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AIB Ireland Manufacturing PMI®

Irish manufacturers raise stocks of finished goods at record pace in April

Key Findings

Stocks of finished goods rise at fastest pace in series history

Output growth at 13-month low

New business grows at slowest pace since September 2016

April saw a softer improvement of manufacturing business conditions in Ireland, as output growth eased to a 13-month low. Moreover, inflows of new business increased at the slowest pace since September 2016, as firms observed softer demand conditions in both domestic and international markets. Meanwhile, as a result of continued Brexit uncertainty stocks of finished goods among Irish manufacturers rose at the fastest pace in the 21-year series history.

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 52.5 in April, down from 53.9 in March, and signalled the weakest improvement in manufacturing operating conditions since October 2016. Despite this, the rate of improvement was solid and April marked the seventy-first consecutive month of manufacturing expansion.

As observed over the past few months, inventory building was a large feature of April's survey. Attempts by panellists to mitigate any potential supply disruptions from Brexit fed through to holdings of post-production inventories. Stocks of finished goods among Irish manufacturers increased at the fastest rate in the 21-year series history.

Pre-production inventories, meanwhile, increased for the seventh consecutive month during April. The rate of accumulation was sharp, but dipped slightly from the series high recorded in March. As was the case with post-production inventories, panellists stated that they had increased their input stocks to guard against any Brexit-related stock issues.

The sharp accumulation of input stocks was supported by a continued rise in purchasing activity. Despite easing to a three-month low, the rate of expansion was sharp and faster than the series average. Many firms commented that they had brought forward input purchases in order to secure raw

Ireland Manufacturing PMI
sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

materials from any potential stock problems arising from Brexit.

Underpinning the softer improvement in manufacturing operating conditions were slower increases in output and new orders. Growth of new work eased to the slowest since September 2016, amid reports from panellists of weaker domestic and international demand. Nonetheless, the rate of expansion was solid and April marked the thirty-third successive month of greater new business. Export sales also increased in April, though at a softer rate than observed in March.

Despite continued new order growth, manufacturers depleted their backlogs of work for the eighth successive month. That said, the rate of backlog depletion was marginal and the softest in five months. Additionally, despite slowing to a three-month low, the rate of job creation among Irish manufacturers was solid.

Manufacturers responded to higher new orders by raising production for the thirty-third month in a row. That said, the rate of increase was modest and eased to the weakest in just over a year. Some panellists linked softer output growth to delayed customer orders resulting from Brexit uncertainty.

On the price front, the rate of input cost inflation quickened from March, but was still the second-slowest in 28 months. Panellists attributed higher costs to greater raw material prices (notably pork). Meanwhile, output charges rose marginally and at the slowest pace in the current four-month sequence of inflation.

Optimism regarding future output was sustained in April, with just under 47% of the survey panel anticipating higher production in one year's time. New product developments and greater new export orders were cited as reasons to be confident. However, ongoing Brexit uncertainty was reported as a factor weighing on optimism. As a result, overall sentiment dipped slightly from March.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB manufacturing PMI for April showed a loss of momentum in the sector at the start of quarter two. The headline index declined to 52.5 in April from 53.9 in March. This represented its lowest level since October 2016, although, it is just below its January reading of 52.6. The reading of 52.5 is still consistent with solid growth in the sector. Despite falling in April, the Irish manufacturing PMI continues to outperform its Eurozone counterpart, with stood at 47.8 in its first reading in April.

"The underlying data in the Irish PMI survey showed that activity was impacted by the new orders component recording its slowest pace of growth since September 2016. This was on the back of weaker demand on both the domestic and international front. Output growth, which slowed to a 13 month low, also acted as a drag. Meanwhile, job creation also saw some deceleration, although its level continued to indicate a solid pace of hiring. Optimism amongst Irish manufacturing firms regarding the outlook over the next 12 months remained strong in April.

"The issue of Brexit was once again evident in the PMI data. Inventory building remained a feature as some firms took pre-emptive measures to deal with possible disruptions to supply chains. Stocks of finished goods registered their fastest pace in the 21-year history of the survey. Meanwhile, the rate of increase in pre-production inventories remained elevated."

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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.

April 2019 data were collected 10-23 April 2019.

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

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