



AIB Ireland Manufacturing PMI®

Manufacturing returns to expansion at start of 2020

Key Findings

PMI improves to nine-month high of 51.4 in January

Output, new orders and jobs all grow since December

Business confidence continues to rebound

Irish manufacturers started 2020 on the front foot, with January data from the AIB PMI® survey pointing to improving trends for a range of indicators. New orders, output, purchasing and jobs all expanded following contractions at the end of 2019, while export demand steadied amid reports of a stable US economy and improving UK market. The 12-month outlook also brightened, with the Future Output Index posting its biggest one-month gain in over three years.

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 from 49.5 in December to 51.4 in January, signalling an overall improvement in Irish manufacturing operating conditions. It was the first reading above the neutral threshold since last October, and the highest since April 2019. Moreover, the one-month gain in the headline figure was among the largest recorded for two years. That said, the PMI was slightly below its long-run survey average of 51.9.

The 1.9-point increase in the PMI in January almost wholly reflected the output, new orders and employment components. These contributed 0.8, 0.8 and 0.3 points to the overall rise, respectively. The suppliers' delivery times and stocks of purchases components were broadly stable at their December levels.

January data signalled that underlying demand for Irish manufactured goods continued to recover from a soft patch during the middle of 2019. New orders rose for the third time in four months, and at the fastest rate since last April. A number of firms reported an improving UK market and stable US economy, which was reflected in a halt to the recent slide in new export orders at the start of the year.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

Stronger inflows of new work drove a rise in manufacturing output in January. Production rose for only the third time in the past nine months, and at the fastest rate since March 2019.

Manufacturers supported workloads by expanding their purchasing operations. The volume of inputs ordered posted the first meaningful rise since last April. That said, the rate of growth was slower than that for new work, leading to a further drop in stocks of inputs as firms also sought to manage inventories.

Stocks of finished goods also fell in January, albeit marginally, ending a survey record-equalling seven-month sequence of growth.

Irish manufacturing employment increased at the start of 2020, following a two-month spell of job shedding. The rate at which the workforce was expanded was broadly in line with the long-run survey average.

January data signalled a general lack of cost inflationary pressure in the manufacturing sector. Input price inflation slowed to a 42-month low, and was well below the long-run survey average. In contrast, output prices increased at the strongest rate since March 2019, pointing to improving profitability.

Improving current business conditions were accompanied by a brighter 12-month outlook. The Future Output Index posted its largest one-month gain in over three years and signalled the strongest overall sentiment among manufacturers since last May. Confidence was linked to new products, the installation of new plant machinery and greater certainty regarding Brexit.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Manufacturing PMI survey for January shows that activity in the sector picked up momentum at the start of 2020. The headline index moved back into growth territory, rising to a nine month high of 51.4 from 49.5 in December. This would appear to reflect two factors in particular. Firstly, some improvement in the manufacturing backdrop in Europe, with flash January PMIs registering good gains in both the Eurozone and UK. Secondly, greater certainty around Brexit following December's general election in the UK.

"The survey shows marked improvements in key sub-components such as output, orders and employment. New orders rose at their fastest pace since April, triggering a rebound in output. Notably export orders, which had declined right through the second half of 2019, moved back into expansion territory in January, with firms reporting stronger business from the UK in particular.

"Improving orders and production levels saw firms respond with the first meaningful rise in the purchase of inputs since April and a return to hiring. Employment in manufacturing expanded in January after two months of decline.

"Irish manufacturing, then, enjoyed a positive start to 2020. Furthermore, firms believe that the prospects for the coming year are also improving, with a sharp rise in the Future Output Index to an eight month high. However, difficult EU-UK trade talks this year could test this greater optimism, as may the continuing subdued growth prospects for the global economy."

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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.

January data were collected 13-24 January 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. To learn more go to ihsmarkit.com/products/pmi.html.

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