



AIB Ireland Manufacturing PMI®

Manufacturing returns to expansion at start of 2020

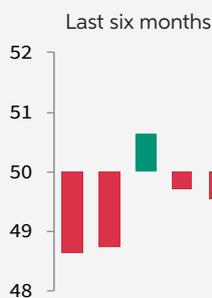
Key Findings

PMI improves to nine-month high of 51.4 in January

Output, new orders and jobs all grow since December

Business confidence continues to rebound

Ireland Manufacturing PMI



Irish manufacturers started 2020 on the front foot, with January data from the AIB PMI® survey pointing to improving trends for a range of indicators. New orders, output, purchasing and jobs all expanded following contractions at the end of 2019, while export demand steadied amid reports of a stable US economy and improving UK market. The 12-month outlook also brightened, with the Future Output Index posting its biggest one-month gain in over three years.

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

"The AIB Manufacturing PMI survey for January shows that activity in the sector picked up momentum at the start of 2020. The headline index moved back into growth territory, rising to a nine month high of 51.4 from 49.5 in December. This would appear to reflect two factors in particular. Firstly, some improvement in the manufacturing backdrop in Europe, with flash January PMIs registering good gains in both the Eurozone and UK. Secondly, greater certainty around Brexit following December's general election in the UK.

"The survey shows marked improvements in key sub-components such as output, orders and employment. New orders rose at their fastest pace since April, triggering a rebound in output. Notably export orders, which had declined right through the second half of 2019, moved

back into expansion territory in January, with firms reporting stronger business from the UK in particular.

"Improving orders and production levels saw firms respond with the first meaningful rise in the purchase of inputs since April and a return to hiring. Employment in manufacturing expanded in January after two months of decline.

"Irish manufacturing, then, enjoyed a positive start to 2020. Furthermore, firms believe that the prospects for the coming year are also improving, with a sharp rise in the Future Output Index to an eight month high. However, difficult EU-UK trade talks this year could test this greater optimism, as may the continuing subdued growth prospects for the global economy."

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 rose from 49.5 in December to 51.4 in January, signalling an overall improvement in Irish manufacturing operating conditions. It was the first reading above the neutral threshold since last October, and the highest since April 2019. Moreover, the one-month gain in the headline figure was among the largest recorded for two years. That said, the PMI was slightly below its long-run survey average of 51.9.

The 1.9-point increase in the PMI in January almost wholly reflected the output, new orders and employment components. These contributed 0.8, 0.8 and 0.3 points to the overall rise, respectively. The suppliers' delivery times and stocks of purchases components were broadly stable at their December levels.

January data signalled that underlying demand for Irish manufactured goods continued to recover from a soft patch during the middle of 2019. New orders rose for the third time in four months, and at the fastest rate since last April. A number of firms reported an improving UK market and stable US economy, which was reflected in a halt to the recent slide in new export orders at the start of the year.

Stronger inflows of new work drove a rise in manufacturing output in January. Production

rose for only the third time in the past nine months, and at the fastest rate since March 2019.

Manufacturers supported workloads by expanding their purchasing operations. The volume of inputs ordered posted the first meaningful rise since last April. That said, the rate of growth was slower than that for new work, leading to a further drop in stocks of inputs as firms also sought to manage inventories.

Stocks of finished goods also fell in January, albeit marginally, ending a survey record-equalling seven-month sequence of growth.

Irish manufacturing employment increased at the start of 2020, following a two-month spell of job shedding. The rate at which the workforce was expanded was broadly in line with the long-run survey average.

January data signalled a general lack of cost inflationary pressure in the manufacturing sector. Input price inflation slowed to a 42-month low, and was well below the long-run survey average. In contrast, output prices increased at the strongest rate since March 2019, pointing to improving profitability.

Improving current business conditions were accompanied by a brighter 12-month outlook. The Future Output Index posted its largest one-month gain in over three years and signalled the strongest overall sentiment among manufacturers since last May. Confidence was linked to new products, the installation of new plant machinery and greater certainty regarding Brexit.



Output Index



Irish manufacturing output rebounded in January, having declined in both November and December. The increase was only the third in the past nine months, and was mainly linked to higher new orders at the start of the year.

The rate of expansion was the strongest since March 2019, but slower than the long-run survey average.

Output Index

sa, >50 = growth since previous month



New Orders Index



The volume of new business received by Irish goods producers rose for the third time in four months in January, and at the fastest rate since April 2019. Firms mentioned new customers, an improving UK market and a stable US economy.

That said, the seasonally adjusted New Orders Index remained below its long-run trend level of 52.8.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



The seasonally adjusted New Export Orders Index rose sharply in January to just above the no-change mark of 50.0. This signalled a broad stabilisation in the level of new export business received by manufacturers, following declines in seven of the prior eight months.

A number of firms reported new business from the UK, while there was also mention of ongoing weakness in the European auto sector.

New Export Orders Index

sa, >50 = growth since previous month



Backlogs of Work Index



Manufacturers in Ireland were able to accommodate higher new orders at the start of 2020. Backlogs of work in the sector fell for the seventeenth successive month, the longest sequence of decline for nearly six-and-a-half years.

That said, backlogs were cleared at the slowest rate since April 2019 as underlying demand showed signs of improvement.

Backlogs of Work Index

sa, >50 = growth since previous month



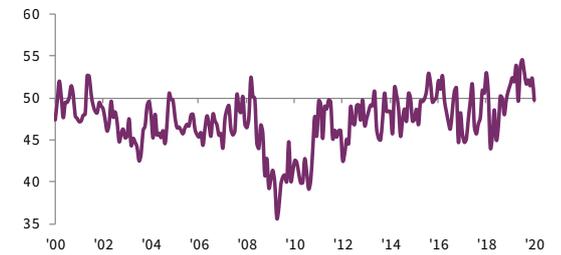
Stocks of Finished Goods Index



January data signalled a slight fall in stocks of finished goods in the Irish manufacturing sector. This ended a survey record-equalling seven-month run of continuous inventory growth. A number of respondents reported efforts to clear out old stock. That said, the overall decline was only fractional.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index



Manufacturers in Ireland increased their workforces in January, on average. This followed the first back-to-back job shedding in the sector for over six-and-a-half years in the final two months of 2019.

The seasonally adjusted Employment Index signalled a moderate rate of job creation, and was broadly in line with its long-run trend level.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index



With new orders rising at the strongest rate in nine months, Irish manufacturers expanded their purchasing operations in January. Input volumes posted the first meaningful rise since last April, as the seasonally adjusted Quantity of Purchases Index rose above the no-change mark of 50.0 and neared its long-run trend level of 51.4.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



Input delivery times lengthened for the third month running in January, providing evidence of returning pressure on supply chains as underlying demand for manufacturing raw materials and components improved. A number of firms reported that suppliers were busier at the start of the year.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



Pre-production inventories at Irish manufacturers declined for the third month running in January, the longest sequence in over two-and-a-half years. The rate of decline was similar to those seen in November and December. A number of firms reported that current stock levels were adequate to cope with incoming workloads.

Stocks of Purchases Index



Input Prices Index



Input prices paid by Irish manufacturers rose for the forty-fifth month running in January. Freight and raw material costs were both reported as sources of inflationary pressure during the month.

That said, the rate of inflation eased further to the weakest since July 2016. The seasonally adjusted Input Prices Index was well below its long-run trend level of 56.7.

Input Prices Index



Output Prices Index



Prices charged by Irish manufacturers rose for the fourth successive month in January, and the rate of inflation accelerated to the fastest since March 2019. Firms generally reported that they were able to pass on higher costs to customers.

Moreover, the rate of output price inflation was quicker than that seen for input costs for the first time since July 2016, signalling improving profitability in the sector.

Output Prices Index



Future Output Index



The Future Output Index rose for the fourth successive month to an eight-month high in January, signalling strengthening confidence among Irish manufacturers. Moreover, the month-on-month gain in the Index, at 6 points, was the largest observed in over three years. Anecdotal evidence mainly linked positive output expectations to new products, the installation of new plant machinery and greater certainty regarding Brexit.

Future Output Index



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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.

January data were collected 13-24 January 2020.

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

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