

AIB Ireland Manufacturing PMI®

New orders fall for fourth month running

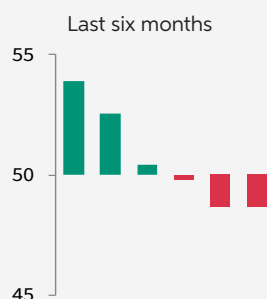
Key Findings

Output, new orders and export sales fall in August

Input buying declines at fastest rate since September 2011

Business confidence lowest in over three years

Ireland Manufacturing PMI



Manufacturing conditions in Ireland deteriorated for the third month running and at the fastest pace in almost six-and-a-half years during August, amid declines in output, overall new business and export sales. As a result, manufacturers decreased their purchasing activity at the fastest rate since September 2011. Meanwhile, amid reports of Brexit uncertainty, sentiment towards activity in the coming 12 months was the lowest in over three years.

Commenting on the latest survey results, Oliver Mangan, AIB Chief Economist, said:

"The AIB manufacturing PMI for August shows that the sharp slowdown in global manufacturing activity over the past year is being clearly felt in Ireland too. Brexit uncertainty is an additional negative factor weighing on manufacturing here. The headline index for the sector edged down to 48.6 in August from 48.7 in July, thus remaining below 50 and in contraction territory for a third consecutive month. Indeed, the August reading of 48.6 represents the fastest pace of contraction since April 2013.

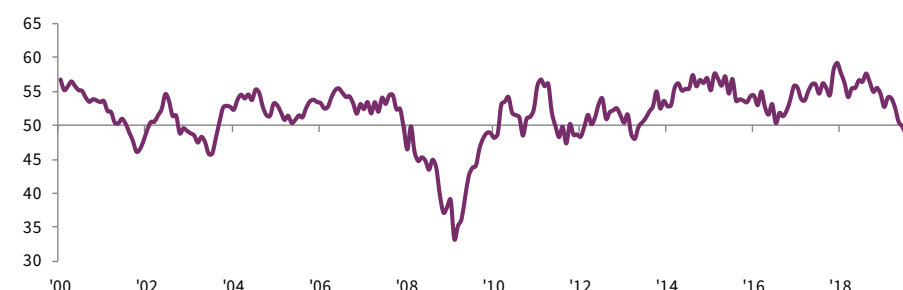
"Key elements of the August survey all registered declines. Output fell for the second month in a row in response to weaker customer demand. New orders declined for the fourth consecutive month, reflecting Brexit uncertainty. Notably, new export orders fell, with weaker UK orders being flagged in

particular, again due to ongoing Brexit uncertainty.

"Lower levels of consumer demand were cited as a reason for declines in both stocks of pre-production inventories and purchases of inputs. On the other hand, weak sales saw stocks of unsold finished goods rise further. Meantime, sentiment among Irish manufacturers, while still positive, was at a 3 year low against the backdrop of continuing Brexit uncertainty.

"Irish manufacturing activity, then, has been hit by a double whammy of global weakness in the sector and Brexit uncertainty. It is unlikely to pick up until these headwinds subside. However, output could be boosted in the next couple of months if firms start to stock pile ahead of the latest Brexit cliff-edge date of end October."

Manufacturing PMI
sa, >50 = improvement since previous month



Overview

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 48.6 in August, down from 48.7 in July, signalling the fastest deterioration in Irish manufacturing operating conditions since April 2013. The health of the manufacturing sector has now worsened for three months running. That said, the degree to which business conditions declined was modest.

Central to the deterioration in manufacturing operating conditions was a further decline in overall new business. However, despite being solid, the rate of contraction was softest in three months. Panellists attributed the fall in total new orders to ongoing Brexit uncertainty which had negatively affected customer demand.

Meanwhile, inflows of work from abroad also decreased in August, for the third time in the past four months. Manufacturers stated that weaker UK orders stemming from ongoing Brexit uncertainty was the principal factor behind reduced export sales.

Manufacturing output fell for the second month running during August. The rate of decrease was solid but eased from July. Anecdotal evidence from panellists indicated that they had reduced production in line with lower demand levels.

There was positive news with regards to employment as staffing levels continued to rise. That said, the rate of job creation was marginal. Some panellists commented that they had raised their staffing numbers in order to prepare for Brexit.

A number of survey respondents commented that a lack of sales had led to a rise in post-production inventories. As a result, stocks of finished goods among Irish manufacturers rose for the third month in a row during August. The rate of accumulation, though solid, eased from July's series record.

On the other hand, holdings of raw materials and semi-finished items decreased for the first time since September 2018. The rate of contraction was solid and the fastest in 29 months. Panellists commented that they had lowered their inventory levels due to weaker overall demand conditions.

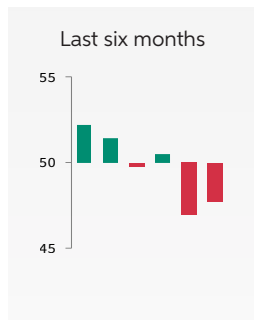
In line with the fall in both pre-production inventories, purchasing activity decreased in August for the fourth consecutive month. The rate of contraction was steep and the fastest since September 2011. Anecdotal evidence from panellists indicated that they had reduced their input buying in response to softer demand conditions.

Manufacturing backlogs in Ireland declined again in August, extending the current sequence of contraction to one year. That said, the rate of decrease eased from July. Pressures on supply chains eased, with average lead times shortening for the third month in a row, amid reports of greater capacity among suppliers. The rate at which delivery times improved was marginal, however.

Cost burdens increased during August, fuelled by greater raw material prices. Though solid, the rate of input cost inflation was only slightly faster than July's three-year low. Despite facing higher input costs, Irish manufacturers decreased their selling prices for the second month running in order to remain competitive and stimulate additional customer orders.

Sentiment among Irish manufacturers dropped from July to the weakest in 37 months as Brexit uncertainty weighed on optimism. Firms continued to predict output growth over the coming year, however. Expectations of increased customer orders, particularly from abroad, and new product investments were among the factors that supported optimism.

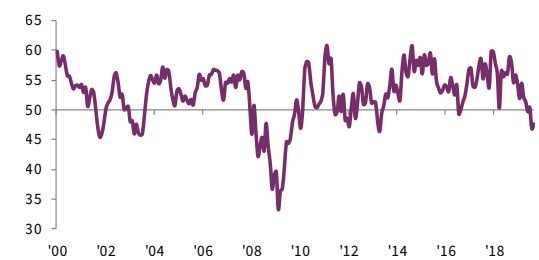
Output Index



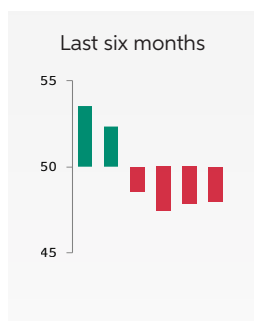
Irish manufacturing output decreased for the second consecutive month during August. That said, the rate of contraction dipped slightly from July. Anecdotal evidence from panellists attributed the decline in production to lower levels of customer demand.

Output Index

sa, >50 = growth since previous month



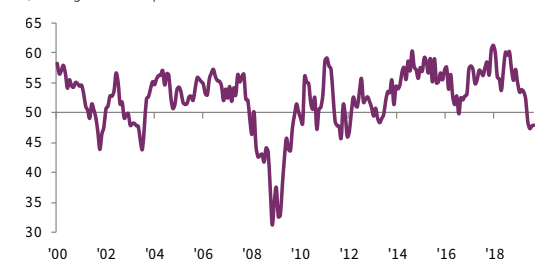
New Orders Index



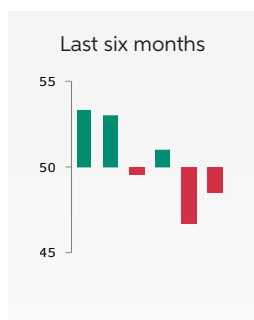
As has been the case for the past four months, the level of overall new orders placed with Irish manufacturers fell in August. Despite being solid, the rate of contraction was the softest in three months. Anecdotal evidence from panellists indicated that ongoing Brexit uncertainty had negatively affected customer demand.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



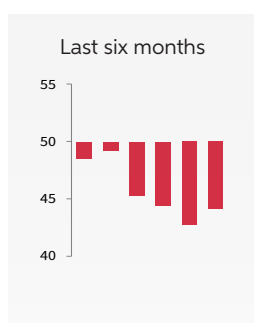
For the second month running, inflows of new work from abroad decreased in August. The rate of decrease, eased from July's ten-year record and was modest. Weaker UK orders stemming from continued Brexit uncertainty was cited by panellists as the principal factor behind the drop in export sales.

New Export Orders Index

sa, >50 = growth since previous month



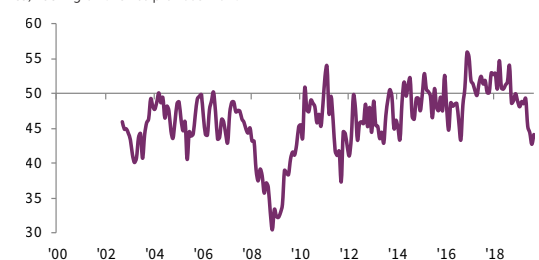
Backlogs of Work Index



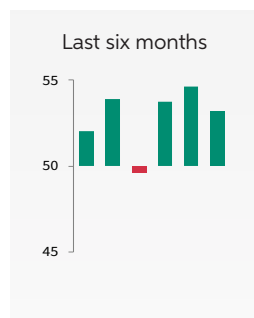
Falling new order volumes led Irish manufacturers to transfer spare capacity to work on outstanding business in August. As a result, backlogs of work decreased, stretching the current sequence of decline to one year. The rate of depletion was steep but softened from July.

Backlogs of Work Index

sa, >50 = growth since previous month



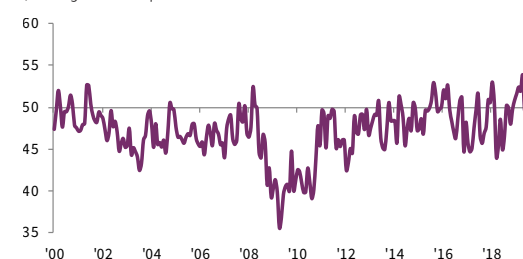
Stocks of Finished Goods Index



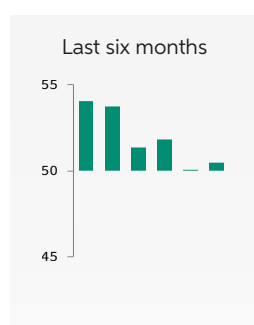
August data pointed to a third consecutive monthly increase in stocks of finished goods. That said, the rate of accumulation slowed from July's survey record. Anecdotal evidence suggested that a lack of sales had led post-production inventories to increase.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index



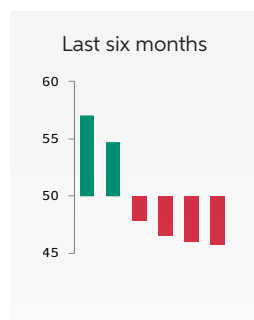
In contrast to output and new orders, Irish manufacturing firms continued to raise their staffing levels during August. However, despite quickening from July, the rate of job creation was marginal. Some firms commented that they had taken on additional staff as a result of Brexit preparedness plans.

Employment Index

sa, >50 = growth since previous month



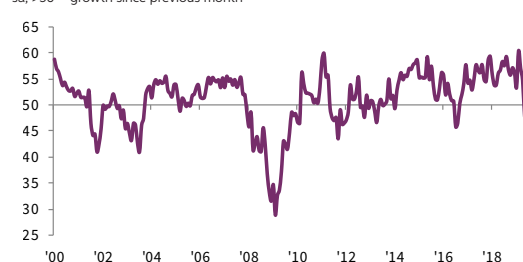
Quantity of Purchases Index



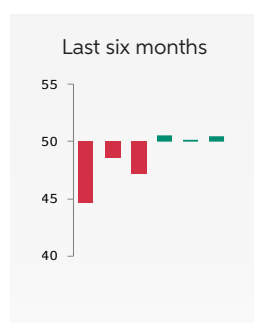
For the fourth successive month, purchasing activity among Irish manufacturers decreased in August. The rate of contraction was steep and the most marked since September 2011. Anecdotal evidence from panellists attributed the decrease in input buying to lower levels of customer demand.

Quantity of Purchases Index

sa, >50 = growth since previous month



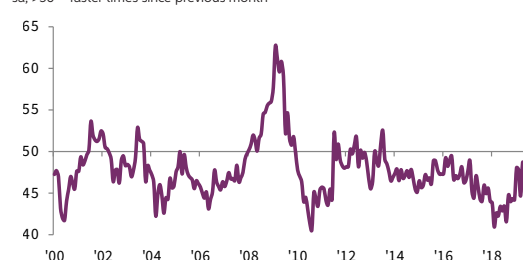
Suppliers' Delivery Times Index



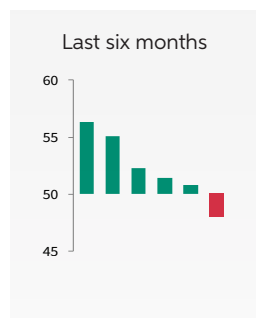
Supplier performance improved during August, and to a greater extent than in July. Anecdotal evidence from panellists indicated that greater capacity among suppliers had contributed to shorter lead times. Vendor performance has now improved for three months in a row.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



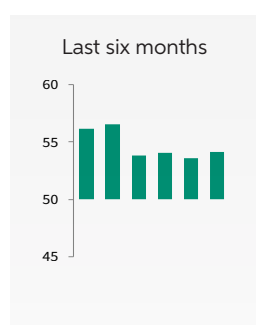
For the first time since September 2018, the level of pre-production inventories among Irish manufacturers decreased in August. The rate of contraction was modest, but the fastest in 29 months. Panellists commented that they had reduced their holdings of raw materials and semi-finished goods as a result of weaker demand conditions.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index



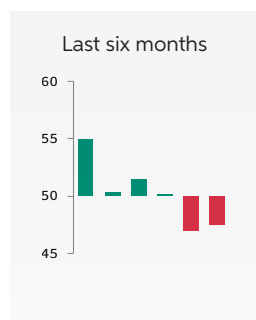
Input costs among Irish manufacturers rose solidly in August. That said, the rate of increase was only slightly faster than July's three-year low. Firms stated that greater raw material prices had contributed to increased cost burdens. Input prices have now increased on a monthly basis since May 2016.

Input Prices Index

sa, >50 = inflation since previous month



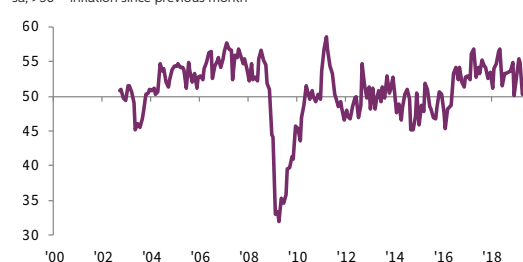
Output Prices Index



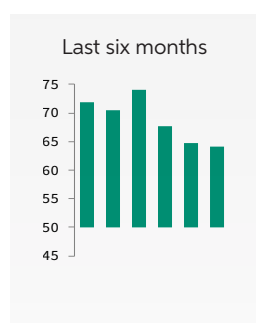
Selling prices among for Irish manufactured goods decreased for the second consecutive month in August. The rate of decrease was solid but eased slightly from July. Anecdotal evidence from panellists indicated that they had reduced their charges in response to competitive pressures and in order to stimulate customer demand.

Output Prices Index

sa, >50 = inflation since previous month



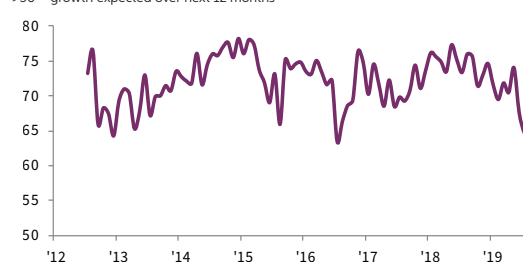
Future Output Index



Sentiment among Irish manufacturers softened to a 37-month low during August, amid further reports of Brexit uncertainty. Around 41% of the survey panel indicated positive output expectations, against around 12% that forecast lower production. Predictions of a recovery in overseas demand, new marketing efforts and new product investments were cited as reasons to be optimistic.

Future Output Index

>50 = growth expected over next 12 months



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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.

August 2019 data were collected 12-22 August 2019.

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

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