



AIB Ireland Manufacturing PMI®

Manufacturing sector grows at slowest rate since March

Key Findings

New order growth weaker than output expansion for third straight month

Exports remain subdued

Supply chain pressures weakest for a year

Data were collected 12-23 November 2021.

Growth of the Irish manufacturing sector continued to moderate in December, according to the latest PMI® survey data from AIB. Output and new orders both rose at the weakest rates since March, with a further modest rise in exports weighing on total demand. Suppliers' delivery times lengthened markedly, albeit to the weakest degree for a year. This led to some easing of input price inflation during December, but cost pressures remained elevated overall.

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 registered 58.3 in December, down from 59.9 in November. The headline figure has now eased six times in the past seven months since hitting a record high of 64.1 in May, although the latest figure was still indicative of a marked overall improvement in manufacturing business conditions. In comparison, since the survey's inception in May 1998 the PMI has trended at 52.2. Over the fourth quarter as a whole, the PMI registered 60.1, down from 62.1 in the third quarter and 62.9 in the second, but still higher than in any previous quarter throughout the survey history.

The downward movement in the PMI in December was reflected in all five components. The greatest directional influence was provided by the suppliers' delivery times sub-index (-0.8 points), followed by output (-0.3), new orders (-0.2), stocks of purchases (-0.2) and employment (-0.1).

Manufacturing production rose for the tenth consecutive month in December, linked to higher demand. The rate of expansion slowed to the weakest since March, but remained strong overall and well above the long-run survey trend. Growth has lost

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

momentum since hitting a record high in May. More positively, output expectations strengthened to a five-month high.

New orders registered a similar trend to output, increasing for the tenth month running but at the softest rate since March. Moreover, new business increased at a slower pace than production for the third month running, a reversal of the pattern observed throughout the third quarter.

December data signalled that export demand continued to weigh on overall growth of new work. New export orders increased but the rate of growth was only modest, as was the case in October and November.

Although demand increased more slowly in December, manufacturers reported a further build-up in outstanding business. Backlogs rose for the tenth month running and the rate of growth remained solid despite easing to a nine-month low. Higher levels of incomplete orders were linked to a combination of demand, supply delays and staff shortages due to COVID isolation requirements. Companies attempted to boost workforces and overall employment in the sector rose solidly. That said, the rate of job creation eased to a ten-month low amid reports of candidate shortages.

Demand for inputs increased further in December, while suppliers' delivery times lengthened again due to ongoing global shortages of raw materials and components, transportation bottlenecks and the impact of Brexit. As a result, input costs continued to surge, leading to another rapid rise in output prices. That said, the incidence of delays was the lowest in 2021, and input price inflation eased to a three-month low.

Manufacturers continued to increase their input stocks in December to guard against future supplier delays, although the rate of growth was the slowest since May. In contrast, stocks of finished goods fell at the fastest rate in four months.



Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI for December shows a continuing strong rate of growth in the sector, though the pace of expansion has eased back from its summer highs. The headline index fell to 58.3 in the month, down from 59.9 in November and 62.1 in October. While this is the lowest reading since March, the index remains at an elevated level historically. The Irish index is also just above the strong flash December readings for the Eurozone and UK of 58.0 and 57.6, respectively.

"The subcomponents of the Irish PMI survey also registered strong readings, while continuing to move down from the highs seen around mid-year. Manufacturing production is still expanding at a rapid pace, with new orders recording another marked rise, though growth in export orders remains muted. Employment in the sector continued to grow at a solid pace. Meanwhile, manufacturers were very positive on the 12-month outlook for production, with sentiment hitting its best level since July.

"Capacity constraints are still very evident in the sector. Backlogs of unfinished work continued to rise sharply. The delivery times for inputs also lengthened again, reflecting the ongoing pressure on supply chains. Not surprisingly then, firms saw a marked rundown in their inventories of finished goods.

"The combination of strong demand, continuing disruptions to supply chains and sharp upward pressure in raw materials, energy and transportation costs, resulted in a further marked increase in firms input prices. Manufacturers, though, are passing on these higher costs to customers, with output prices continuing to rise at a rapid pace, increasing at the third-fastest rate since the series began in 2002."

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
trevor.balchin@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).

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 6-16 December 2021.

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

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ihsmarkit.com/products/pmi.html

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