

AIB Ireland Manufacturing PMI®

Business conditions improve at weakest pace since aftermath of Brexit referendum in July 2016

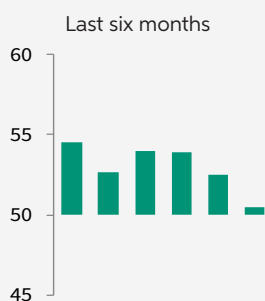
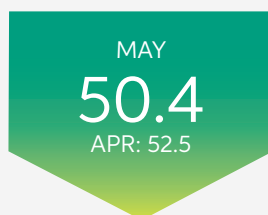
Key Findings

Output posts first fall since UK's EU referendum

New business contracts at fastest pace in six years

Purchasing activity declines as firms reduce stockpiling

Ireland Manufacturing PMI



May marked the end of the Brexit-stockpiling boost to the Irish manufacturing sector, with the PMI survey's stocks indices either posting declines or markedly weaker rises. Operating conditions improved at the weakest pace since the aftermath of the UK's EU referendum in July 2016. Manufacturing output shrank during May for the first time since the Brexit referendum. Meanwhile, both total and overseas new business declined during May, with the former at the fastest pace in over six years. Despite the contractions in output and new orders, business confidence improved to a five-month high.

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

"The AIB manufacturing PMI for May showed a further loss of momentum in the sector as the boost to activity from Brexit stockpiling earlier in the year continued to unwind. The headline index declined to 50.4 from 52.5 in April and 53.9 in March. This represented its lowest level since July 2016, in the aftermath of the UK's Brexit referendum vote."

"The unwinding of the stockpiling boost was evident in the PMI's sub-indices. Stocks of finished goods contracted, having risen at a record pace in April. The quantity of purchases also fell in May, again from record levels in prior months. Levels of pre-production inventories rose at a much slower rate than in March and April."

"The fall-off in stock building, combined with weaker customer demand, saw

the first declines in new orders and manufacturing output since July 2016, post the UK Brexit referendum. As a result, the rate of depletion in backlogs was the fastest since August 2016. Meanwhile, employment growth slowed to its slowest pace in nearly three years. Despite the contractions in output and orders, business sentiment amongst Irish manufacturers rose to its highest level in five months."

"There has been a marked slowdown in manufacturing activity globally this year, which is also evident in Ireland. The flash US PMI fell to a near ten year low in May, while in the Eurozone, it remained mired deep in contraction territory at well below 50. It would seem that weaker global demand as well as an unwinding of Brexit stockpiling, weighed on the Irish manufacturing PMI in May."

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 50.4 in May, down from 52.5 in April, and signalled the weakest improvement in manufacturing operating conditions since the aftermath of the UK's EU referendum in July 2016. Despite this, Irish manufacturing business conditions have improved on a monthly basis for exactly six years.

May marked the end of the Brexit-stockpiling boost to the Irish manufacturing sector, with the PMI survey's stocks indices posting markedly weaker readings than the survey highs recorded in the past few months.

Stocks of finished goods among Irish manufacturers declined in May. The reduction was in stark contrast to the series high expansion posted in April. Panellists cited that they had made a concerted effort to reduce their post-production inventories during May as a result of receiving fewer customer orders.

Pre-production inventories, meanwhile, increased for the eighth consecutive month during May. Despite being solid, the rate of accumulation eased for the second month running and was markedly softer than the series high recorded in March. As was the case in previous months, panellists stated that they had raised their input stocks to guard against any Brexit-related stock issues.

The rise in input stocks was recorded in spite of the first reduction in purchasing activity since July 2016. Moreover, the rate of contraction was sharp and contrasted with strong growth seen over much of 2019 so far. Anecdotal evidence from panellists indicated that many firms had reached their contingency stock levels for Brexit and due to weaker demand conditions had decided to run-down their supplies as opposed to purchasing additional inputs.

Central to the softer improvement in manufacturing operating conditions were declines in output and new orders. Inflows of new work fell in May for the first time since the aftermath of the Brexit referendum in July 2016, amid reports of softer demand conditions. Moreover, the rate of contraction was the most marked in over six years. Export sales also declined in May, though at a marginal pace. Firms noted a decrease in orders, especially from UK customers.

Irish manufacturers reduced their levels of unfinished orders for the ninth successive month during May. Moreover, the rate of backlog depletion was sharp and the most marked since August 2016.

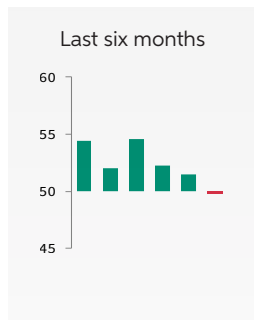
On the employment front, manufacturers continued to take on additional staff during May. Despite this, the rate of job creation was modest and the slowest in the current 32-month sequence of hiring.

Manufacturers responded to lower new orders by decreasing production for the first time since July 2016. That said, the rate of contraction was marginal.

Input prices rose at the slowest pace in almost three years during May, amid reports from panellists of lower natural gas and resin prices. In contrast, the rate of output charge inflation quickened from April, but was still modest.

Looking forward, sentiment among Irish manufacturers improved during May to the most positive in five months, with around 52% of firms confident of a rise in output from present levels in 12 months' time. Panellists cited new product releases, a recovery in overseas markets and investments in new machinery as reasons to be confident.

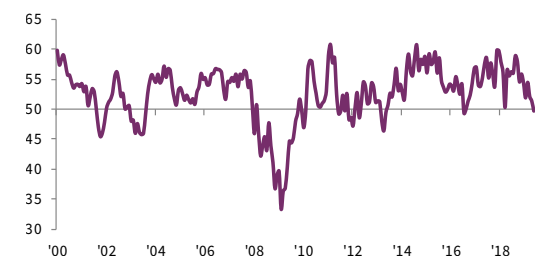
Output Index



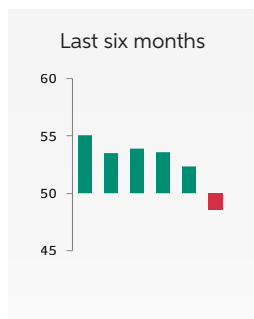
Irish manufacturers recorded the first decline in manufacturing output since the aftermath of the UK's EU referendum in July 2016 during May. Despite this, the rate of contraction was marginal. Anecdotal evidence from panellists attributed the decline in production to lower levels of customer demand.

Output Index

sa, >50 = growth since previous month



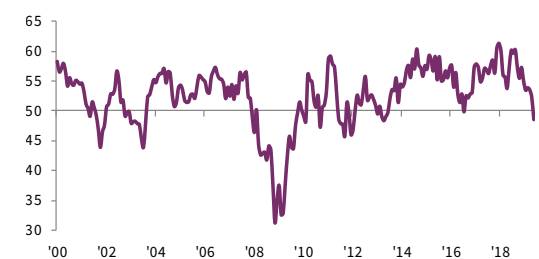
New Orders Index



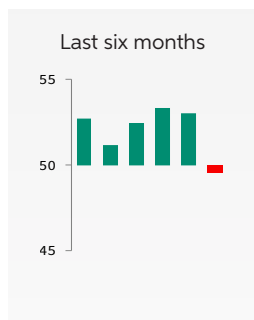
For the first time since July 2016, the level of overall new orders placed with Irish manufacturers fell in May. Despite being modest, the rate of contraction was the most marked in over six years. Anecdotal evidence from panellists indicated that ongoing Brexit uncertainty had negatively affected customer demand.

New Orders Index

sa, >50 = growth since previous month



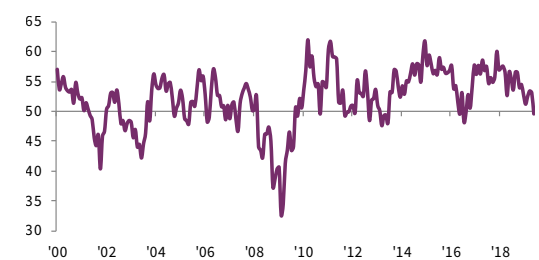
New Export Orders Index



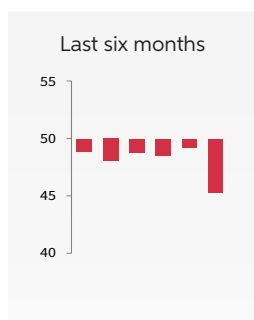
As was the case with overall new business, inflows of new work from abroad decreased in May. Although marginal, the reduction in foreign demand broke 32 consecutive months of rising export sales. Anecdotal evidence from panellists indicated that as a result of ongoing Brexit uncertainty, UK orders had dropped over the month.

New Export Orders Index

sa, >50 = growth since previous month



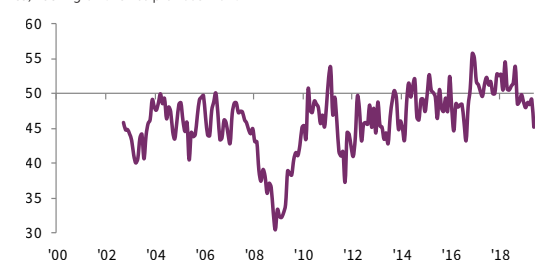
Backlogs of Work Index



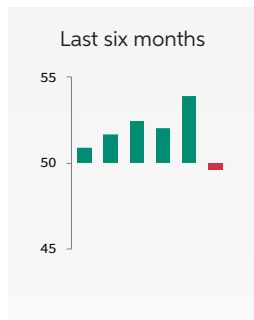
Irish manufacturers recorded a ninth successive decline in backlogs in May. Moreover, the rate of backlog depletion was marked and the fastest since August 2016. Lower levels of customer orders were cited by panellists as the principal factor behind reduced outstanding business.

Backlogs of Work Index

sa, >50 = growth since previous month



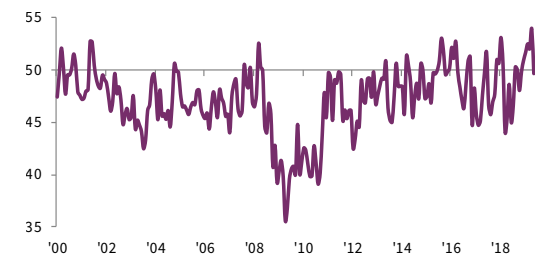
Stocks of Finished Goods Index



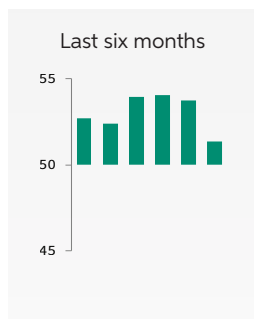
For the first time since November 2018, levels of post-production inventories decreased in May. This contrasted with the 21-year record high posted in April. Anecdotal evidence from panellists indicated that there were concerted efforts among firms to reduce their stock levels during May.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



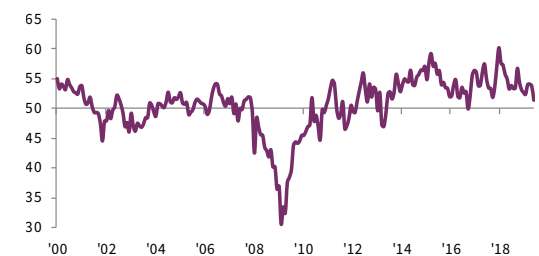
Employment Index



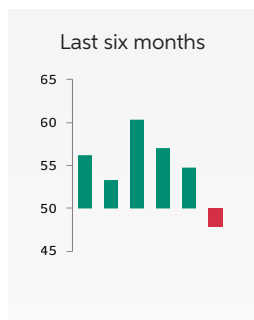
In contrast to output and new orders, Irish manufacturing firms continued to raise their staffing levels during May. Despite this, the rate of job creation was modest and the softest in the current 32-month sequence of hiring.

Employment Index

sa, >50 = growth since previous month



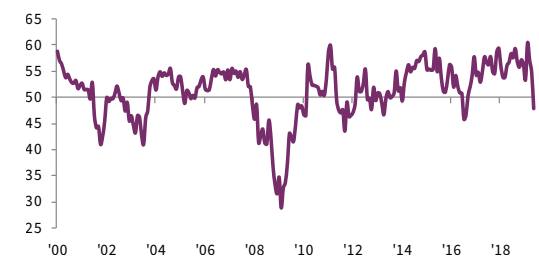
Quantity of Purchases Index



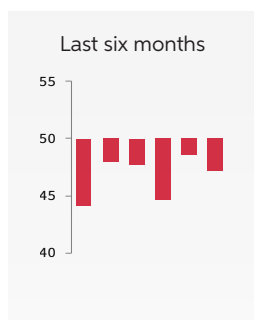
For the first time since August 2016, purchasing activity among Irish manufacturers decreased in May. Moreover, the contraction contrasted with the over 19-year record expansion posted just a few months ago in February. A number of panellists commented that they had reached contingency levels of stocks for Brexit and in response to weaker demand conditions decided to run-down their supplies.

Quantity of Purchases Index

sa, >50 = growth since previous month



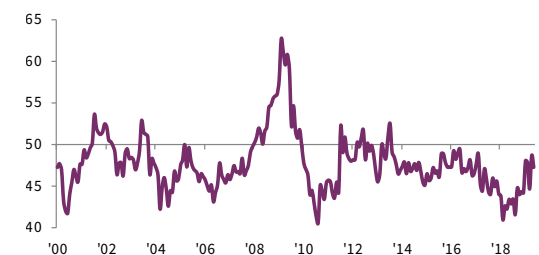
Suppliers' Delivery Times Index



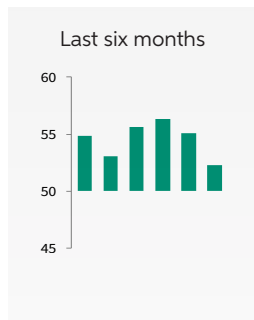
Vendor performance deteriorated during May, and to a greater extent than in April. Anecdotal evidence from panellists indicated that stock shortages among suppliers and greater orders from firms stockpiling inputs in previous months had contributed to longer lead times. Supplier performance has now deteriorated on a monthly basis since August 2013.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



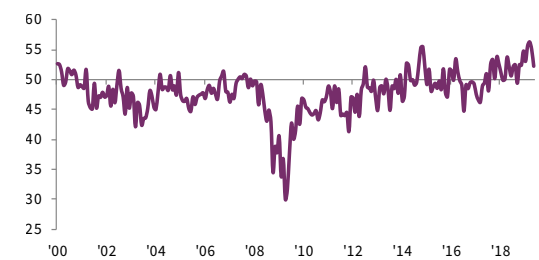
Stocks of Purchases Index



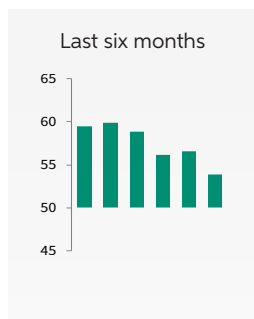
May saw another increase in pre-production inventories among Irish manufacturers. The rate of accumulation was solid, despite continuing to ease from March's series high. As in previous months, many panellists commented that they had increased their holdings of raw materials and semi-finished items in order to guard against any delays from UK suppliers due to Brexit.

Stocks of Purchases Index

sa, >50 = growth since previous month



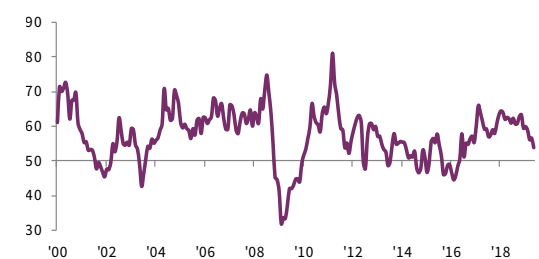
Input Prices Index



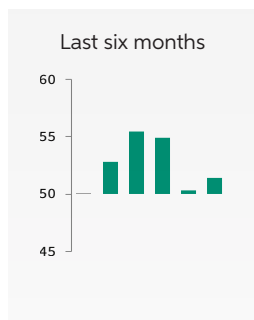
Input prices continued to increase during May, stretching the current period of inflation to 37 months. Cost burdens increased due to higher prices paid for raw materials (steel, crude oil and meat in particular), according to anecdotal evidence. That said, the rate of input cost inflation eased in May to a 34-month low, amid reports of lower natural gas and resin prices.

Input Prices Index

sa, >50 = inflation since previous month



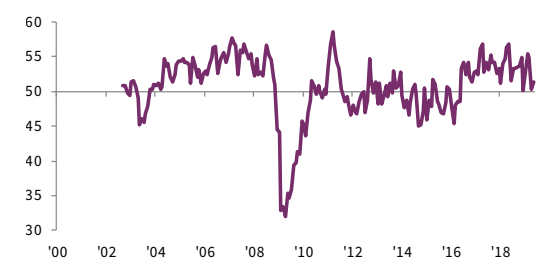
Output Prices Index



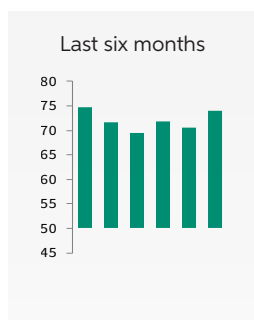
In response to increased raw material costs, Irish manufacturers raised their average output charges for the fifth consecutive month during May. Despite being modest, the rate of inflation quickened from April. Around 7% of companies raised their charges, whilst 2% offered discounts.

Output Prices Index

sa, >50 = inflation since previous month



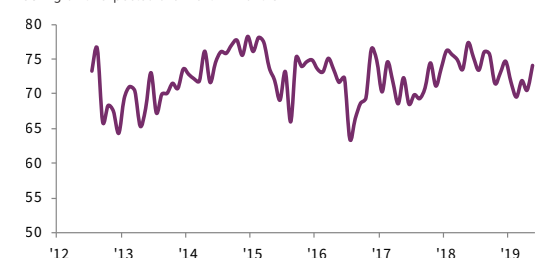
Future Output Index



Sentiment among Irish manufacturers improved to a five-month high during May with around 52% of panellists confident of a rise in output from present levels in 12 months' time. Expectations of increased customer orders, investments in new machinery and an expansion into new markets were cited as reasons to be optimistic. Despite this, Brexit uncertainty continued to weigh on sentiment.

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.

May 2019 data were collected 13-23 May 2019.

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

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About PMI

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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