News Release

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# AIB Ireland Manufacturing PMI®

## Manufacturing stalls as output and new orders decline in September

### Key Findings

**Production and new work both decline since August, albeit modestly**

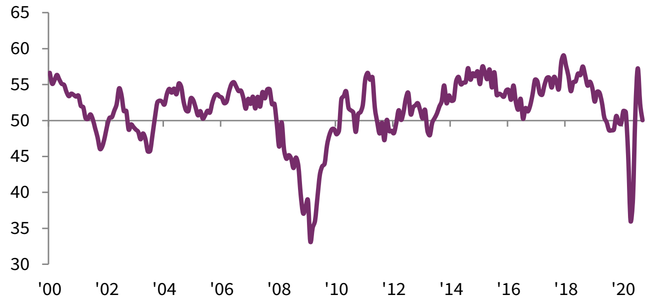
**Slower reduction in employment**

**Input price inflation rises to 17-month high**

Data were collected 11-23 September 2020.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month




Sources: AIB, IHS Markit.

The Irish manufacturing sector faced challenges in September as output, new orders and employment all declined, the latest PMI® data from AIB indicated. Although the headline PMI did not signal an overall deterioration in business conditions, this was only due to a marked lengthening in suppliers' delivery times. Exports, backlogs, purchasing and stocks also fell during the latest period, while input price inflation hit a 17-month high.

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 fell from 52.3 in August to exactly 50.0 in September, indicating stagnant overall operating conditions in the Irish manufacturing sector. This ended a three-month recovery in the goods-producing sector as restrictions were eased over the summer, which peaked in July when the PMI hit a 23-month high of 57.3. The headline figure trended at 53.2 in the third quarter, the highest since Q1 2019 (53.5).

The five components of the PMI revealed a weaker situation in the manufacturing sector than the headline figure suggested, however. Indices for output and new orders both sank below the 50.0 mark, indicating declines, while employment and stocks of purchases remained in contraction territory. The weakness of these four variables was fully offset by a marked lengthening in suppliers' delivery times, which in normal times would be indicative of busy suppliers, but currently reflects shortages and transport difficulties arising from the pandemic.

The recent rebound in manufacturing output in Ireland petered out in September as a decline was registered, following a near-record increase two months' previously. The rate of contraction was only modest, however, and much less severe than in the March-May period. The Output Index was broadly in line with its trend level registered during the second half of 2019.

The renewed dip in production mainly reflected a similar decline in the volume of incoming new work. Firms reported weak demand linked to ongoing uncertainty over COVID-19 and Brexit. The rate of contraction was only modest, however, and much less severe than the falls registered in the spring.

New export orders fell for the first time in four months in September. The main factor behind weak international demand remained COVID-19, but Brexit was also mentioned as a source of uncertainty for foreign clients.

With a renewed fall in new orders, backlogs of work declined at a faster rate in September. Manufacturers reduced workforces for the ninth time in 11 months, linked to weaker sales, cost cutting, the non-replacement of leavers and students returning to education. That said, the overall rate of job shedding was only marginal and eased since August.

Manufacturers reduced their purchasing of new inputs as a result of lower incoming work, resulting in another sharp fall in stocks of raw materials. Inventories of finished goods also declined rapidly as production declined. Despite the drop in purchasing, suppliers' delivery times lengthened markedly due to shortages at suppliers, resulting in the strongest rate of input cost inflation since April 2019. In contrast, manufacturing output prices fell again in September, albeit only slightly.

The 12-month outlook for manufacturing production remained positive in September, but moderated to a four-month low. While the proportion of firms expecting growth (42%) was broadly similar to that seen over the previous three months, a greater proportion of firms expect declines (25%,

## Comment

Oliver Mangan, AIB Chief Economist, commented:

*"The AIB Irish Manufacturing PMI for September fell to a four-month low of 50.0, which is well back from the near two-year high of 57.3 hit in July. Thus, the rebound in activity seen over the summer has come to a halt.*

*"The main factor behind this, which is clear from the survey data, is weakening demand as a result of the second wave to Covid-19 and associated increased restrictions on activity. Brexit and the stalled UK-EU trade talks are also cited as another source of growing uncertainty. Shortages of supplies and transportation difficulties are negatively impacting activity in the sector too.*

*"The details of the September survey show clear signs of a loss of momentum in manufacturing. Output contracted modestly after three months of expansion. New orders declined, in particular export orders, with lower sales mentioned in both the UK and US. As a result, backlogs of unfulfilled orders fell further. Not surprisingly then, manufacturers reduced their workforces, although the pace of job shedding was very modest.*

*"Stocks of both finished goods and inputs continued to decline in September as firms look to minimise inventory levels with demand weakening. However, disruption to supply chains and transportation difficulties arising from the pandemic were also a factor, with a marked lengthening in delivery times. A shortage of supplies is also resulting in higher prices for inputs, which increased at their fastest pace since April 2019.*

*"Overall, the September PMI data show that Covid-19 continues to result in challenging business conditions in the manufacturing sector. Firms, though, remain hopeful that the business environment will improve next 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 11-23 September 2020.

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

### About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

### About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.



### 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.
ihsmarkit.com/products/pmi.html.