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## AIB Ireland Manufacturing PMI®

### Fourth successive deterioration in manufacturing business conditions

#### Key Findings

Output and new orders contract solidly

Selling prices fall for third month running

Business confidence lowest in series history

Manufacturing business conditions worsened for the fourth month running in September, as a solid reduction in new orders led to a further decline in output. Production fell for the third consecutive month, whilst new orders contracted at the joint-fastest rate since January 2012. On the price front, manufacturers sought to reduce their selling prices in order to remain competitive and stimulate customer orders. Meanwhile, business confidence sank to the lowest ever reading in over seven years of data collection, hampered by reports of Brexit uncertainty.

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 48.7 in September up from 48.6 in August, and signalling the fourth monthly deterioration in businesses conditions in the Irish manufacturing sector.

Underpinning the below-50.0 PMI reading were declines in both output and new orders. The contraction in output was solid and the third in as many months.

Anecdotal evidence from panellists indicated that demand conditions continued to deteriorate, both domestically and abroad. Not only did total sales decrease for the fifth month in a row, but also to the joint-greatest extent since January 2012. Additionally, new business from abroad fell in September at the fastest pace since August 2009, amid weaker sales to the UK.

As a result of the setbacks in output and new work, employment among Irish manufacturing firms was unchanged from August. This marked the first time since September 2016 that employment had failed to rise. Some panellists decreased their payrolls in line with lower customer demand levels. Meanwhile, backlogs of work declined further in September, stretching the current sequence of depletion to 13 months. Moreover, work outstanding decreased steeply and at the fastest pace since July.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, IHS Markit.

Manufacturers added to their inventories of finished goods for the fourth month running in September. However, the rate of accumulation was modest and the slowest in the current sequence of increases. Panellists attributed the rise in post-production stocks to a reduction in customer orders.

Pre-production inventories, on the other hand, decreased for the second month in a row, as firms responded to weaker customer demand by running down their holdings of raw materials and semi-finished items.

Due to weaker trends in output and new orders, manufacturers decreased their purchasing activity. Latest data marked the fifth successive monthly fall of input purchases, though the rate of contraction was the weakest since May.

Amid reports of greater raw material prices (notably fuel and steel), cost burdens among Irish manufacturers rose in September. That said, the rate of input price inflation was modest and eased to a 38-month low. Concurrently, firms sought to lower their own charges for the third month in a row in order to stimulate customer sales.

Optimism regarding the year-ahead outlook for output sank to the lowest in over seven years of data collection during September, amid ongoing concerns over the negative impact of Brexit uncertainty on the Irish manufacturing sector. Despite this, sentiment was still positive, with new product investment and hopes of a recovery in overseas orders cited as reasons to be confident.

## Comment

Oliver Mangan, AIB Chief Economist, commented:

*"The AIB manufacturing PMI for September remained in contraction territory, coming in at 48.7. This is virtually unchanged from its levels of 48.6 in August and 48.7 in July. It thus remains below the key 50 level that signals worsening business conditions for a fourth consecutive month.*

*"The weak Irish data of recent months clearly show that the sharp slowdown in global manufacturing over the past year or more is being felt in Ireland also. Brexit uncertainty is an additional negative factor weighing on activity here. At least the Irish September PMI did not weaken sharply in line with the Eurozone average, where the flash PMI fell to 45.6 from 47.3 in August.*

*"Key elements of the Irish September data remained weak. Output fell for the third month in a row in the face of weaker demand. New orders fell for the fifth consecutive month, with declines in both domestic and foreign orders. New export orders were particularly weak, with respondents singling out soft UK orders in particular amid ongoing Brexit uncertainty.*

*"Weaker demand was cited as the reason for declines in both stocks of pre-production inventories and purchases of inputs, as well as falling backlogs of unfilled orders. On the other hand, weak sales, as well as some stock building on Brexit concerns, saw stocks of unsold finished goods rise further. Meantime, sentiment among Irish manufacturers regarding future output, while still positive, fell to its lowest level in the seven year history of the survey, as Brexit concerns mount."*

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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.

September 2019 data were collected 12-23 September 2019.

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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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