



AIB Ireland Manufacturing PMI®

Irish manufacturing ends 2020 with stronger expansion as end of Brexit transition period looms

Key Findings

Fastest increases in output and new orders since July

Pre-Brexit business boost reported by firms

Suppliers' delivery times lengthen markedly

Data were collected 4-16 December 2020.

The Irish manufacturing sector saw a boost to business in December as firms prepared for the end of the Brexit transition period, the latest PMI® data from AIB indicated. New orders and output both rose at the fastest rates since July's post-lockdown bounce, and purchasing accelerated as firms sought to expand inventories to guard against a potential hard Brexit. Suppliers' delivery times lengthened to one of the greatest extents in the survey history as a result.

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 rose sharply from 52.2 in November to 57.2 in December. This signalled a sixth overall improvement in manufacturing business conditions in the past seven months, and the strongest growth since July. Moreover, the five-point rise in the headline figure was the third-largest on record since the survey began, behind only those registered in June and July as the sector reopened following the first coronavirus lockdown.

As was the case in November, all five components of the headline figure were in growth territory and all provided positive directional influences on the PMI in December. The greatest uplifts came from the new orders and output sub-indices, which boosted the PMI by 2.0 and 1.7 points respectively, followed by suppliers' delivery times (+0.6), employment (+0.4) and stocks of purchases (+0.3).

New orders received by Irish manufacturers rose for the second month running in December, and at the fastest rate since July. Firms reported improving demand and also advance orders placed by customers preparing for potential disruption following the end of the Brexit transition period. Orders related to the

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

European auto industry were also mentioned.

Production followed the same trend as new business inflows, rising for the second month running and at the strongest rate since July. Moreover, excluding the July spike in growth, the rate of expansion in December was the fastest since September 2018. Some firms reported that production had been aided by an easing of lockdown restrictions.

Manufacturers ramped up purchasing operations at the end of 2020 both to support current workloads and to build safety stocks for 2021 as the Brexit transition period ends. The volume of inputs ordered rose the most since March 2019, contributing to the strongest increase in stocks of purchases since April 2019. Rising demand for inputs placed pressure on supply chains, however, with December data indicating the greatest lengthening in suppliers' delivery times since May (and the fourth-greatest on record). Delays were attributed to congestion at ports and on roads, and shortages of raw materials including wood in particular.

Shortages of raw materials and rising demand contributed to another round of input cost inflation in December. The rate of inflation was slightly softer than in November, but still the second-fastest of the past 22 months. Meanwhile, manufacturing output prices rose for the third consecutive month and at a rate that remained above the long-run series average.

Manufacturers were optimistic regarding output growth over the course of 2021. Sentiment eased slightly since November, partly reflecting rising uncertainty surrounding a UK-EU trade deal, but was still the second-highest for ten months. Firms generally expect a recovery in business levels in 2021, despite the ongoing impact of the pandemic and a new UK trading relationship.



Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI jumped to 57.2 in December from 52.2 the previous month, coming very close to matching July's two year peak of 57.3. Stockpiling ahead of the end of the Brexit transition period was one factor behind the sharp rise in the index. Although manufacturing is performing well globally at the present time. The flash manufacturing PMIs rose to 57.3 in the UK and 55.5 in the Eurozone in December, so the strong Irish figure is not out of line with elsewhere.

"All five components of the PMI rose again in December for the second month running and all are well into positive growth territory. New orders increased strongly in the month, which translated into a marked rise in production. This was partly due to customers bringing forward orders with the Brexit transition period expiring at the end of the month. The same factor also saw manufacturers ramp up their purchases and stocks of inputs.

"Not surprisingly, higher work volumes saw firms increase their workforce for the third consecutive month, with employment expanding at its strongest rate since April 2019. Supply chains remain under pressure, with manufacturers reporting shortages in raw materials as well as delays in deliveries owing to congestion at ports and on roads. Price pressures continue to build, with a further sharp increase in input prices in particular.

"Firms remain optimistic about the 12-month outlook for production, no doubt hopeful that the recent positive news on Covid vaccines will help bring about an improvement in economic conditions over the course of 2021."

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

Katherine Smith
Public Relations
T: +1 781-301-9311
katherine.smith@ihsmarkit.com

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@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 4-16 December 2020.

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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