



AIB Ireland Manufacturing PMI®

Mild downturn in manufacturing continues in December

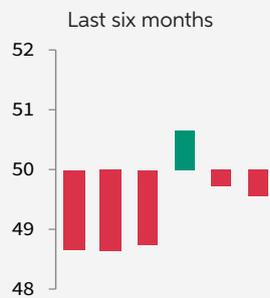
Key Findings

Weak exports continue to weigh on demand

Firms cut output as stocks of unsold goods rise further

Output expectations recover further from September's low

Ireland Manufacturing PMI



The final AIB PMI® survey of Irish manufacturers for 2019 revealed a further deterioration in business conditions in December. That said, the extent of the downturn remained mild, with new orders and employment only fractionally lower than in November. Exports remained the main drag on total new orders, linked to a weak UK market. Output was cut as firms sought to address a build-up of unsold stock. More positively, expectations continued to recover from September's low.

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

"Weak export demand, especially out of the UK, continues to weigh on Irish manufacturing activity according to the latest PMI data. The AIB Irish Manufacturing PMI came in at 49.5 in December, marginally down from its level of 49.7 in November. The index, though, averaged 50.0 for the fourth quarter as a whole, consistent with stagnation in the sector. This was up from the third quarter average of 48.7."

"The softness in overseas demand is resulting in an ongoing fall in order backlogs and a build-up of stocks of finished goods. Firms have responded by cutting production levels and shedding jobs. Employment in manufacturing declined for the second month in a row in December, albeit very marginally."

"The stand-out feature of the December data is the marked decline of new export orders. These have contracted at a significant pace right through the second half of 2019. Yet again survey respondents called out the weakness in orders from the UK in particular, where Brexit related uncertainty is weighing on demand."

"The Irish December PMI reading of 49.5 remains well above the flash PMI for the Eurozone, which is put at 45.9, and the level of 47.4 in the UK, as the stronger domestic economy helps support activity here. On a positive note, confidence among Irish manufacturers regarding future output rose to a six-month high in December, suggesting that firms expect activity to pick up in 2020."

Manufacturing PMI
sa, >50 = improvement since previous month



Overview

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 edged lower to 49.5 in December, from 49.7 in November. The latest sub-50 reading indicated an overall deterioration in manufacturing business conditions for the sixth time in the past seven months, the longest downturn since the second half of 2011 through to early-2012.

That said, the overall downturn remained mild, with new orders and employment only fractionally lower than in November. A sharper fall in output and lower new business were mostly offset by the greatest lengthening in suppliers' delivery times in seven months (in the PMI calculation, longer times has a positive contribution to the headline figure).

The volume of new orders received by manufacturers fell in December, following a two-month spell of marginal growth. That said, the rate of contraction was weak, and slower than those registered from May to September. The overall reduction mainly reflected weak exports, mainly linked by firms to the UK market. New export orders fell for the sixth month running, and at the second-fastest rate in over ten years.

Lower incoming business led to a further cut in production in December, the sixth in eight months. The rate of decline accelerated slightly since November as firms attempted to control rising stock levels. Inventories of finished goods increased for a survey record-equalling seventh month running, and at the fastest rate since August.

The Irish manufacturing workforce was cut for the second month running in December,

the first consecutive decline since March-May 2013. That said, the rate of job shedding was only marginal and eased since November.

With subdued demand conditions at the end of 2019, manufacturers exercised caution with regard to purchasing activity. Input volumes fell for the seventh time in eight months, and stocks of purchases were cut at the strongest rate since March 2017.

Manufacturers' purchase prices continued to rise in December, extending the current sequence of increases to 44 months, the second-longest in the survey history. Greater cost pressures were partly attributed to the recent strengthening of sterling against the euro. That said, the rate of inflation eased to the second-weakest since July 2016, remaining well below the long-run survey average.

Average prices charged for manufactured goods rose for the third month running in December, reversing a continuous decline during the third quarter of 2019. The rate of output price inflation was little-changed from October and November, and slightly above the long-run series average.

The survey's forward-looking Future Output Index, which tracks manufacturers' expectations for production over the next 12 months, improved further from September's low in December. Around 42% of survey respondents expect output growth at their units, with overall sentiment the strongest since June. Companies linked positive forecasts to new products, improving US and European demand and reduced Brexit uncertainty*. That said, the Future Output Index remains well below its long-run trend (71.8), and the 2019 average (67.6) is the lowest for any calendar year since the series began in 2012.

*Survey data were mostly collected before the result of the UK General Election.

Output Index



Manufacturing production in Ireland fell for the second month running in December. Output has now declined six times in the past eight months, the most notable downturn in around eight years.

The rate of contraction accelerated slightly at the end of 2019, but remained weaker than the trend shown during the third quarter.

Output Index

sa, >50 = growth since previous month



New Orders Index



The mild recovery in new orders seen in October and November proved short-lived as a renewed decline was posted in the final month of 2019.

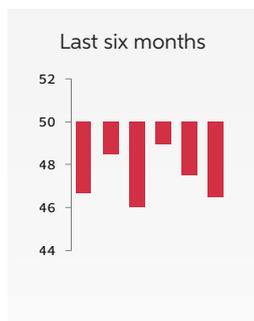
That said, the rate of decline was only marginal and weaker than those previously registered from May to September.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



Weak international demand, notably from the UK market, continued to weigh on overall manufacturing order books in December. The volume of new business received from export markets fell for the sixth month running, the longest sequence since that which ran from March 2008 to August 2009. Moreover, the rate of decline was the second-strongest in over ten years.

New Export Orders Index

sa, >50 = growth since previous month



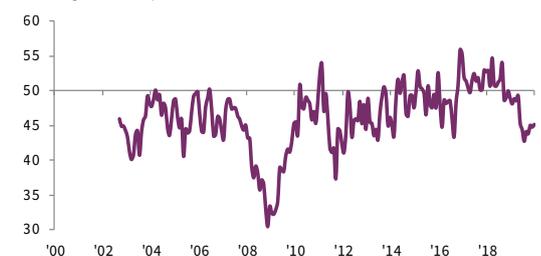
Backlogs of Work Index



With new orders returning to contraction in December, pressure on manufacturing capacity eased further. The volume of outstanding business fell for the sixteenth successive month, the longest downturn in over six years. That said, the rate of contraction was the slowest since May.

Backlogs of Work Index

sa, >50 = growth since previous month



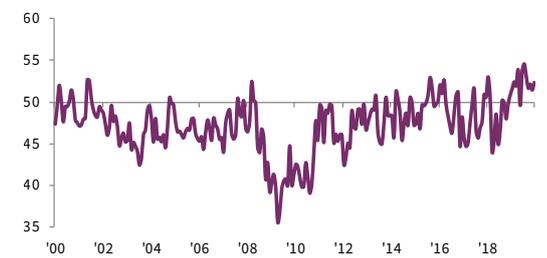
Stocks of Finished Goods Index



The seasonally adjusted Stocks of Finished Goods Index held above 50.0 for a survey record-equalling seventh month running in December, indicating a further build-up of goods held in stock at manufacturers. The only other period where inventories had risen continuously for so long was from February to August 1999.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index



Manufacturing employment in Ireland declined for the second month in a row in December. This marked the first back-to-back job shedding in the sector for over six-and-a-half years.

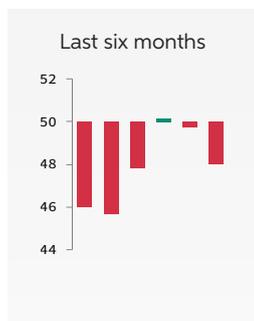
The rate of decline eased from November to a fractional pace, however.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index

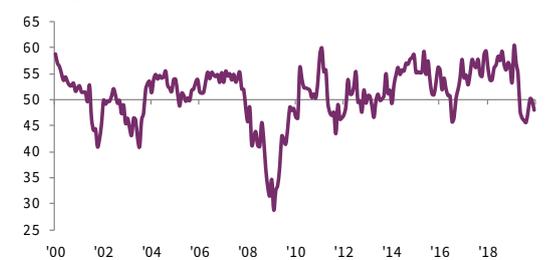


Manufacturers continued to exercise caution with regard to new buying activity in December, with a number of firms commenting that output had been sustained through existing input stocks.

Purchasing has declined every month since May with the exception of a stable trend in October. The rate of decline accelerated at the end of 2019 but remained weaker than those seen earlier in the year.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



Although demand for inputs weakened in December, survey data signalled a degree of pressure on supply chains. The average time taken for suppliers to deliver inputs lengthened by the most in seven months, with 14% of survey respondents reporting longer times compared with November.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



The level of inputs held in stock at Irish manufacturers declined for the fourth time in five months in December, and at the fastest rate since March 2017.

Firms mainly linked lower inventory holdings to cautious purchasing in light of weakening demand.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index



Average input prices continued to rise in December. The current inflationary sequence, at 44 months, is the second-longest in the survey history. Manufacturers partly linked cost pressures to the weaker euro-sterling exchange rate.

That said, the rate of input cost inflation weakened to the second-lowest since July 2016.

Input Prices Index

sa, >50 = inflation since previous month



Output Prices Index



Prices charged for Irish manufactured goods rose for the third month running in December, following discounting throughout the third quarter of 2019.

The rate of reduction was stable and modest, with the seasonally adjusted Output Prices Index holding just above its long-run average of 50.7.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index



Output expectations at Irish goods producers continued to recover from September's record low in December. The Future Output Index improved to a six-month high, with 42% of respondents forecasting growth. Companies linked positive forecasts to new products, improving US and European demand and reduced Brexit uncertainty. That said, the Index recorded its lowest annual trend in 2019 since the series began in 2012, at 67.6.

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.

December data were collected 5-16 December 2019.

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

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About PMI

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