Irish manufacturing suffers record falls in output and new orders in April as coronavirus pandemic worsens

Key Findings

Unprecedented declines in output, new orders and exports

PMI boosted by record supplier delays, but still drops sharply

Joint-record rate of job shedding

The April AIB PMI® survey of Irish manufacturers revealed a deepening downturn in the sector at the start of the second quarter of 2020, as the economic fallout from lockdowns imposed across Europe and the wider world led to a collapse in demand. Output, new orders, exports and purchasing all fell at the fastest rates in the 22-year survey history. Jobs were shed at the joint-fastest rate on record and the 12-month outlook deteriorated further.

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 plummeted to 36.0 in April, from 45.1 in March, the lowest since March 2009. The month-on-month decline in the headline figure, at 9.1 points, was a new survey record, easily beating March’s 6.1-point fall. The latest figure was the third-lowest on record, behind February 2009 and March 2009.

As was the case in March, the level of the PMI was supported by a record lengthening of suppliers’ delivery times, the index for which is inverted in the PMI calculation as longer times are usually associated with improving demand. With a 15% weight, the 13.3-point drop in the suppliers’ delivery times index boosted the PMI by 2 points.

A truer picture of the severity of the hit to manufacturing activity in April was provided by the indices for output and new orders, accounting for 55% of the PMI weight. Both hit record lows during the month, signalling rates of decline that were unprecedented in at least 22 years. The output index fell a record 21.8 points, eclipsing March’s drop. More encouragingly, new orders declined at a slower rate than production, as the respective index posted a less marked month-on-month drop than in March.

Manufacturing employment also weighed heavily on the headline PMI in April. The rate of job shedding, already sharp in March, accelerated to the joint-fastest in the 22-year survey history, matching the pace recorded in February 2009.

Data signalled collapsing demand from both domestic and export markets. New export orders contracted at a survey-record pace, with the decline sharper than that recorded for total new orders.

Although output declined rapidly in April, backlogs of work contracted at the fastest rate since September 2011, continuing a sequence of depletion that began in September 2018.

Purchasing activity was substantially scaled back in light of the collapse in demand linked to the global coronavirus pandemic. The volume of inputs ordered by manufacturers fell at a survey-record rate that was similar to the extent of the drop seen in new work. Consequently, stocks of inputs fell at the fastest rate in eight years, despite the rapid decline in production.

Lower demand for inputs generally and also the crash in global oil prices led to the fastest decline in average input prices since March 2016. Meanwhile, manufacturers cut their charges at the strongest rate since August 2019, in an attempt to bring in revenues.

The 12-month outlook weakened further in April as companies expected a recession in the aftermath of the coronavirus crisis. The Future Output Index hit a new record low during the month, but the month-on-month decline in the index (-1.9 points) was much smaller than March’s 17-point plunge.
Comment

Oliver Mangan, AIB Chief Economist, commented:

“The AIB Irish Manufacturing PMI data for April paint a bleak picture of the impact on the sector of the lockdowns associated with the coronavirus pandemic. The headline index declined sharply to 36.0 from 45.1 in March, with the 9.1 point fall in the month the largest on record. “However, the severity of the hit to the sector is really shown by the very poor readings for the key sub-components of output, orders and employment. The output index halved, falling to a record low of just 21.8, with almost 70% of firms reporting a decline in production. New orders fell to 27.9, with almost two-thirds of companies reporting declining. There was a particularly sharp fall in export orders. Employment also took a hammering, with over 40% of firms cutting staff numbers.

“Meantime, purchasing activity also declined to below its previous low set in 2009. Falling orders saw depletion of levels of backlogs despite steep production cuts. There were also unprecedented delays in the delivery of inputs as a result of disruptions caused by the lockdowns.

“The Irish figures are no surprise as they are in line with global trends. The flash readings for the Eurozone, UK and US manufacturing PMIs for April show declines to 33.6, 32.9 and 36.9, respectively, similar readings to Ireland. There were some glimmers of hope in the very weak Irish data. There was a smaller decline in the new orders index than in March, while the fall in the future output index was very modest in April, having plunged in March. The data will improve as lockdown restrictions are eased.”

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 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 7-21 April 2020

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

About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market share in banking products in the Republic of Ireland.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

About PMI

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

Disclaimer

This publication is issued by Allied Irish Banks, p.l.c. (“AIB”) and is for general information purposes only. This publication should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments or products, securities or any derivative instrument (together; “instruments”), or any other rights pertaining thereto. AIB does not express any opinion as to the present or future value or price of any instruments referred to in this publication.

The information provided in this publication is believed to be valid and accurate on the date it is first published but AIB, along with its directors, officers, or employees, does not accept any liability for any loss arising from the use of the information. The information contained therein, including any expressions of opinion, has been obtained from, or is based on, or compiled from, sources believed to be reliable but its accuracy or completeness is not guaranteed and is subject to change without notice.

Any decision made by a party shall be on the basis of its own research and shall not be influenced or based on any view expressed by AIB in this publication or otherwise. This publication does not address all risks. This publication does not constitute investment advice or a recommendation and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments and/or pursuing any investment strategies. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any instruments, forecasts are not a reliable indicator of future performance.

This publication is not to be reproduced in whole or in part without the prior express written consent of AIB. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or any data (including any “data” contained herein, any error, inaccuracy, omission or delay in the data, or for any actions taken in reliance thereon). In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.