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AIB Ireland Manufacturing PMI®

Business conditions deteriorate for first time since May 2013

Key Findings

Overall new orders decline at fastest pace since January 2012

Second-fastest rise in stocks of finished goods on record

Business confidence at 34-month low

Manufacturing conditions in Ireland deteriorated for the first time since May 2013 in June, as inflows of overall new business fell for the second month running. The rate of contraction of new orders was solid and the fastest since January 2012. Production inched up, however, and manufacturers raised their holdings of finished goods at the second-fastest pace in the more than 21-year series history amid hopes of a pick-up in customer demand in the future. Meanwhile, amid ongoing reports of Brexit uncertainty, sentiment regarding output over the coming year eased to a 34-month low in June.

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 49.8 in June, down from 50.4 in May, and signalled the first deterioration in Irish manufacturing operating conditions since May 2013. That said, the degree to which business conditions declined was marginal.

Central to the deterioration in manufacturing operating conditions was a further decline in overall new business. The rate of contraction was marked and the fastest since January 2012. Panellists attributed the fall to softer demand conditions and ongoing Brexit uncertainty. Meanwhile, inflows of new work from abroad increased in June, reversing May's first decline since August 2016. Manufacturers commented that they had received orders from customers in Asia, South America and the UK.

Manufacturing output rebounded from May's decline to post an increase during June. That said, the rate of output expansion was marginal and slower than the long-run series average. Firms stated that greater business from overseas markets contributed to higher production levels in June, but there were also reports of market conditions remaining weak.

Employment growth amongst Irish manufacturers quickened in June. That said, the rate of job creation was modest and only slightly faster than May's 32-month low. Anecdotal evidence from panellists indicated that they had raised their staffing numbers in response to higher

Ireland Manufacturing PMI
sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

production requirements.

In contrast to May's decline, stocks of finished goods among Irish manufacturers rose during June. Moreover, the rate of accumulation was sharp and the second-fastest in the over 21-year series history. Some respondents indicated that they had built up their post-production inventories in the hope of seeing an improvement in new orders in the future.

Holdings of raw materials and semi-finished items increased for the ninth successive month during June. However, the rate of accumulation was marginal and slowed for the third month running. Panellists commented that they had raised their inventory levels due to greater production requirements, with Brexit stockpiling earlier in the year having been halted.

The rise in pre-production inventories was recorded in spite of a further reduction in purchasing activity. The rate of contraction was sharp and quickened from May to a joint 35-month low. Anecdotal evidence from panellists indicated that they had reduced their input buying in response to weaker demand conditions.

Manufacturing backlogs in Ireland declined for the tenth month running during June. The rate of backlog depletion was sharp and the fastest since August 2016. Pressures on supply chains eased in June, with average lead times shortening for the first time since July 2013, amid reports of reduced activity among suppliers. That said, the rate at which delivery times improved was marginal.

Cost burdens increased during June, fuelled by greater raw material prices, particularly for steel and pork. Despite being solid, the rate of inflation was only slightly faster than May's 34-month low. In response to higher input costs, Irish manufacturers increased their selling prices, although the latest increase was marginal.

Sentiment among Irish manufacturers dropped from May to the weakest in 34 months as Brexit uncertainty weighed on optimism. Firms continued to predict output growth over the coming year, however. Expectations of increased customer orders and improved marketing efforts were factors supporting optimism.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB manufacturing PMI showed a further loss of momentum in June, with the index dropping below 50 into contraction territory for the first time since May 2013. The PMI declined to 49.8 from 50.4 in May and 52.5 in April. Thus, the sharp slowdown in manufacturing activity globally is now being felt in Ireland, amid a marked weakening in international trade and increasing uncertainty in regard to Brexit. This is not surprising given that Ireland is a very open economy.

"The weak Irish reading is in line with that for manufacturing in our main export markets. The flash US PMI fell to a ten year low of 50.1 in June from 50.5 in May. The PMI in the UK fell below 50 in May, when the index dropped to 49.4. Meanwhile, the manufacturing PMI for the Eurozone has been mired deep in contractionary territory for some time, with the flash index at 47.8 in June.

"The weakness in the headline Irish PMI number is reflected in the various components of the survey. Although, output rose marginally, there was a marked decline in new orders, partly due to Brexit uncertainty. For the second month in a row, there was a significant decline in the backlog of orders, reflecting softer demand conditions. Meanwhile, stocks of finished goods accumulated at a fast pace. Employment growth was very modest at just above May's 32-month low. Meantime, sentiment on the outlook among Irish manufacturers while still positive, hit a 34-month low amid continuing uncertainty over Brexit."

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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.

June 2019 data were collected 12-21 June 2019.

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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