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## AIB Ireland Manufacturing PMI®

### Business conditions improve for first time since May

#### Key Findings

**Output and new orders rise slightly**

**Output charges increase after three months of decline**

**Business confidence improves from September's record low**

October saw the first improvement in Irish manufacturing business conditions since May, in line with returns to growth of output and new orders and a renewed rise in employment. Inflows of new business from abroad declined for the fourth month in a row, however. On the price front, average selling prices increased after three months of decline and at the fastest pace since May. Meanwhile, despite continued reports of Brexit uncertainty, sentiment regarding output over the coming year improved slightly from September's record 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 50.7 in October, up from 48.7 in September and signalling the first improvement in Irish manufacturing operating conditions since May.

Central to the improvement in manufacturing operating conditions were returns to growth of both output and total new orders. After three straight months of decline, output expanded marginally and at the fastest pace since April during October. Panellists stated that they had increased their production in line with a pick-up in customer demand.

Inflows of total new orders expanded in October, albeit at a marginal rate. The increase in overall new business followed five consecutive months of decline. Export sales, meanwhile, continued to fall, though the latest decrease was only modest. Manufacturers stated that they had observed reluctance from UK firms to place orders as a result of Brexit uncertainty.

Employment improved from September's stagnation, rising modestly during October. Moreover, the rate of job creation was the fastest since June. Anecdotal evidence from panellists indicated that they had raised their staffing numbers in response to higher production requirements.

Stocks of finished goods among Irish manufacturers increased for the fifth month running during October. The rate of accumulation was solid and quickened from

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

September. Some respondents indicated that they had built up their post-production inventories in order to guard against any potential supply disruptions after Brexit.

Holdings of raw materials and semi-finished items increased for the first time since July. However, the rate of increase was marginal. As with post-production inventories, panellists commented that they had raised their inventory levels due to stock availability concerns after Brexit.

The rise in pre-production inventories was recorded in line with the first expansion of purchasing activity since April. That said, the rate of expansion was marginal and slower than the long-run series average. Anecdotal evidence from panellists indicated that they had increased their input buying in response to a pick-up in customer orders.

Manufacturing backlogs in Ireland declined for the fourteenth month running during October. The rate of backlog depletion, though sharp, was the weakest since May. Pressure on supply chains eased in October, with average lead times shortening for the fourth time in the past five months, amid reports of relatively weaker demand for inputs.

Cost burdens increased during October, fuelled by greater raw material prices, particularly for meat and other food products. The rate of input cost inflation was solid and quickened from September. In response to higher input costs, Irish manufacturers increased their selling prices for the first time in four months, although the increase was modest.

Sentiment among Irish manufacturers improved from September's series record low in October, but nonetheless was historically subdued, amid reports of Brexit uncertainty. 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 for October moved back into expansion territory for the first time since May. The index reading of 50.7 in October was the highest since April and well up from its level of 48.7 in September. Encouragingly, most of the sub-components of the survey saw an improvement after a string of weak readings over the third quarter.*

*"Two key elements of the survey – output and new orders – both returned to growth territory, having contracted in recent months. Their rate of growth, however, was only marginal. Furthermore, new export orders continued to fall, though the pace of contraction slowed. Meanwhile, sentiment among Irish manufacturers regarding future output recovered in October after falling sharply in September.*

*"Brexit related effects remained very evident in the October data. Lower demand from the UK due to Brexit uncertainty was cited as a reason for the continued weakness of export orders. Stock of finished goods continued to rise on concerns that Brexit might impact production. Stocks of raw materials and other inputs also rose on worries about potential supply disruptions if Brexit had gone ahead as scheduled at end October. In particular, there was an increase in the purchase of supplies from the UK.*

*"Overall, while the improvement in the manufacturing PMI in October is welcome, it remains at a weak level, consistent with very modest growth in the sector as the slowdown in the global economy and Brexit uncertainty continue to act as headwinds."*

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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.

October 2019 data were collected 11-24 October 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](http://ihsmarkit.com/products/pmi.html).

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