

AIB Ireland Manufacturing PMI®

Manufacturing output broadly stable in October but new orders fall further

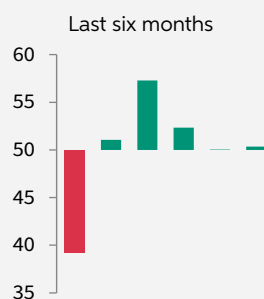
Key Findings

Output and employment indices support headline PMI

Second successive monthly fall in new orders

Output expectations weakest since May

Ireland Manufacturing PMI



The Irish manufacturing sector entered the final quarter of 2020 with demand continuing to weaken, the latest PMI® data from AIB indicated. A slight rise in employment was the main positive from the October survey findings, while output was broadly stable following September's renewed fall. Firms cut purchasing activity at a faster rate as they continued to deplete inventories. The 12-month outlook remained positive, but was the weakest since May.

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

"The AIB Irish Manufacturing PMI for October edged higher to 50.3, having fallen back to a four-month low of 50.0 in September. The October reading is well back from the near two-year high of 57.3 hit in July as the economy rebounded after the first Covid lockdown."

"The details of the October survey point to broadly stable though subdued business conditions in the sector. Output was virtually unchanged from its level in September. There was a slight decline in new orders, both domestic and international, with firms linking the weakening in demand to Covid-19 restrictions."

"The softness in demand saw the backlogs of unfulfilled orders fall further. Stocks of both finished goods and inputs continued to decline in October as firms looked to minimise inventory levels, with another reduction also in the volume of inputs purchased."

"On a positive note, manufacturers added to their workforces in October, with employment rising for only the third time in the past twelve months, although the rate of increase was quite modest. Output prices also edged higher in the month. Meanwhile, firms remain positive on the 12-month outlook, though levels of confidence continued to slip from their recent highs back in June."

"Overall, the October PMI data point to soft business conditions in the manufacturing sector. It is noteworthy that the Irish PMI reading for manufacturing in October continued to lag behind elsewhere in Europe and the US, which have enjoyed a stronger and more sustained rebound in activity post the Covid lockdown implemented earlier in the year."

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 edged higher to 50.3 in October, from September's 50.0. This signalled an overall improvement in business conditions at the start of the fourth quarter, following a stagnation at the end of the third quarter as an initial summer rebound from the spring coronavirus lockdown faded. The latest PMI remained well down from its recent peak of 57.3 in July, and signalled only a marginal improvement in conditions in October.

The slight upward movement in the PMI masked contrasting trends between its five components. The seasonally adjusted employment index signalled growth for the first time in three months – and for only the third time in the past year – contributing 0.4 points to the net increase in the headline figure. Output was broadly stable, having declined in September, which also boosted the PMI by 0.4 points. New orders fell further, albeit at a weaker rate – with a directional influence on the PMI of +0.1 points – while the suppliers' delivery times and stocks of purchases components weighed on the PMI by 0.4 and 0.2 points respectively.

Demand conditions in the Irish manufacturing sector continued to weaken in October, with new orders falling for the second month running following a rebound over the summer. The rate of contraction was slightly weaker

than in September, and much slower than those registered during the spring lockdown. New export orders also fell for the second successive month, but only marginally. Firms mainly linked lower demand to ongoing COVID-19 restrictions.

Although new orders fell further, output was broadly unchanged in October following September's decline, as firms worked through existing business. Backlogs of work fell for the twenty-fifth time in the past 26 months, and at a solid overall pace.

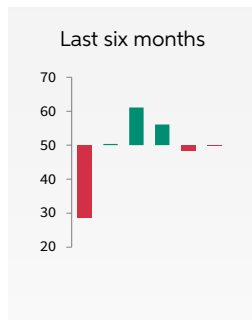
Manufacturers cut purchasing activity further in response to the sustained drop in new work at the start of the fourth quarter. Input volumes fell for the third month running, and at the strongest rate since June. The level of inputs held in stock declined at the fastest pace since November 2011. Despite the reduction in demand for manufacturing inputs, suppliers' delivery times lengthened markedly again during October.

The main positive from the October survey was a renewed increase in manufacturing employment, only the third round of job creation in the past 12 months. This partly reflected sustained optimism around future production, with the respective index remaining in positive territory. That said, sentiment was the weakest since May.

Cost inflationary pressures were favourable in October. Average input prices rose for the fourth month running, but at the weakest rate in this sequence and one that was below the long-run survey average. Moreover, firms raised their own prices for only the second time in the past eight months.



Output Index

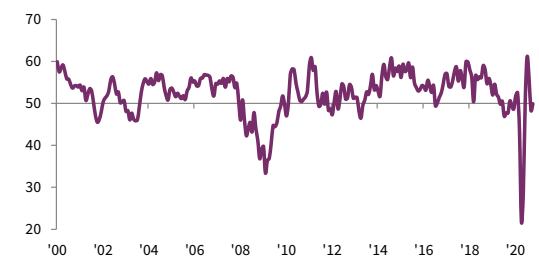


Irish manufacturing production was broadly stable in October following a modest decline in September. The seasonally adjusted Output rose for the first time since hitting a 20-year high in July, but stopped just short of the no-change mark of 50.0.

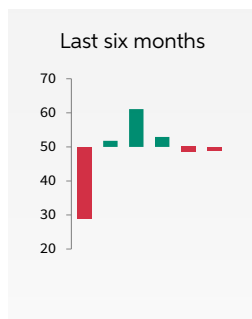
Where higher output was reported, this was linked to improving demand and returning confidence, but this was offset by reports of lower production linked to ongoing COVID-19 restrictions.

Output Index

sa, >50 = growth since previous month



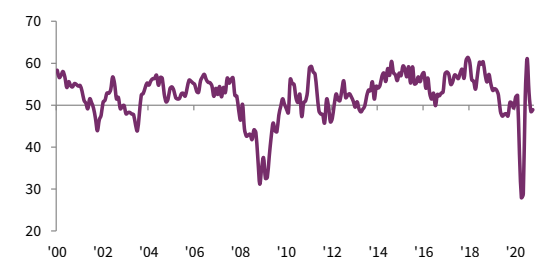
New Orders Index



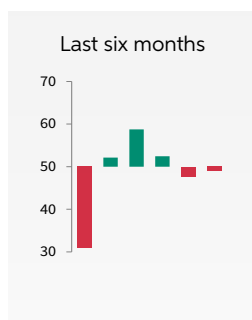
The volume of new business at Irish manufacturers fell for the second month running in October, following a three-month period of growth during the summer. The rate of decline remained modest, however, and much slower than those witnessed during the spring lockdown. Around 21% of firms reported lower new orders in October, compared with a record high of 65% in April.

New Orders Index

sa, >50 = growth since previous month



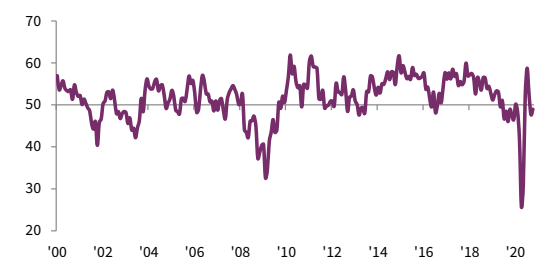
New Export Orders Index



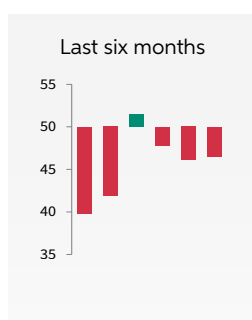
The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 in October, indicating a sustained decline in export demand in the Irish goods-producing sector at the start of the final quarter of 2020. Firms reported that COVID-19 continued to weigh on international demand. That said, the rate of decline eased since September and was only marginal.

New Export Orders Index

sa, >50 = growth since previous month



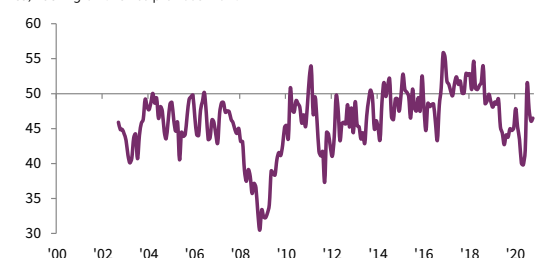
Backlogs of Work Index



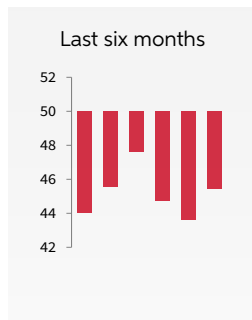
Weaker inflows of new orders resulted in another drop in the volume of outstanding business at Irish manufacturers in October. Backlogs declined for the twenty-fifth time in the past 26 months, at a rate broadly in line with the trend over this period.

Backlogs of Work Index

sa, >50 = growth since previous month



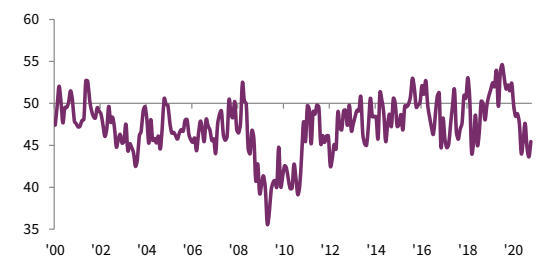
Stocks of Finished Goods Index



The level of completed products held by Irish manufacturers continued to decline in October. The rate of contraction eased since September's 103-month record, but remained strong overall. The seasonally adjusted Stocks of Finished Goods Index remained below its long-run trend level of 47.5.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Employment Index

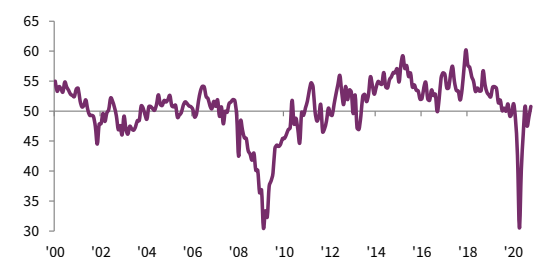


Manufacturers in Ireland expanded their workforces, on average, at the start of the final quarter of 2020. This marked only the third time employment in the sector has risen during the past 12 months.

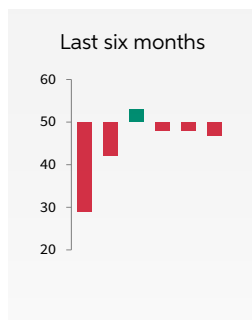
The rate of job creation matched the previous bout of hiring in July, and also equalled the long-run survey average.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index

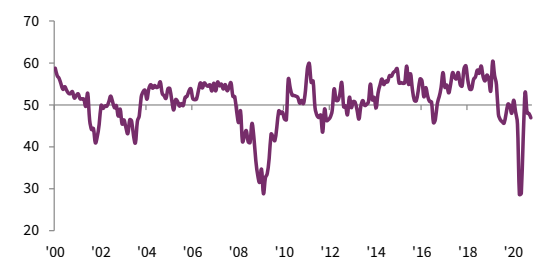


October data signalled a third successive month-on-month reduction in the volume of inputs ordered by Irish manufacturers. Moreover, purchasing activity has fallen 15 times in the past 18 months. Firms linked lower input buying to lower inflows of new orders due to ongoing COVID-19 restrictions.

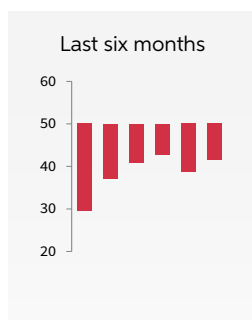
The rate of decline was faster than in August and September, but much slower than those seen during the spring lockdown.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



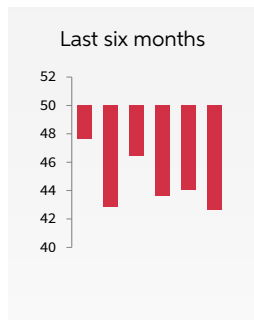
Although demand for manufacturing inputs fell further during October, the average length of time taken for suppliers to deliver items increased further. Longer times have been registered every month since November 2019, most notably in April at the height of the lockdown. The incidence of delays in the latest period was the second-smallest since February, however.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index

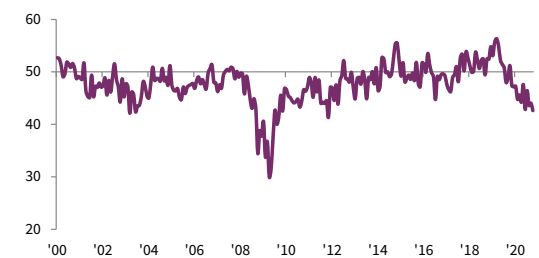


Irish goods producers continued to deplete their holdings of raw materials and other production inputs in October, as firms continued to adjust capacity in line with falling new orders.

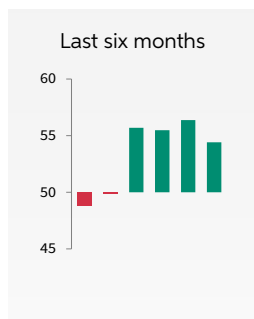
Moreover, the rate of contraction accelerated since September and was the fastest since November 2011.

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index

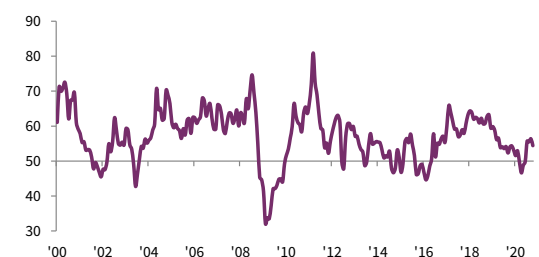


Average input prices rose for the fourth consecutive month in October, following a four-month period of decline from March through to June. Higher input prices were linked to greater costs for metals and safety equipment as well as general raw material shortages in Europe.

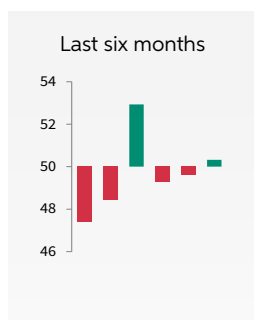
The rate of inflation in the latest period was solid overall, but the weakest over the current sequence and below the historic trend.

Input Prices Index

sa, >50 = inflation since previous month



Output Prices Index

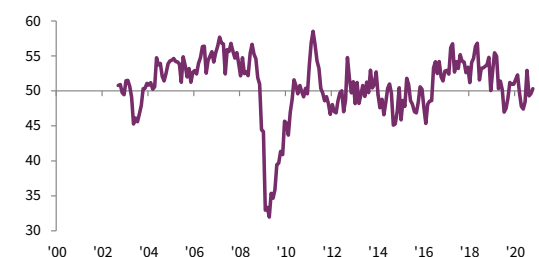


Manufacturing output prices rose in October, following mild decreases in August and September. The rate of charge inflation was only marginal, however, and weaker than the previous rise seen in July (the strongest since March 2019).

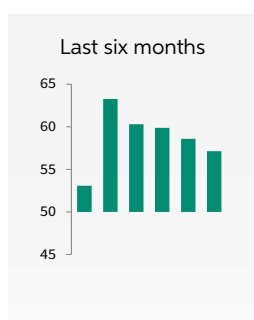
Firms linked increased output prices to rising input costs, including the cost of safety equipment.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index

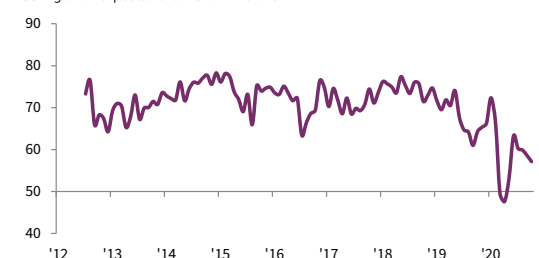


The 12-month outlook for manufacturing production in Ireland remained positive in October, as signalled by the Future Output Index registering above the no-change mark of 50.0. Positive sentiment was linked to new products, new customers and a reduced impact from COVID-19.

That said, the overall strength of confidence eased further and was the weakest since May.

Future Output Index

>50 = growth expected over next 12 months



Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353-1-6417176
E: AIBeconomics.Unit@aib.ie
W: www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353-1-641-2869
M: +353-87-739-0743
E: paddy.x.mcdonnell@aib.ie

Graham Union
AIB Press Office
T: +353-1-6412430
M: +353-85-2088343
E: Graham.X.Union@aib.ie

IHS Markit

Trevor Balchin
Economics Director
T: +44-1491-461-065
trevor.balchin@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 781-301-9311
katherine.smith@ihsmarkit.com

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.

Data were collected 12-23 October 2020.

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.

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