News Release

Embargoed until 01:01 Dublin (01:01 UTC) 2 March 2020

AIB Ireland Manufacturing PMI®

Manufacturing upturn continues in February, but outlook moderates

**Key Findings**

- PMI remains above 50.0 growth threshold
- Stronger gains in output and new orders
- Business expectations slide from January peak

Irish manufacturing conditions continued to improve in February, according to the latest AIB PMI® survey. Output and new orders both grew at faster rates than in January, although this was offset by a renewed fall in jobs. The 12-month outlook moderated as January’s Brexit-related boost to sentiment wore off as minds refocused on the post-transition settlement, while domestic political uncertainty and virus-related disruption were also cited as downside risks.

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 posted 51.2 in February, little-changed from January’s nine-month peak of 51.4 and indicative of a sustained improvement in manufacturing operating conditions in Ireland. The net downward tick in the headline figure reflected falls in the employment and stocks of purchases components. This was almost wholly offset by stronger growth in output and new orders, and a greater lengthening in suppliers’ delivery times.

Irish manufacturing output rose at the fastest rate for a year in February, despite the impact of storms and reports of disruption to supply chains from China’s coronavirus outbreak. Production was driven higher by a fourth rise in new orders in five months. Moreover, the rate of new business expansion accelerated, despite uncertainty related to the coronavirus outbreak and post-transition Brexit, and a decline in exports. New export orders fell for the eighth time in ten months, linked to weaker Chinese and European demand.

There was evidence of pressure on supply chains in February from disruption caused by the coronavirus outbreak in China.

Suppliers’ delivery times lengthened the most since March 2019, mainly linked to problems with Chinese suppliers. There were also reports that stormy weather had an impact on input deliveries. Reflecting this, stocks of inputs held by Irish manufacturers declined at the fastest rate since July 2016. Manufacturers also reduced the total volume of inputs ordered during the month, compared with January.

Manufacturers paid higher prices for inputs, on average, in February, and the rate of inflation quickened from January’s low. That said, the Input Prices index was still at the third-lowest level since July 2016, indicative of subdued overall cost pressures.

In contrast, prices charged by manufacturers for finished products rose at the fastest rate since March 2019, and one that remained above the historical trend.

A key weak point from the latest survey results was a renewed fall in manufacturing employment, the third contraction in four months. The rate of job shedding was the fastest for nearly seven years, but moderate overall. Anecdotal evidence linked lower staff headcounts to the non-replacement of leavers.

Following a Brexit-related boost in January, output expectations at Irish manufacturers moderated in February. The Future Output Index fell sharply from January’s eight-month peak, but nonetheless remained inside positive territory and above the levels seen during the second half of 2019. Anecdotal evidence suggested that virus-related global supply chain disruption, post-transition Brexit uncertainty and domestic political uncertainty had all weighed on the 12-month outlook in February.
Comment

Oliver Mangan, AIB Chief Economist, commented:

“The recovery in Irish manufacturing activity seen in January was sustained in February according to the latest AIB Manufacturing PMI survey data. The PMI stood at 51.2 in February, only slightly below the prior month’s reading of 51.4, and well above the levels seen in the second half of 2019. The data show that growth in output and new orders quickened in the month, but there was a decline in employment and a weakening of business sentiment.

“There was a lot more going on beneath the surface though. The outbreak of the coronavirus in China is having numerous effects, including contributing to a fall in new exports orders and causing disruption to supply chains. The latter is evident in longer supplier delivery times and a rundown in the stock of inputs used by manufacturers.

“Virus-related disruptions, as well as domestic political uncertainty following an inconclusive general election, were cited as factors behind an easing of business sentiment in February regarding the outlook for the coming 12 months. Concern about the outlook for business post the Brexit transition period also weighed on sentiment and was flagged too as weighing on new orders, although it still managed to hit a 10-month high.

“Overall, despite significant headwinds in February, Irish manufacturing managed to maintain its positive start to 2020. The PMI data show, though, that the sector is facing a number of challenges and firms are cautious as evidenced, by falls in employment, inventories and sentiment.”

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