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AIB Ireland Manufacturing PMI®

Manufacturing operating conditions improve to weakest extent since October 2016

Key Findings

Output rises at slowest pace in ten months

New order growth slowest since November 2016

Rate of job creation at 16-month low

Manufacturing conditions in Ireland improved to the weakest extent since October 2016 in January, as production growth eased to a ten-month low. In line with output, inflows of new business expanded at a slower pace, one that was the weakest since November 2016. As a result of softer customer demand, the rate of job creation eased to a 16-month low.

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 52.6 at the start of 2019, down from 54.5 in December, signalling the weakest improvement in the health of the sector since October 2016. That said, the rate of improvement was solid and business conditions have now strengthened in each of the past 68 months.

Underpinning the slower improvement in manufacturing operating conditions was an easing of output growth. Production expanded modestly in January and at the slowest pace in ten months. Panellists attributed this to softer demand conditions both domestically and internationally.

New orders expanded for the thirtieth successive month in January. The rate of growth was solid, but slowed to a 26-month low. New export business also increased, albeit at the weakest pace since October 2016 amid reports of reduced UK orders.

With new order growth slowing, Irish manufacturers were able to deplete backlogs of work. The fall in outstanding business was the fastest since August 2016.

Post-production inventories increased for the second month running during January. The rate of accumulation

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

was modest, but the fastest since January 2018. A number of respondents increased inventory holdings due to new product launches in 2019, while others suggested that they had built stocks in order to guard against any delays resulting from Brexit.

On the employment front, Irish manufacturers continued to take on additional staff in January, with headcounts rising for the twenty-eighth successive month. However, faced with softer customer demand from both domestic and international markets, the rate of job creation slowed to a 16-month low.

Purchasing activity increased for the twenty-ninth consecutive month during January. Despite this, the rate of growth eased amid weaker demand conditions for Irish manufacturers. Higher demand for inputs and capacity constraints resulted in a further lengthening of vendor lead times, albeit the weakest since February 2017.

Input price inflation remained sharp and quickened in pace from December, with many panellists reporting higher raw material prices. The passing on of greater cost burdens led to a rise in output charges, following no change in the previous month.

Finally, sentiment among Irish manufacturers softened from December to the weakest in three months. Firms continued to predict output growth over the coming year, however. Expectations of increased customer orders, improved marketing efforts and continued strength in export markets were cited as reasons to be optimistic.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The first reading of the AIB Manufacturing PMI survey in 2019 shows a further loss of momentum in the sector in January. The headline index declined to 52.6 in the month from 54.5 in December, its lowest level since October 2016. However, the reading of 52.6 is still consistent with solid growth by the sector, with the survey showing that manufacturing activity has now expanded for 68 consecutive months. The Irish reading is also well above the flash January Manufacturing PMI for the Eurozone, which came in at 50.5. The slower pace of growth evident since last summer in the Irish Manufacturing PMI survey is not surprising, as it is consistent with the loss of momentum by the global economy over this period. The data for January show a further weakening in the new orders index, with participants in the survey reporting softer consumer demand in both the domestic and international markets. Anecdotal evidence from panellists also suggested that Brexit uncertainty was weighing on orders from the UK.

"The January AIB Manufacturing PMI survey highlights that Ireland cannot be complacent about a continuation of the very strong growth that the economy has enjoyed since 2013. The pace of activity is likely to slow this year, but the economy is still expected to register strong growth. However, a slowing European economy, which is the destination for the bulk of Irish exports, and the continuing uncertainty around Brexit, are obvious downside risks for the Irish economy in 2019."

Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353 1 6417176
E: AIBeconomics.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

IHS Markit

Amritpal Virdee
Economist
T: +44-207-064-6460
amritpal.virdee@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@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.

January 2019 data were collected 11-24 January 2019.

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

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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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