

AIB Ireland Manufacturing PMI®

Manufacturing business conditions deteriorate at fastest pace since April 2013

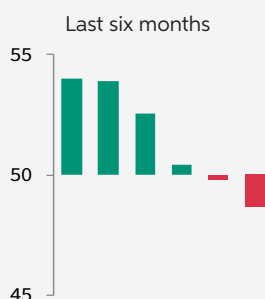
Key Findings

Export sales contract at most marked rate since August 2009

Record increase in stocks of finished goods

Business confidence at three-year low

Ireland Manufacturing PMI



Irish manufacturing conditions deteriorated for the second month in a row and at the fastest pace since April 2013 during July, amid the sharpest contraction in output in over six years. Demand levels also weakened, with inflows of new work from both domestic and foreign customers decreasing in July. The degree to which export sales declined was sharp and the fastest since August 2009. As a result, manufacturers raised their holdings of finished goods at the strongest rate in more than 21 years of data collection. Meanwhile, amid reports of Brexit uncertainty, confidence towards year-ahead output sank to a three-year low.

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

"The AIB manufacturing PMI index remained below 50 in contractionary territory for the second consecutive month in July. The PMI reading of 48.7 represented a deterioration on the 49.8 level registered in June and was also its fastest pace of contraction since April 2013. Prior to June, the last time the PMI was below 50 was May 2013."

"The July PMI survey provides further evidence that the significant slowdown in global manufacturing is impacting activity in the Irish economy. The weak Irish reading is broadly similar to the equivalent manufacturing PMIs in our main trading partners, including the Eurozone, UK and US."

"The details of the report indicate that the weakness was quite broad-based across the various components of the survey. The output index declined for the second time in the past three months, with the pace of contraction the fastest pace in over six years. Meanwhile, new orders declined for the third month in a row, reflecting Brexit uncertainty, although the rate of decrease was not as severe as in June."

"The manufacturing sector continued to register jobs growth. However, the pace of employment gains was modest and slowed compared to June. Meantime, sentiment among Irish manufacturers, while still positive, fell to a 3-year low against the backdrop of on-going Brexit uncertainty."

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 48.7 in July, down from 49.8 in June, and signalled the fastest deterioration in Irish manufacturing operating conditions since April 2013. The health of the sector has now worsened for two months in a row.

Central to the fall in the headline PMI were declines in output and new orders. The latest contraction in output was the second in the past three months. Moreover, the rate of decrease was sharp and the fastest since April 2013.

Anecdotal evidence indicated that demand conditions deteriorated in both domestic and foreign markets during July. Inflows of total new orders declined markedly, amid reports of Brexit uncertainty negatively affecting customer demand.

Volumes of new work from abroad also fell in July. The rate of contraction was steep and the fastest for almost a decade. Panellists stated that they had seen a fall in UK orders as a result of ongoing Brexit uncertainty.

In contrast to the trends for output and new work, employment in the Irish manufacturing sector increased in July. That said, the rate of job creation was fractional and eased to the slowest in the current 34-month sequence of expansion. Firms stated that they had brought on temporary staff to bolster capacity in anticipation of rising sales activity later this year.

Stocks of finished goods among Irish manufacturers increased for the second month running in July. The rate of accumulation was sharp and the fastest in the over 21-year series history. Panellists stated that declining new orders had contributed to the build-up of post-production inventories.

Pre-production inventories, meanwhile, increased for the tenth consecutive month

during July. The rate of accumulation was marginal, however. Anecdotal evidence from panellists indicated input stocks increased due to expectations of greater sales activity in the coming year. Some firms built up stocks as a result of Brexit contingency planning.

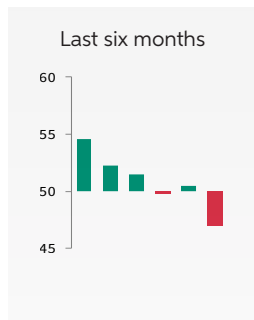
As a result of the decline in new business, manufacturers depleted their backlogs of work for the eleventh successive month. Moreover, the rate of depletion quickened from June to the fastest since January 2012.

Irish manufacturers lowered their purchasing activity for the third month in a row during July, with the rate of input buying falling at the sharpest pace in exactly three years. Panellists attributed the latest decrease to lower production requirements. As a result, average lead times for inputs shortened for the second month running in July. That said, the degree to which delivery times improved was softer than in June.

Cost burdens increased during July, fuelled by rising raw material prices, particularly for steel. That said, the rate of inflation slowed to a three-year low. As a result of attempts to match competitors' discounting efforts, Irish manufacturers lowered their selling prices for the first time since May 2016 in July.

Optimism regarding future output weakened to a three-year low, amid reports from panellists of ongoing Brexit uncertainty. That said, sentiment was still strongly positive, with new product investments and a recovery of export markets cited as reasons to be confident.

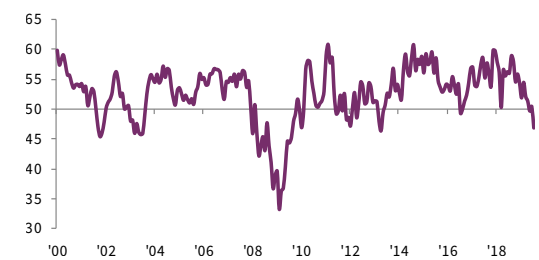
Output Index



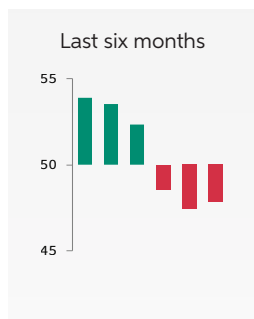
For the second time in the past three months, Irish manufacturing output declined during July. Moreover, the rate of contraction was sharp and the fastest in over six years. Anecdotal evidence from panellists indicated that ongoing Brexit uncertainty had negatively affected customer demand.

Output Index

sa, >50 = growth since previous month



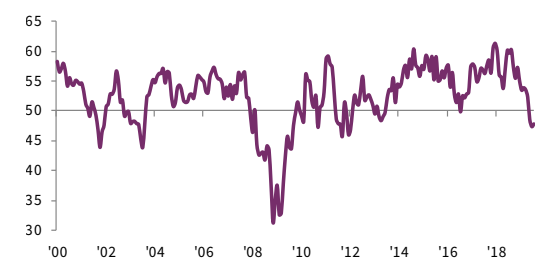
New Orders Index



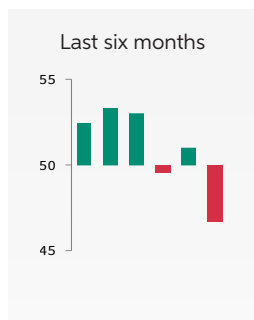
Inflows of overall new business declined for the third month in succession during July. The rate of contraction was marked, but softened slightly from June. Anecdotal evidence from panellists attributed the decline in overall order books to Brexit uncertainty.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



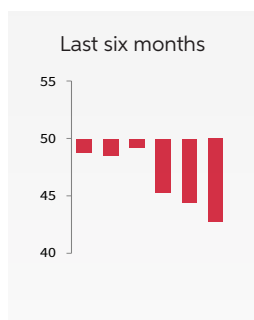
In line with the trend for overall new business, inflows of new work from abroad decreased in July. The rate of decrease was steep and the fastest since August 2009. Manufacturers attributed the drop in export sales to weaker UK demand conditions stemming from continued Brexit uncertainty.

New Export Orders Index

sa, >50 = growth since previous month



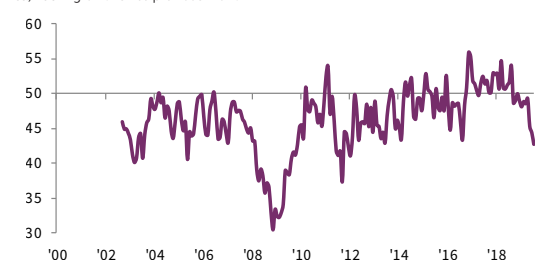
Backlogs of Work Index



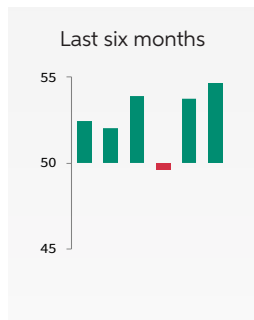
Irish manufacturers recorded an eleventh successive decline in backlogs during July. Moreover, the rate of backlog depletion was marked and the sharpest since January 2012. Lower levels of customer orders were cited by panellists as the principal factor behind reduced outstanding business.

Backlogs of Work Index

sa, >50 = growth since previous month



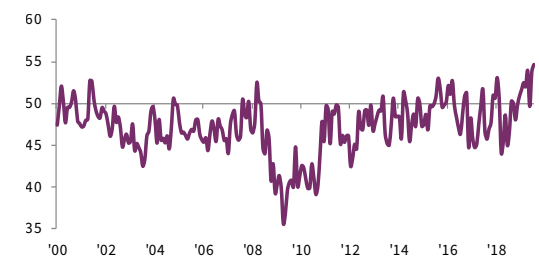
Stocks of Finished Goods Index



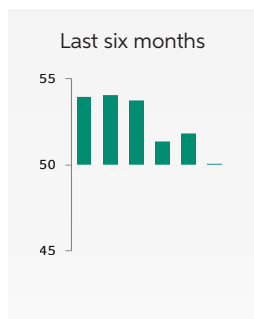
July saw Irish manufacturers increase their post-production inventories at the fastest pace in over 21 years of data collection. Anecdotal evidence from panellists indicated that holdings of finished items had increased as a result of lower customer orders.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



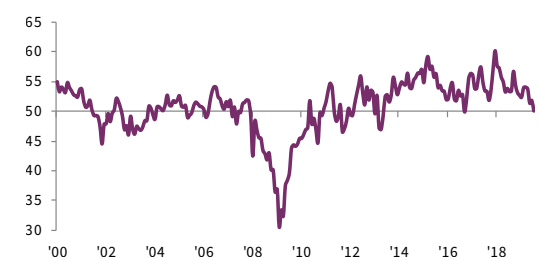
Employment Index



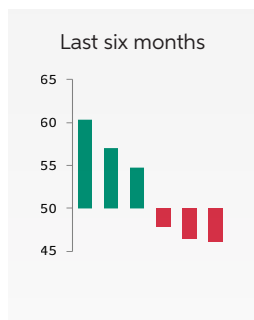
Employment in the Irish manufacturing sector increased during July. That said, the rate of job creation was fractional and the slowest in the current 34-month sequence of expansion. Surveyed firms indicated that they had utilised temporary staff to bolster production capacity.

Employment Index

sa, >50 = growth since previous month



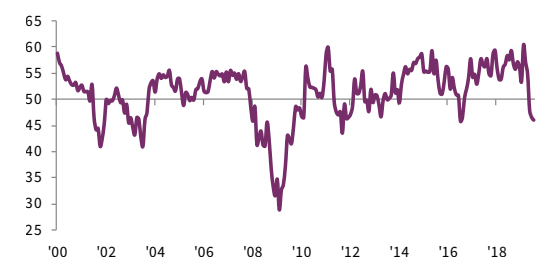
Quantity of Purchases Index



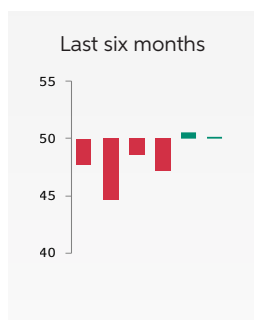
Purchasing activity among Irish manufacturers decreased for the third month running during July. Moreover, the rate of decline was sharp and the most marked in exactly three years. Panellists attributed the decline in input buying to lower production requirements.

Quantity of Purchases Index

sa, >50 = growth since previous month



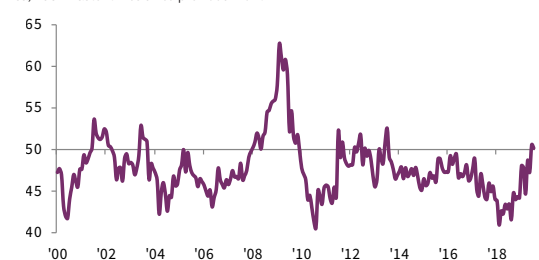
Suppliers' Delivery Times Index



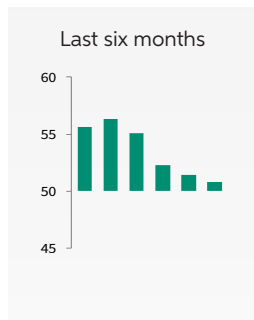
Vendor performance improved for the second month in a row in July. However, the rate at which average lead times for inputs shortened was softer than in June and only fractional overall. Anecdotal evidence from manufacturers stated that due to softer demand for inputs, suppliers had more capacity to fulfil orders.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



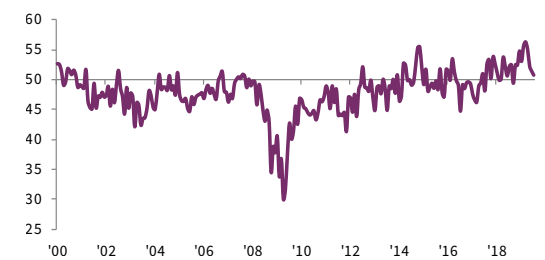
Stocks of Purchases Index



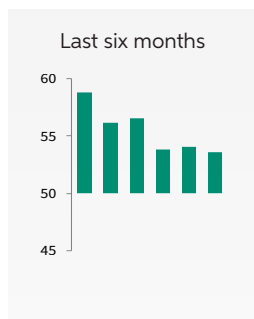
July saw another increase in pre-production inventories among Irish manufacturers. That said, the rate of accumulation eased for the fourth month running and was the slowest in the current ten-month sequence of increases. Panellists stated that they had built up their input stocks in anticipation of greater production in coming months, with some firms increasing their stocks as a Brexit contingency.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index



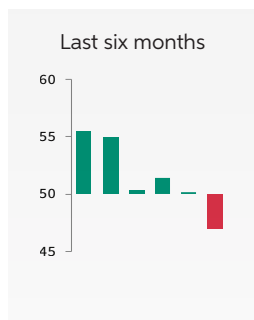
Input prices continued to increase solidly in July, though the rate of inflation was the weakest for three years. Surveyed firms commented that rises in raw material prices (notably steel and feedstock) had been behind greater cost burdens.

Input Prices Index

sa, >50 = inflation since previous month



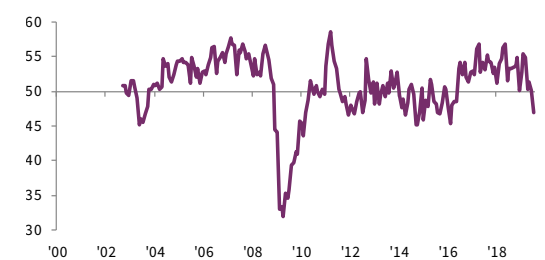
Output Prices Index



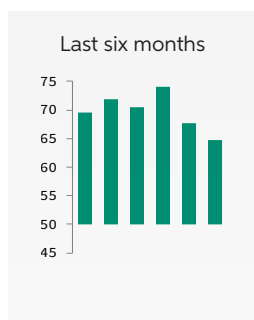
For the first time since May 2016, average prices charged by Irish manufacturers declined in July. The rate of decrease was solid and the fastest in 41 months. Panellists attributed the decline in selling prices to attempts to be competitive, with softer cost inflation reducing pressure on margins.

Output Prices Index

sa, >50 = inflation since previous month



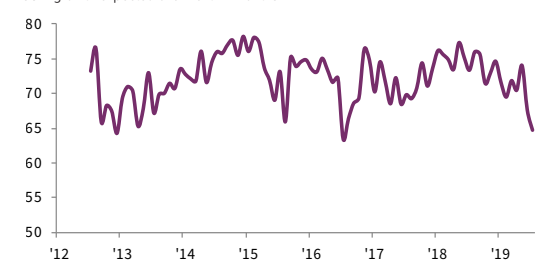
Future Output Index



Sentiment among Irish manufacturers dropped to a three-year low in July, amid continued Brexit uncertainty. That said, manufacturers were still strongly positive regarding output over the coming year with just under 41% of the survey panel anticipating year-ahead output to rise, against around 12% that forecast lower production. Expectations of an improvement in customer demand and new product launches 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.

July 2019 data were collected 12-24 July 2019.

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

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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. To learn more go to ihsmarkit.com/products/pmi.html.

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