News Release

Embargoed until 01:01 Dublin (01:01 UTC) 1 February 2021

AIB Ireland Manufacturing PMI®

Output and new orders fall sharply in January, but outlook brightens

Key Findings

Strongest declines in output and new orders since May 2020

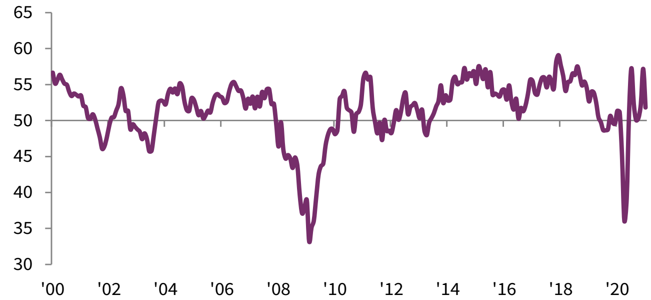
Suppliers' delivery times lengthen at near-record rate

Output expectations strongest since May 2019

Data were collected 12-21 January 2021.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

The Irish manufacturing sector was negatively impacted in January by new lockdown measures and UK trading arrangements, according to the latest PMI® data from AIB. Output and new orders both fell sharply, reversing the strong growth seen in December. Suppliers' delivery times lengthened to the second-greatest degree on record and cost pressures intensified. More positively, employment rose slightly, and firms were more optimistic regarding the 12-month outlook.

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 retreated sharply to 51.8 in January from December's 57.2, leaving it at a three-month low. The latest headline figure signalled an overall improvement in manufacturing business conditions, but this masked much weaker trends for the key components of output and new orders. These both fell sharply during the month, with both sub-indices posting the second-steepest month-on-month declines over the survey history. The PMI was held above 50.0 mainly due to a near-record lengthening in suppliers' delivery times and another strong rate of growth in input stocks, while employment offered a broadly neutral contribution.

Tighter coronavirus restrictions, weak European demand and new UK trading regulations all weighed heavily on inflows of new orders to Irish manufacturers in the opening month of 2021. The volume of new business fell sharply, reversing December's pre-Brexit boost and marking a third month-on-month drop in demand since last September. The rate of contraction in January was the strongest since last May, reflecting the severity of the latest surge in virus cases and subsequent lockdown measures. New export orders fell for the third time in five months, and at the fastest rate since last September.

Lower new orders led to a sharp drop in production in January, following strong growth in December. Firms heavily linked reduced output to business shutdowns due to the latest coronavirus lockdown, while supply delays resulting from new UK customs procedures were also mentioned. Overall, output fell the most since last May. Despite this, backlogs of work also declined, underlining the overall weakness of market conditions.

January data signalled a sharp fall in the volume of inputs purchased by Irish manufacturers compared with December levels. This partly reflected a correction following the boost to purchasing at the end of last year in the twilight of UK single market membership, but also reflected the friction of new UK trading arrangements and weaker demand as a result of tighter lockdown restrictions. Firms also reported sufficient inventories, as the volume of pre-production items held in stock rose for the third month running and at the fastest rate since April 2019.

More evidence of post-Brexit trade disruption in January was revealed by a near-record lengthening of suppliers' delivery times. Only last April had delays been more severe since the survey began in 1998. This added to cost inflationary pressure, as input prices rose the most since November 2018. Subsequently, output price inflation hit a 22-month high.

Despite the sharp reduction in new orders in January, trade frictions, and a worsening phase of the pandemic, manufacturers grew more optimistic about the 12-month outlook. Overall confidence was the strongest since May 2019. Firms linked positive forecasts to the release of pent-up demand in the second half of 2021 as vaccine roll-outs lessened the economic disruption from coronavirus.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI fell back to 51.8 in January from 57.2 in December, hitting a three-month low. This decline was not unexpected. Stockpiling ahead of the end of the Brexit transition period was one of the factors behind a sharp rise in the December index. This unwound in January, with new post-Brexit UK trade regulations and disruptions an additional headwind for the sector.

"A tightening of Covid restrictions, both here and elsewhere, added to the more challenging backdrop for businesses, with firms reporting a weakening of economic conditions and demand. Although the PMI remained above 50 and thus stayed in expansion territory in January, the main components of the survey point to marked underlying weakness in the sector.

"Output and new orders contracted sharply in the month, with both sub-indices registering steep declines. New export orders fell at their quickest pace since September. Meanwhile, purchases of inputs also fell back sharply following their big rise in December.

"The impact of Brexit on trade, as well as the new lockdown measures, can be seen in the major delays in the delivery of inputs in January, with the index plunging to its second lowest level on record. Not surprisingly, this is putting upward pressure on prices, with both input and output prices recording further large gains.

"On a more positive note, employment rose again for a fourth consecutive month, though the increase was marginal. Meanwhile, firms have become very optimistic about the 12-month outlook for production, in the view that the rollout of Covid vaccines will bring an improvement in economic conditions and see a release of pent-up demand as this year progresses."

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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.

Data were collected 12-21 January 2021.

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 shares 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.

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.