

AIB Ireland Manufacturing PMI®

Business conditions improve for first time since May

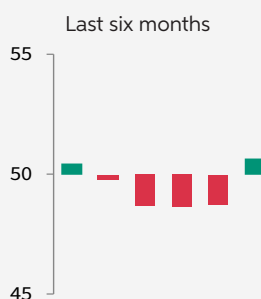
Key Findings

Output and new orders rise slightly

Output charges increase after three months of decline

Business confidence improves from September's record low

Ireland Manufacturing PMI



October saw the first improvement in Irish manufacturing business conditions since May, in line with returns to growth of output and new orders and a renewed rise in employment. Inflows of new business from abroad declined for the fourth month in a row, however. On the price front, average selling prices increased after three months of decline and at the fastest pace since May. Meanwhile, despite continued reports of Brexit uncertainty, sentiment regarding output over the coming year improved slightly from September's record low.

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

"The AIB manufacturing PMI for October moved back into expansion territory for the first time since May. The index reading of 50.7 in October was the highest since April and well up from its level of 48.7 in September. Encouragingly, most of the sub-components of the survey saw an improvement after a string of weak readings over the third quarter."

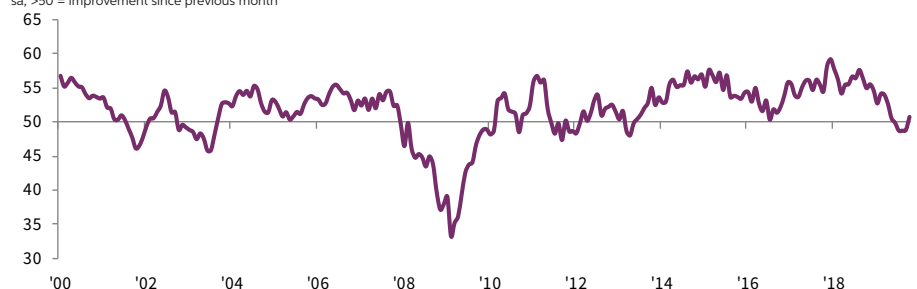
"Two key elements of the survey – output and new orders – both returned to growth territory, having contracted in recent months. Their rate of growth, however, was only marginal. Furthermore, new export orders continued to fall, though the pace of contraction slowed. Meanwhile, sentiment among Irish manufacturers regarding future output recovered in October after falling sharply in September."

"Brexit related effects remained very evident in the October data. Lower demand from the UK due to Brexit uncertainty was cited as a reason for the continued weakness of export orders. Stock of finished goods continued to rise on concerns that Brexit might impact production. Stocks of raw materials and other inputs also rose on worries about potential supply disruptions if Brexit had gone ahead as scheduled at end October. In particular, there was an increase in the purchase of supplies from the UK."

"Overall, while the improvement in the manufacturing PMI in October is welcome, it remains at a weak level, consistent with very modest growth in the sector as the slowdown in the global economy and Brexit uncertainty continue to act as headwinds."

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 50.7 in October, up from 48.7 in September and signalling the first improvement in Irish manufacturing operating conditions since May.

Central to the improvement in manufacturing operating conditions were returns to growth of both output and total new orders. After three straight months of decline, output expanded marginally and at the fastest pace since April during October. Panellists stated that they had increased their production in line with a pick-up in customer demand.

Inflows of total new orders expanded in October, albeit at a marginal rate. The increase in overall new business followed five consecutive months of decline. Export sales, meanwhile, continued to fall, though the latest decrease was only modest. Manufacturers stated that they had observed reluctance from UK firms to place orders as a result of Brexit uncertainty.

Employment improved from September's stagnation, rising modestly during October. Moreover, the rate of job creation was the fastest since June. Anecdotal evidence from panellists indicated that they had raised their staffing numbers in response to higher production requirements.

Stocks of finished goods among Irish manufacturers increased for the fifth month running during October. The rate of accumulation was solid and quickened from September. Some respondents indicated that they had built up their post-production inventories in order to guard against any potential supply disruptions after Brexit.

Holdings of raw materials and semi-finished items increased for the first time since July. However, the rate of increase was marginal. As with post-production inventories,

panellists commented that they had raised their inventory levels due to stock availability concerns after Brexit.

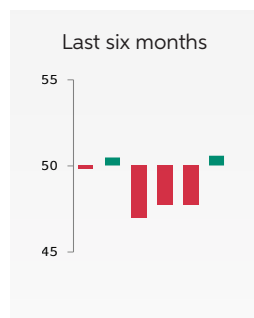
The rise in pre-production inventories was recorded in line with the first expansion of purchasing activity since April. That said, the rate of expansion was marginal and slower than the long-run series average. Anecdotal evidence from panellists indicated that they had increased their input buying in response to a pick-up in customer orders.

Manufacturing backlogs in Ireland declined for the fourteenth month running during October. The rate of backlog depletion, though sharp, was the weakest since May. Pressure on supply chains eased in October, with average lead times shortening for the fourth time in the past five months, amid reports of relatively weaker demand for inputs.

Cost burdens increased during October, fuelled by greater raw material prices, particularly for meat and other food products. The rate of input cost inflation was solid and quickened from September. In response to higher input costs, Irish manufacturers increased their selling prices for the first time in four months, although the increase was modest.

Sentiment among Irish manufacturers improved from September's series record low in October, but nonetheless was historically subdued, amid reports of Brexit uncertainty. Firms continued to predict output growth over the coming year, however. Expectations of increased customer orders and improved marketing efforts were factors supporting optimism.

Output Index



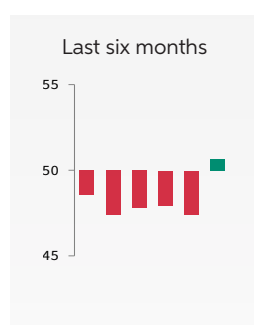
Breaking a three-month sequence of contraction, Irish manufacturing output increased during October. However, the rate of expansion was marginal. Panellists indicated that production had been raised in response to greater customer demand.

Output Index

sa, >50 = growth since previous month



New Orders Index



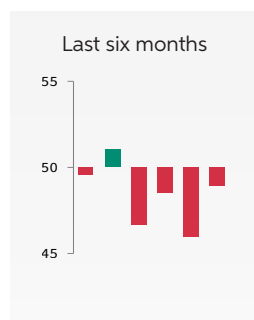
For the first time since April, inflows of overall new business at Irish manufacturers increased in October. Panellists reported that factory orders had risen due to greater market activity. Despite this, the rate of increase was marginal and slower than the long-run series average.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



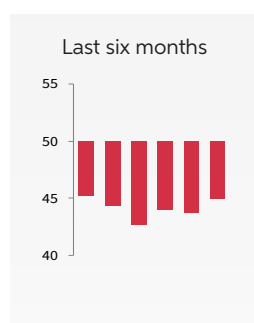
As has been the case since July, new export orders decreased in October. That said, the rate of contraction was marginal and eased from September. Manufacturers reported that they had seen an overall weakening of foreign demand. Many firms commented that they had observed lower demand from the UK due to Brexit uncertainty.

New Export Orders Index

sa, >50 = growth since previous month



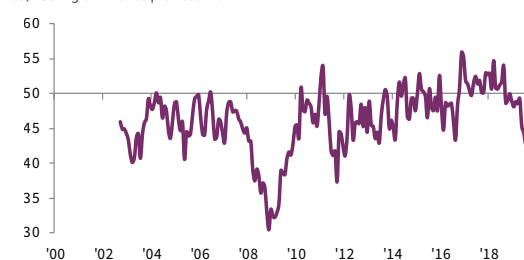
Backlogs of Work Index



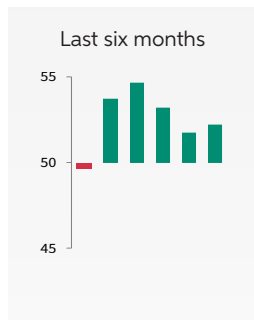
Despite output and total new orders returning to growth, Irish manufacturers recorded a fourteenth consecutive monthly fall of work outstanding in October. Though sharp, the rate of backlog depletion was the softest since May. Anecdotal evidence from panellists indicated that they had enough spare capacity to work through their unfinished workloads as well as fulfil existing customer orders.

Backlogs of Work Index

sa, >50 = growth since previous month

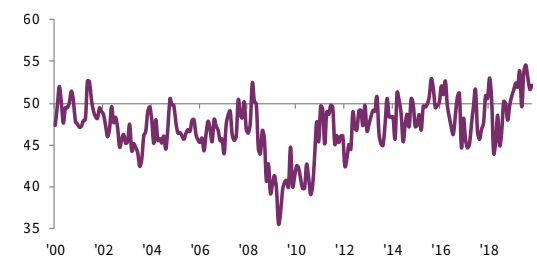


Stocks of Finished Goods Index

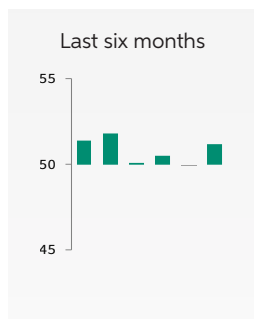


Stocks of finished goods rose for the fifth successive month during October. Moreover, the rate of increase picked up from September. Panellists commented that post-production inventories had risen due to manufacturers' concerns over the availability of inputs after Brexit.

Stocks of Finished Goods Index
sa, >50 = growth since previous month



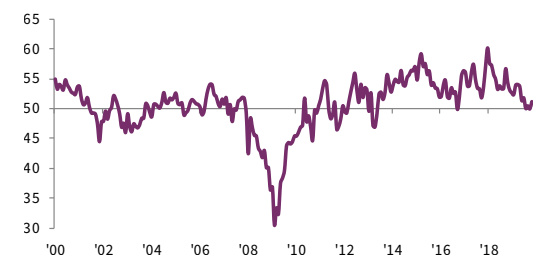
Employment Index



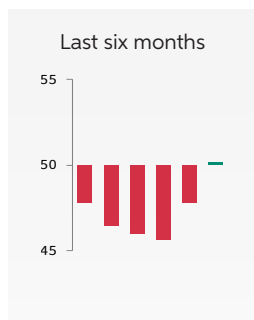
Employment among Irish manufacturers returned to growth in October, following no change in headcounts in September. The rate of job creation, though modest, was the fastest since June. Anecdotal evidence from panellists indicated that they had raised their payrolls in line with the return to growth of new business.

Employment Index

sa, >50 = growth since previous month



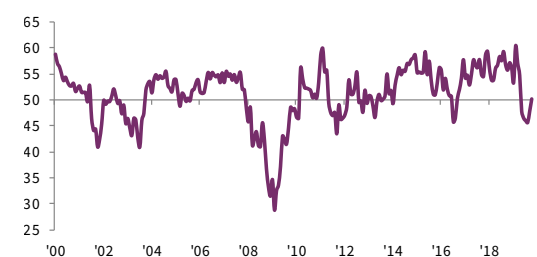
Quantity of Purchases Index



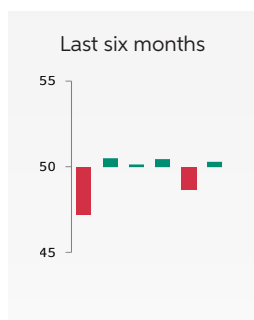
For the first time since April, purchasing activity among Irish manufacturers increased in October. The rate of expansion was marginal, however. Some panellists stated that they had increased their input buying in order to secure supplies from UK firms ahead of Brexit.

Quantity of Purchases Index

sa, >50 = growth since previous month



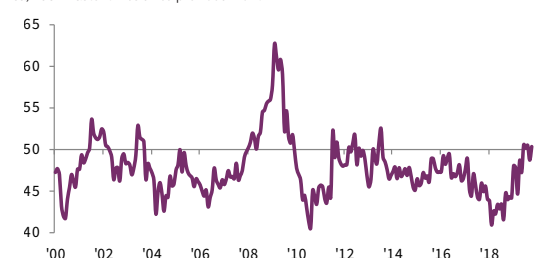
Suppliers' Delivery Times Index



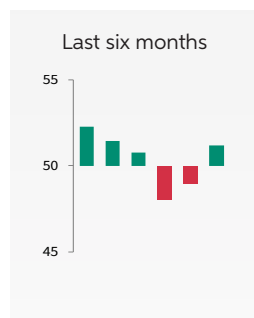
Vendor performance improved for the fourth time in the past five months during October. That said, the rate at which delivery times shortened was only slight. Panellists stated that relatively weak demand for inputs alleviated pressure on supply chains.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



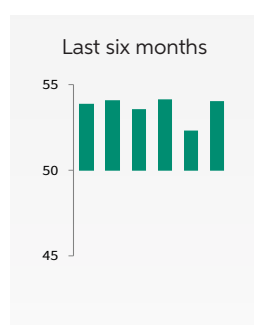
After declining for two successive months, Irish manufacturers raised their pre-production inventories during October. Anecdotal evidence from panellists indicated that they had increased their holdings of raw materials and semi-finished items to cushion themselves from potential supply disruptions caused by Brexit.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index



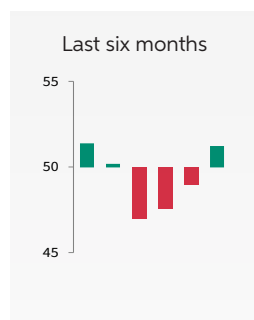
The rate of input cost inflation quickened from September's 38-month low during October. Panellists reported higher prices for a range of raw materials, in particular meat and other food products. Purchasing costs in the Irish manufacturing sector have now risen continuously since May 2016.

Input Prices Index

sa, >50 = inflation since previous month



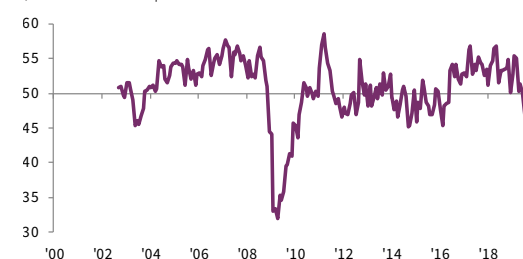
Output Prices Index



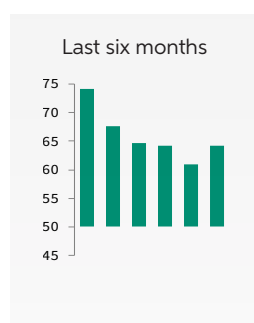
Breaking a three-month sequence of contraction, average selling prices at Irish manufacturers increase in October. Moreover, the rate of inflation, though modest, was the fastest since May. Just over 8% of respondents noted a rise in output prices, compared with exactly 7% that posted a fall.

Output Prices Index

sa, >50 = inflation since previous month



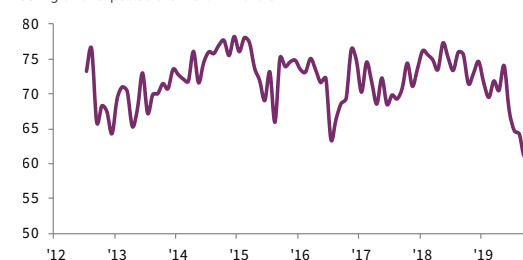
Future Output Index



Manufacturers remained confident that output will increase over the coming year, with just under 40% of respondents forecasting growth. Sentiment picked up from September's record low, but was still well below the series average. Confidence emanated from forecasts of greater sales, expansion into new markets and marketing investments.

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.

October 2019 data were collected 11-24 October 2019.

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

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