



AIB Ireland Manufacturing PMI®

Manufacturing output broadly stable in October but new orders fall further

Key Findings

Output and employment indices support headline PMI

Second successive monthly fall in new orders

Output expectations weakest since May

Data were collected 12-23 October 2020.

The Irish manufacturing sector entered the final quarter of 2020 with demand continuing to weaken, the latest PMI® data from AIB indicated. A slight rise in employment was the main positive from the October survey findings, while output was broadly stable following September's renewed fall. Firms cut purchasing activity at a faster rate as they continued to deplete inventories. The 12-month outlook remained positive, but was the weakest since May.

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 edged higher to 50.3 in October, from September's 50.0. This signalled an overall improvement in business conditions at the start of the fourth quarter, following a stagnation at the end of the third quarter as an initial summer rebound from the spring coronavirus lockdown faded. The latest PMI remained well down from its recent peak of 57.3 in July, and signalled only a marginal improvement in conditions in October.

The slight upward movement in the PMI masked contrasting trends between its five components. The seasonally adjusted employment index signalled growth for the first time in three months – and for only the third time in the past year – contributing 0.4 points to the net increase in the headline figure. Output was broadly stable, having declined in September, which also boosted the PMI by 0.4 points. New orders fell further, albeit at a weaker rate – with a directional influence on the PMI of +0.1 points – while the suppliers' delivery times and stocks of purchases components weighed on the PMI by 0.4 and 0.2 points respectively.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

Demand conditions in the Irish manufacturing sector continued to weaken in October, with new orders falling for the second month running following a rebound over the summer. The rate of contraction was slightly weaker than in September, and much slower than those registered during the spring lockdown. New export orders also fell for the second successive month, but only marginally. Firms mainly linked lower demand to ongoing COVID-19 restrictions.

Although new orders fell further, output was broadly unchanged in October following September's decline, as firms worked through existing business. Backlogs of work fell for the twenty-fifth time in the past 26 months, and at a solid overall pace.

Manufacturers cut purchasing activity further in response to the sustained drop in new work at the start of the fourth quarter. Input volumes fell for the third month running, and at the strongest rate since June. The level of inputs held in stock declined at the fastest pace since November 2011. Despite the reduction in demand for manufacturing inputs, suppliers' delivery times lengthened markedly again during October.

The main positive from the October survey was a renewed increase in manufacturing employment, only the third round of job creation in the past 12 months. This partly reflected sustained optimism around future production, with the respective index remaining in positive territory. That said, sentiment was the weakest since May.

Cost inflationary pressures were favourable in October. Average input prices rose for the fourth month running, but at the weakest rate in this sequence and one that was below the long-run survey average. Moreover, firms raised their own prices for only the second time in the past eight months.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI for October edged higher to 50.3, having fallen back to a four-month low of 50.0 in September. The October reading is well back from the near two-year high of 57.3 hit in July as the economy rebounded after the first Covid lockdown.

"The details of the October survey point to broadly stable though subdued business conditions in the sector. Output was virtually unchanged from its level in September. There was a slight decline in new orders, both domestic and international, with firms linking the weakening in demand to Covid-19 restrictions.

"The softness in demand saw the backlogs of unfulfilled orders fall further. Stocks of both finished goods and inputs continued to decline in October as firms looked to minimise inventory levels, with another reduction also in the volume of inputs purchased.

"On a positive note, manufacturers added to their workforces in October, with employment rising for only the third time in the past twelve months, although the rate of increase was quite modest. Output prices also edged higher in the month. Meanwhile, firms remain positive on the 12-month outlook, though levels of confidence continued to slip from their recent highs back in June.

"Overall, the October PMI data point to soft business conditions in the manufacturing sector. It is noteworthy that the Irish PMI reading for manufacturing in October continued to lag behind elsewhere in Europe and the US, which have enjoyed a stronger and more sustained rebound in activity post the Covid lockdown implemented earlier in the year."

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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 12-23 October 2020.

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

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