

AIB Ireland Manufacturing PMI®

Irish manufacturers raise stocks of purchases at record pace in February

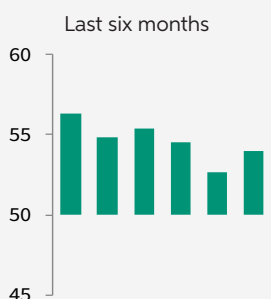
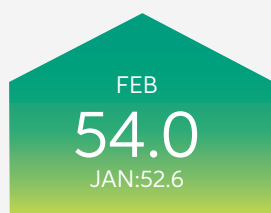
Key Findings

Stocks of purchases increase at fastest pace in series history

Output growth quickens to three-month high

Job creation fastest in four months

Ireland Manufacturing PMI



February saw a solid improvement of manufacturing conditions in Ireland, as output growth quickened to a three-month high. Moreover, the rate of job creation picked up to the fastest in four months. Meanwhile, as a result of Brexit uncertainty stocks of purchases among Irish manufacturers grew at the fastest pace in the near 21-year series history.

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

"There was a welcome rise in the AIB Manufacturing PMI for February to 54.0 from 52.6 in January. The February reading is consistent with very solid growth in the sector, with the survey showing that manufacturing activity has now expanded for 69 consecutive months. The Irish reading is well above the flash February Manufacturing PMI for the Eurozone, which fell to 49.2, its lowest level since mid-2013, and below the key 50 level that separates expansion from contraction."

"The rise in the Irish index was driven by stronger growth in output and new orders, with firms reporting a pick-up in both domestic and international demand, most notably from the US and UK. As a result, employment growth rose to a four-month high."

"The impact of Brexit was evident in many of the components of the PMI as some firms moved to take action to avoid possible disruption to supply chains. Pre-production inventories increased at their fast pace in the 21-year history of the survey. Purchasing activity was at a 19-year high as firms brought forward purchases of inputs. Meanwhile, post-production inventories climbed to a 13-month high, with firms building up stocks to guard against possible delays resulting from Brexit. Some firms also reported rising demand from the UK ahead of Brexit. Uncertainty about Brexit, though, saw business optimism slip to its lowest level in 18 months. However, it still remains at a high level."

Manufacturing PMI

sa, >50 = improvement since previous month



Overview

February saw a solid improvement of manufacturing conditions in Ireland, as output growth quickened to a three-month high. Moreover, the rate of job creation picked up to the fastest in four months. Meanwhile, as a result of Brexit uncertainty stocks of purchases among Irish manufacturers grew at the fastest pace in the near 21-year series history.

The seasonally adjusted Purchasing Managers' Index® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – posted 54.0 in February, up from 52.6 at the start of 2019. The reading signalled a solid strengthening of the Irish manufacturing sector. Business conditions have now improved for 69 consecutive months.

Attempts to mitigate potential supply disruption from Brexit translated to holdings of inventories during February. Pre-production inventories increased at the fastest rate in the near 21-year series history. Stocks of purchases have now risen in 11 of the past 12 months.

The record accumulation of pre-production inventories was supported by the fastest rise in purchasing activity in over 19 years. A number of panellists commented that they had brought forward purchases of inputs in order to secure raw materials in case of any stock problems resulting from Brexit. Additionally, some companies had raised their buying activity due to stronger customer demand.

Post-production inventories, meanwhile, increased for the third month running in February. The rate of accumulation was sharp and the fastest in 13 months. A number of panellists indicated that they had built stocks in order to guard against any delays resulting from Brexit.

Central to the improvement in overall manufacturing operating conditions were faster increases in output and new orders. Growth of new work quickened from January amid reports from panellists of greater domestic and international demand, notably from the US and UK. Despite faster new order growth, manufacturers depleted their backlogs of work for the sixth consecutive

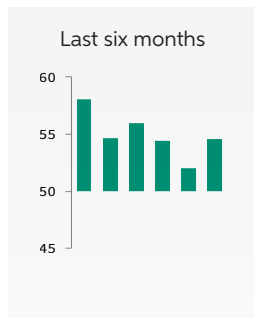
month.

Manufacturers responded to higher new orders by raising production for the thirty-first successive month. Moreover, the rate of output expansion quickened to a three-month high in February. Panellists attributed this to stronger demand conditions both domestically and internationally. Additionally, employment growth quickened to a four-month high, amid reports of greater customer demand.

Input price inflation, though still sharp, eased to a 16-month low during February. Panellists reported higher raw material prices (notably steel). Output charges rose solidly and at the fastest pace in nine months as firms passed on greater cost burdens to their customers.

Optimism regarding future output was sustained in February, with just over 49% of the survey panel anticipating higher production in one year's time. Expectations of greater customer demand and growth of new export business were cited as reasons to be confident. However, increased Brexit uncertainty was reported as a factor weighing on optimism. As a result, overall sentiment slipped to the lowest in a year-and-a-half.

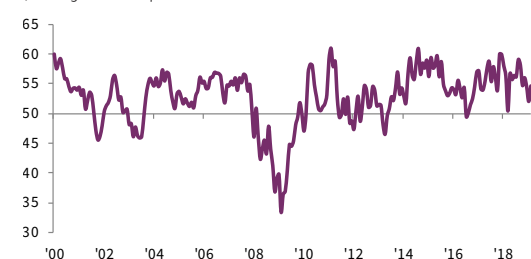
Output Index



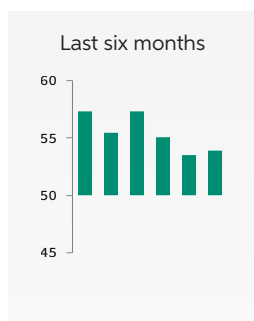
Output growth amongst Irish manufacturers quickened in February, with the rate of increase accelerating to a three-month high. Panellists stated that faster new order growth was central to the latest rise in production. Irish manufacturing production has now increased continuously on a monthly basis since August 2016.

Output Index

sa, >50 = growth since previous month



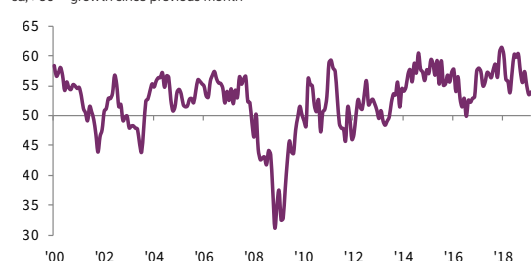
New Orders Index



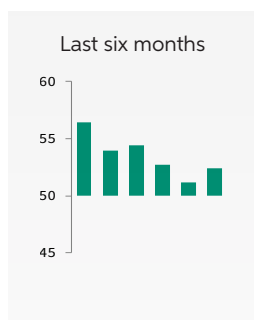
As was the case with production, new business growth among Irish manufacturers quickened during February. Panellists stated that overall factory orders had risen due to greater customer interest as well as increased export sales, particularly from the UK.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



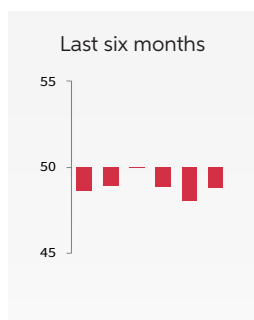
Irish manufacturing export sales rose in February, with the rate of expansion quickening from the start of 2019. Volumes of new work from abroad have now expanded for 30 successive months. Panellists commented that they had experienced greater overall demand from overseas markets, especially from the US. Meanwhile, a Brexit effect was noted among some firms who saw increased demand from UK firms seeking to build up supplies of materials.

New Export Orders Index

sa, >50 = growth since previous month



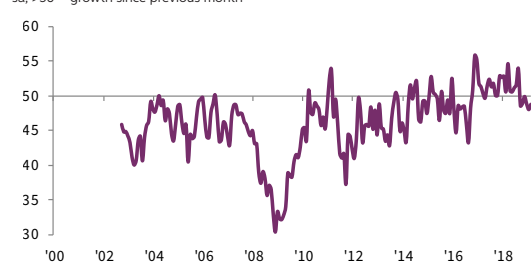
Backlogs of Work Index



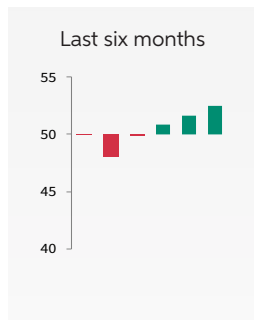
Volumes of unfinished orders decreased for the sixth month in a row during February, indicating an easing of capacity pressures in the Irish manufacturing sector. The rate of backlog depletion was modest and slightly weaker than at the start of 2019. Anecdotal evidence from panellists indicated that firms were able to meet current sales demand as well as work through accumulated orders during February.

Backlogs of Work Index

sa, >50 = growth since previous month



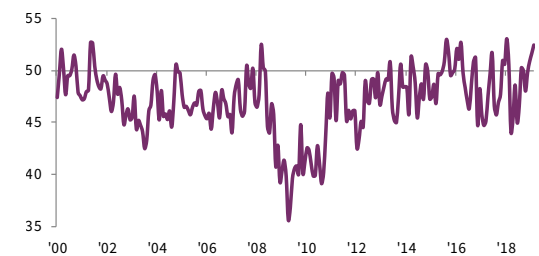
Stocks of Finished Goods Index



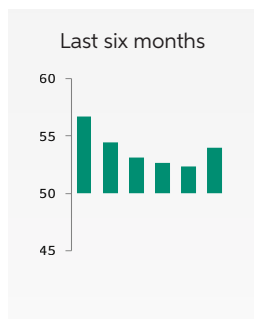
Holdings of finished goods increased for the third month in a row during February. The rate of increase was sharp and the fastest in 13 months. Some panellists suggested that post-production inventories had been raised to cushion themselves from any potential Brexit disruption.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



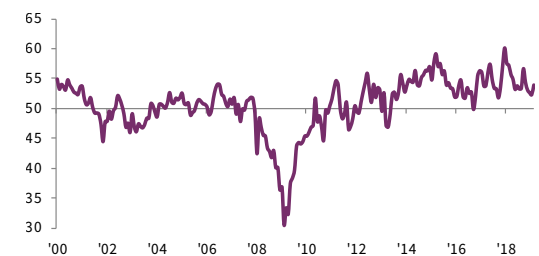
Employment Index



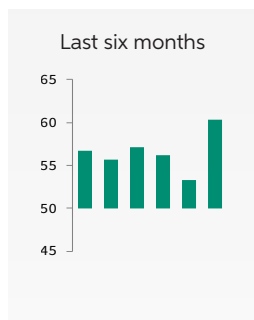
Irish manufacturing firms continued to raise their staffing levels during February, extending the current trend to 29 months. The pace of expansion was marked and the fastest in four months. According to respondents, greater customer demand for their goods enabled them to raise headcounts at a faster pace in February.

Employment Index

sa, >50 = growth since previous month



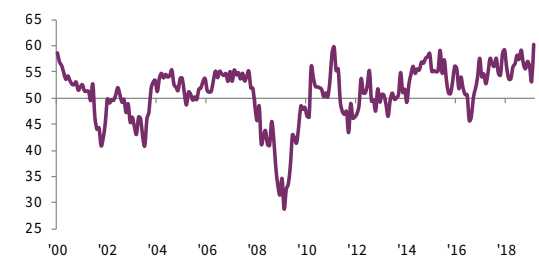
Quantity of Purchases Index



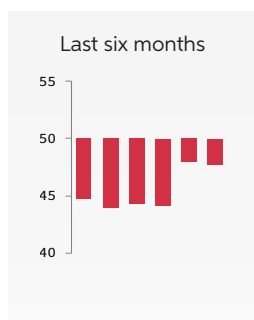
Purchasing activity among Irish manufacturers increased in February at the fastest rate in over 19 years. A number of panellists commented that they had brought forward purchases of inputs in order to secure raw materials in case of any stock problems resulting from Brexit. Additionally, some companies raised their buying activity due to stronger customer demand.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



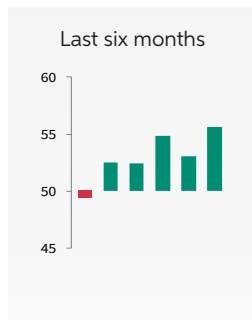
Vendor performance deteriorated during February, and to a greater extent than in the previous month. Anecdotal evidence from panellists indicated that higher demand for inputs had contributed to longer lead times. Supplier performance has now deteriorated for 67 consecutive months.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



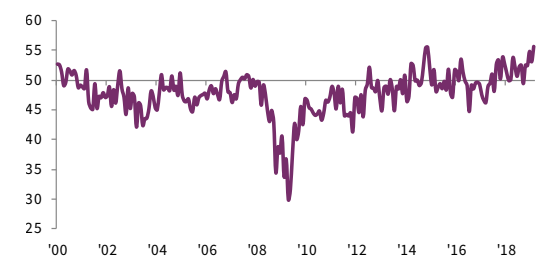
Stocks of Purchases Index



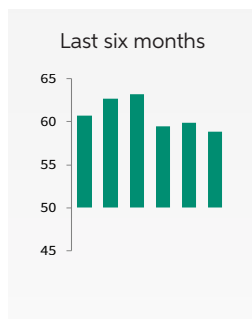
February's data saw Irish manufacturers increase their pre-production inventories at the fastest pace in almost 21 years of data collection. Anecdotal evidence from panellists indicated that they had increased their holdings of raw materials and semi-finished items in order to guard against any delays from UK suppliers due to Brexit.

Stocks of Purchases Index

sa, >50 = growth since previous month



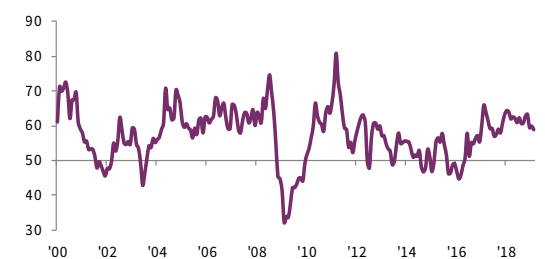
Input Prices Index



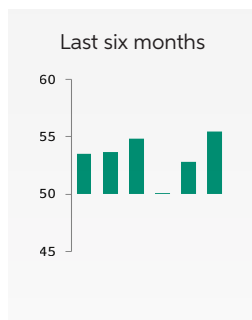
Input prices continued to increase during February, stretching the current period of inflation to 34 months. Cost burdens increased due to higher prices paid for raw materials (steel, chemicals and glass in particular), according to anecdotal evidence. That said, the rate of input cost inflation eased in February to a 16-month low.

Input Prices Index

sa, >50 = inflation since previous month



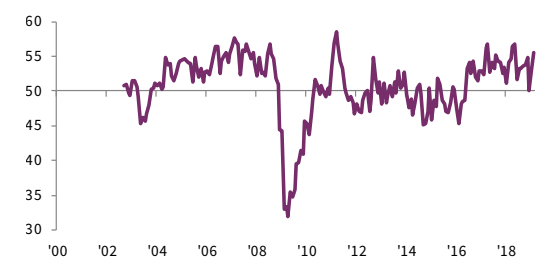
Output Prices Index



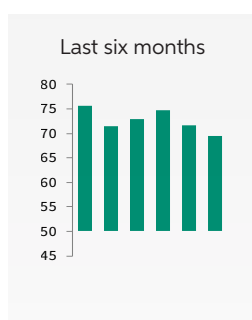
In response to increased raw material costs, Irish manufacturers raised their average output charges for the second consecutive month. The rate of inflation was sharp and quickened from January to a nine-month high. Around 13% of companies raised their charges, whilst 3% offered discounts.

Output Prices Index

sa, >50 = inflation since previous month



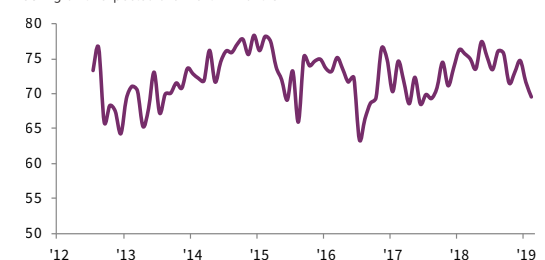
Future Output Index



Optimism regarding future output was sustained in February, with just over 49% of the survey panel anticipating higher production in one year's time. Expectations of greater customer demand and higher overseas orders were cited as reasons to be confident. However, increased Brexit uncertainty was reported as a factor undermining sentiment. As a result, the overall degree of optimism slipped to the lowest in 18 months.

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.

February 2019 data were collected 12-21 February 2019.

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

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