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AIB Ireland Manufacturing PMI®

Irish manufacturing rebound loses momentum

Key Findings

- PMI gives up most of July gains, falling to 52.3
- Growth of output and new orders both slow noticeably
- Manufacturers resume job shedding following mild hiring in July

Business conditions in the Irish manufacturing sector continued to improve in August but the recovery lost momentum, the latest PMI® data from AIB indicated. Growth rates for output and new orders eased sharply from July, while there were renewed cuts to employment and purchasing. The 12-month outlook remained positive, but has stalled since an initial rebound at the end of the second quarter.

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 from July’s 23-month peak of 57.3 to 52.3 in August. This was the second-highest reading in 16 months and indicated of improving business conditions, but nonetheless signalled a loss of momentum as firms reported concerns around the wider economy in the wake of the ongoing coronavirus pandemic. The 5-point drop in the headline figure was the fourth-largest on record, behind those registered in March (-6.1) and April (-9.1). That said, the latest reading was above the trend level of 51.8 since the survey was first compiled in May 1998.

New orders rose for the third consecutive month in August, following a severe downturn in March through to May as the economy was locked down to contain the coronavirus disease 2019 (COVID-19) pandemic. The rate of expansion in the latest period was the second-strongest since March 2019, but slowed markedly from July. New export orders showed a similar trend to total new work, rising for the third straight month but at a much slower rate than in July.

Manufacturing output rose for the third month running in August, the longest sequence of sustained growth in 16 months. The rate of expansion was strong in the context of historical data, but slowed notably from July’s near-record pace. Production rose more sharply than new work, resulting in a renewed decline in backlogs during the month following a spike in July.

Manufacturers remained confident of growth in output over the next 12 months in August, with positive sentiment maintained for the fourth straight month. That said, amid mounting uncertainty about a second wave of COVID-19 and the long-term impact on the economy and jobs from the pandemic, firms were no more confident than they were in June and July. The Future Output index eased to a three-month low and was well below its long-run average.

Subdued sentiment and the slowdown in new business was reflected in firms’ hiring decisions in August. Having risen in July for the first time since January, manufacturing employment declined in the latest survey period. That said, the rate of job shedding was slower than those registered in the March to June period.

Purchasing activity also declined in August having rebounded in July. This reflected ongoing efforts to minimise stock levels as demand conditions remained highly uncertain. Stocks of purchases fell at the second-fastest rate in nearly nine years. Meanwhile, finished goods inventories declined at the second-strongest pace in nearly two-and-a-half years.

Although demand for inputs fell in August, suppliers’ delivery times lengthened further and input prices increased, reflecting shortages of some raw materials. Although purchase prices rose, prices charged by manufacturers declined as they attempted to sell off old stock.
Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI for August fell back from the near two-year high hit in July, declining from 57.3 to 52.3. This was still the second-highest reading in the past 16 months. Although the lower August figure signals some loss of momentum after the sharp rebound in the previous month, it is still consistent with improving business conditions in the sector.

"The loss of momentum in August is not surprising given the pick-up in new coronavirus cases over the past month, both in Ireland and elsewhere, and the continuing very uncertain economic outlook. The Irish PMI of 52.3 for August lies between the flash readings of 51.7 for the Eurozone and 53.6 for the US and so is broadly in line with data elsewhere.

"The details of the August survey point to considerable caution in the sector amid much uncertainty about the economic outlook. Output continued to grow at a strong pace as more markets reopen, though not as rapidly as in July. However, growth in new orders while still solid, slowed appreciably from July suggesting some softening in demand.

"Stocks of both finished goods and inputs continued to decline in August as firms look to minimise inventory levels in the very uncertain environment. Despite rising output levels, employment declined in the month. Firms’ expectations on the 12-month outlook also slipped back for the second month running and remains well below its long run trend.

"Overall, the August PMI data show that the recovery in manufacturing activity is continuing, but firms remain very cautious amid heightened uncertainty about future demand and general business conditions."

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 inserted 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 22-23 August 2020.

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

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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. For more information, please visit ihsmarkit.com/products/pmi.html.

About AIB Ireland Manufacturing PMI®

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