rise. That said, the rate of job creation was marginal. Some panellists commented that they had raised their staffing numbers in order to prepare for Brexit.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

A number of survey respondents commented that a lack of sales had led to a rise in post-production inventories. As a result, stocks of finished goods among Irish manufacturers rose for the third month in a row during August. The rate of accumulation, though solid, eased from July's series record.

On the other hand, holdings of raw materials and semi-finished items decreased for the first time since September 2018. The rate of contraction was solid and the fastest in 29 months. Panellists commented that they had lowered their inventory levels due to weaker overall demand conditions.

In line with the fall in both pre-production inventories, purchasing activity decreased in August for the fourth consecutive month. The rate of contraction was steep and the fastest since September 2011. Anecdotal evidence from panellists indicated that they had reduced their input buying in response to softer demand conditions.

Manufacturing backlogs in Ireland declined again in August, extending the current sequence of contraction to one year. That said, the rate of decrease eased from July. Pressures on supply chains eased, with average lead times shortening for the third month in a row, amid reports of greater capacity among suppliers. The rate at which delivery times improved was marginal, however.

Cost burdens increased during August, fuelled by greater raw material prices. Though solid, the rate of input cost inflation was only slightly faster than July's three-year low. Despite facing higher input costs, Irish manufacturers decreased their selling prices for the second month running in order to remain competitive and stimulate additional customer orders.

Sentiment among Irish manufacturers dropped from July to the weakest in 37 months as Brexit uncertainty weighed on optimism. Firms continued to predict output growth over the coming year, however. Expectations of increased customer orders, particularly from abroad, and new product investments were among the factors that supported optimism.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB manufacturing PMI for August shows that the sharp slowdown in global manufacturing activity over the past year is being clearly felt in Ireland too. Brexit uncertainty is an additional negative factor weighing on manufacturing here. The headline index for the sector edged down to 48.6 in August from 48.7 in July, thus remaining below 50 and in contraction territory for a third consecutive month. Indeed, the August reading of 48.6 represents the fastest pace of contraction since April 2013.

"Key elements of the August survey all registered declines. Output fell for the second month in a row in response to weaker customer demand. New orders declined for the fourth consecutive month, reflecting Brexit uncertainty. Notably, new export orders fell, with weaker UK orders being flagged in particular, again due to ongoing Brexit uncertainty.

"Lower levels of consumer demand were cited as a reason for declines in both stocks of pre-production inventories and purchases of inputs. On the other hand, weak sales saw stocks of unsold finished goods rise further. Meantime, sentiment among Irish manufacturers, while still positive, was at a 3 year low against the backdrop of continuing Brexit uncertainty.

"Irish manufacturing activity, then, has been hit by a double whammy of global weakness in the sector and Brexit uncertainty. It is unlikely to pick up until these headwinds subside. However, output could be boosted in the next couple of months if firms start to stock pile ahead of the latest Brexit cliff-edge date of end October."

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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.

August 2019 data were collected 12-22 August 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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