

# AIB Ireland Manufacturing PMI®

## Manufacturing stalls as output and new orders decline in September

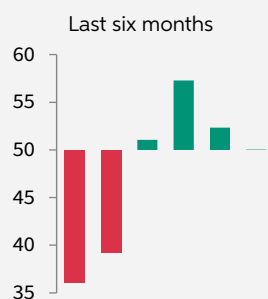
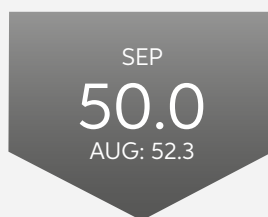
### Key Findings

Production and new work both decline since August, albeit modestly

Slower reduction in employment

Input price inflation rises to 17-month high

### Ireland Manufacturing PMI



The Irish manufacturing sector faced challenges in September as output, new orders and employment all declined, the latest PMI® data from AIB indicated. Although the headline PMI did not signal an overall deterioration in business conditions, this was only due to a marked lengthening in suppliers' delivery times. Exports, backlogs, purchasing and stocks also fell during the latest period, while input price inflation hit a 17-month high.

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

*"The AIB Irish Manufacturing PMI for September fell to a four-month low of 50.0, which is well back from the near two-year high of 57.3 hit in July. Thus, the rebound in activity seen over the summer has come to a halt."*

*"The main factor behind this, which is clear from the survey data, is weakening demand as a result of the second wave to Covid-19 and associated increased restrictions on activity. Brexit and the stalled UK-EU trade talks are also cited as another source of growing uncertainty. Shortages of supplies and transportation difficulties are negatively impacting activity in the sector too."*

*"The details of the September survey show clear signs of a loss of momentum in manufacturing. Output contracted modestly after three months of expansion. New orders declined, in particular export orders, with lower sales mentioned in both the UK and US."*

*As a result, backlogs of unfulfilled orders fell further. Not surprisingly then, manufacturers reduced their workforces, although the pace of job shedding was very modest."*

*"Stocks of both finished goods and inputs continued to decline in September as firms look to minimise inventory levels with demand weakening. However, disruption to supply chains and transportation difficulties arising from the pandemic were also a factor, with a marked lengthening in delivery times. A shortage of supplies is also resulting in higher prices for inputs, which increased at their fastest pace since April 2019."*

*"Overall, the September PMI data show that Covid-19 continues to result in challenging business conditions in the manufacturing sector. Firms, though, remain hopeful that the business environment will improve next 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 fell from 52.3 in August to exactly 50.0 in September, indicating stagnant overall operating conditions in the Irish manufacturing sector. This ended a three-month recovery in the goods-producing sector as restrictions were eased over the summer, which peaked in July when the PMI hit a 23-month high of 57.3. The headline figure trended at 53.2 in the third quarter, the highest since Q1 2019 (53.5).

The five components of the PMI revealed a weaker situation in the manufacturing sector than the headline figure suggested, however. Indices for output and new orders both sank below the 50.0 mark, indicating declines, while employment and stocks of purchases remained in contraction territory. The weakness of these four variables was fully offset by a marked lengthening in suppliers' delivery times, which in normal times would be indicative of busy suppliers, but currently reflects shortages and transport difficulties arising from the pandemic.

The recent rebound in manufacturing output in Ireland petered out in September as a decline was registered, following a near-record increase two months' previously. The rate of contraction was only modest, however, and much less severe than in the March-May period. The Output Index was broadly in line with its trend level registered during the

second half of 2019.

The renewed dip in production mainly reflected a similar decline in the volume of incoming new work. Firms reported weak demand linked to ongoing uncertainty over COVID-19 and Brexit. The rate of contraction was only modest, however, and much less severe than the falls registered in the spring.

New export orders fell for the first time in four months in September. The main factor behind weak international demand remained COVID-19, but Brexit was also mentioned as a source of uncertainty for foreign clients.

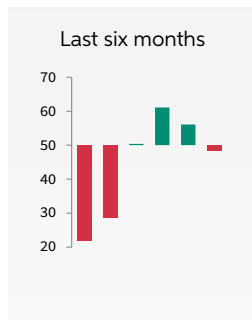
With a renewed fall in new orders, backlogs of work declined at a faster rate in September. Manufacturers reduced workforces for the ninth time in 11 months, linked to weaker sales, cost cutting, the non-replacement of leavers and students returning to education. That said, the overall rate of job shedding was only marginal and eased since August.

Manufacturers reduced their purchasing of new inputs as a result of lower incoming work, resulting in another sharp fall in stocks of raw materials. Inventories of finished goods also declined rapidly as production declined. Despite the drop in purchasing, suppliers' delivery times lengthened markedly due to shortages at suppliers, resulting in the strongest rate of input cost inflation since April 2019. In contrast, manufacturing output prices fell again in September, albeit only slightly.

The 12-month outlook for manufacturing production remained positive in September, but moderated to a four-month low. While the proportion of firms expecting growth (42%) was broadly similar to that seen over the



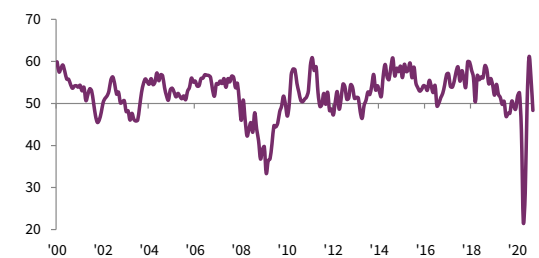
## Output Index



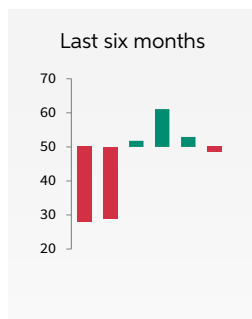
Output in the Irish manufacturing sector slipped back into contraction in September, following a three-month period of growth over the summer following the spring lockdown. That said, the rate of decline was only modest, and much less marked than the falls registered during the spring. Firms mainly linked lower output to weak demand as a result of the ongoing coronavirus pandemic.

### Output Index

sa, >50 = growth since previous month



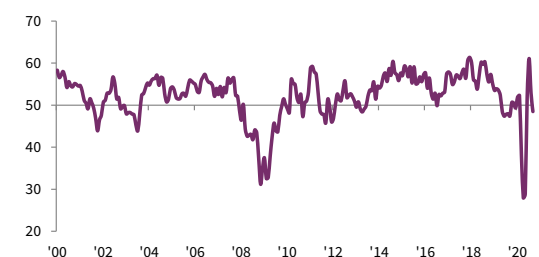
## New Orders Index



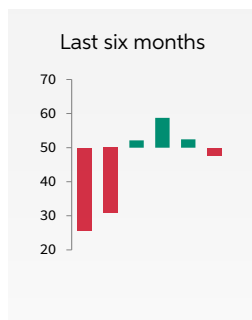
The seasonally adjusted New Orders Index fell below the no-change mark of 50.0 in September, indicating lower intakes of new business at Irish manufacturers compared with August. This ended a three-month sequence of growth as the economy reopened over the summer. The rate of contraction in the latest period was only modest, however.

### New Orders Index

sa, >50 = growth since previous month



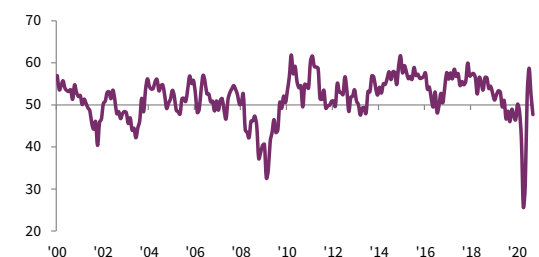
## New Export Orders Index



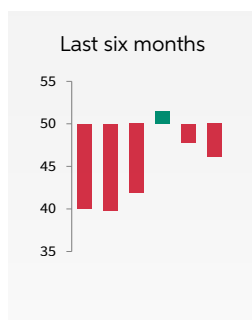
The volume of new export orders received by Irish goods producers fell for the first time in four months in September. Lower sales were reported from the UK and the US in particular. The main factor behind weak international demand remained COVID-19, but Brexit was also mentioned as a source of uncertainty.

### New Export Orders Index

sa, >50 = growth since previous month



## Backlogs of Work Index

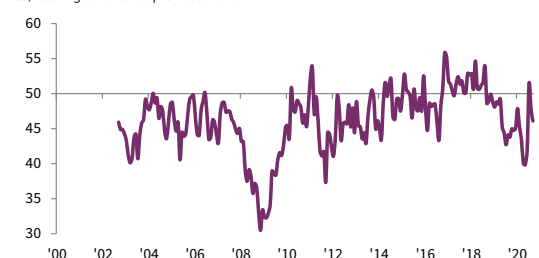


The volume of incomplete work at Irish manufacturers declined further in September, having risen in July for the first time in nearly two years. The latest drop in backlogs mainly reflected a renewed downturn in new orders at the end of the third quarter.

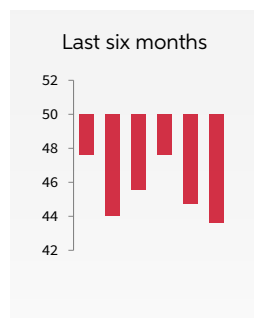
The rate of depletion accelerated slightly since August, but remained much slower than those registered earlier in the year.

### Backlogs of Work Index

sa, >50 = growth since previous month



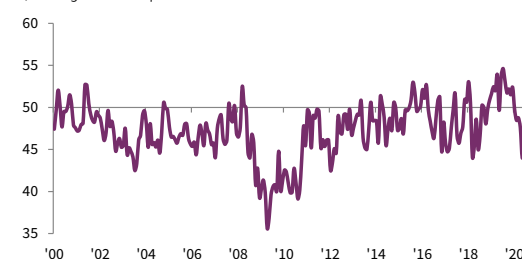
## Stocks of Finished Goods Index



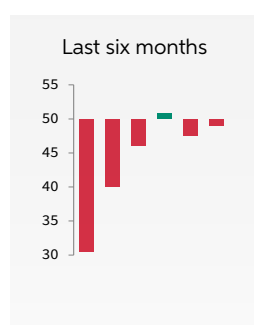
The seasonally adjusted Stocks of Finished Goods Index fell for the second month running in September, indicating an accelerating rate of destocking of final goods by manufacturers. The extent to which inventories were cleared was the greatest since February 2012.

Stocks of Finished Goods Index

sa, >50 = growth since previous month



## Employment Index

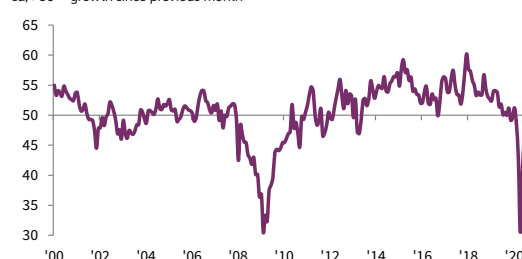


Irish manufacturing employment continued to decline slightly in September, following a brief increase in July. The latest reduction was the ninth in the past 11 months, albeit the weakest decline registered in 2020 so far.

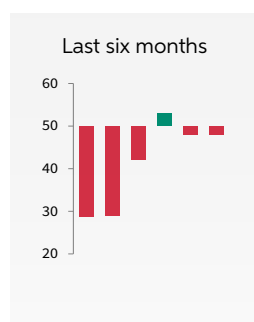
A variety of reasons were put forward for reduced staffing, including weaker sales, cost cutting, the non-replacement of leavers and students returning to education.

Employment Index

sa, >50 = growth since previous month



## Quantity of Purchases Index



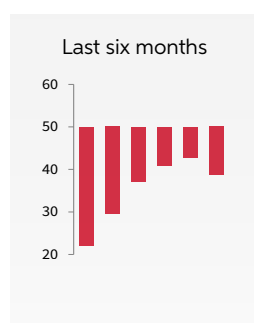
The seasonally adjusted Quantity of Purchases Index was little-changed in September, remaining below 50.0 and signalling another moderate decline in input buying by manufacturers. Fewer purchases were linked to lower new orders and excess stocks.

Quantity of Purchases Index

sa, >50 = growth since previous month



## Suppliers' Delivery Times Index



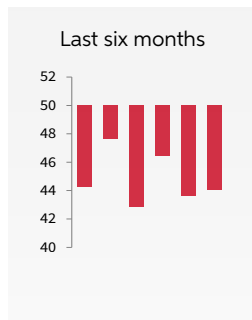
Although demand for production inputs continued to decline in September, data signalled a further lengthening of suppliers' delivery times. Moreover, delays were more widespread than in August. A number of firms commented that low stocks at suppliers were the cause of lengthier deliveries, amid ongoing uncertainty over the impact of COVID-19.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



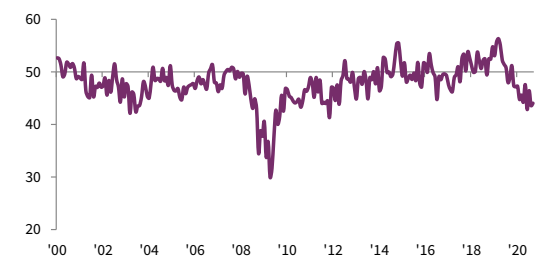
## Stocks of Purchases Index



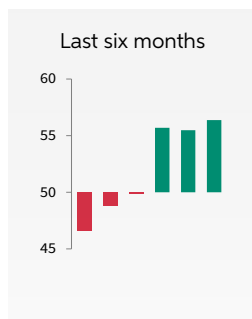
Manufacturers in Ireland continued to deplete their stocks of raw materials and components in September, as demand conditions weakened. Pre-production inventories declined for the eleventh consecutive month, and at a sharp rate.

### Stocks of Purchases Index

sa, >50 = growth since previous month



## Input Prices Index

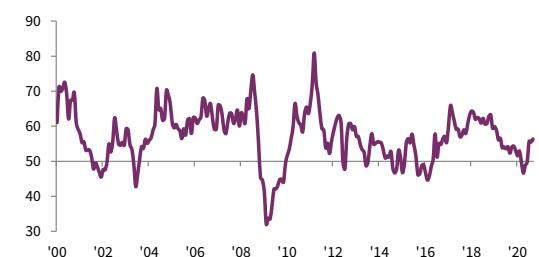


Cost pressures continued to build in the Irish manufacturing sector in September. Average input prices rose for the third month running, and at the fastest rate since April 2019. Some firms linked higher prices to shortages at suppliers.

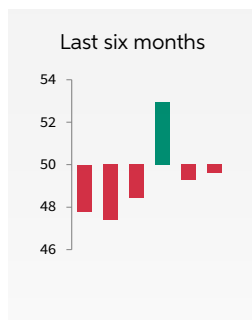
The seasonally adjusted Input Prices Index was broadly in line with its long-run trend level during the month.

### Input Prices Index

sa, >50 = inflation since previous month



## Output Prices Index

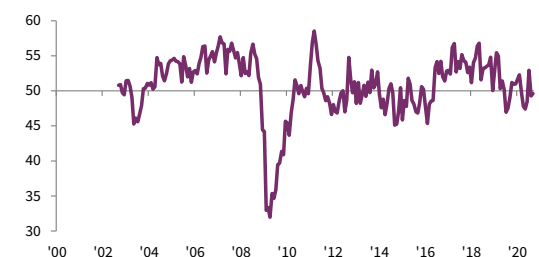


Manufacturers cut their output prices for the second month running in September, following a mild increase in July. Firms mainly linked lower prices to efforts to boost competitiveness amid waning demand.

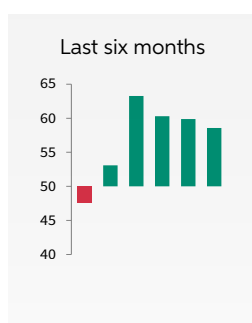
The overall rate of discounting was only marginal, however, and slower than in August.

### Output Prices Index

sa, >50 = inflation since previous month



## Future Output Index



Although new orders slipped back into decline in September, Irish goods producers remained optimistic of higher output in 12 months' time, once COVID-19 and Brexit had passed. That said, the Future Output Index fell for the third month running to indicate that the strength of sentiment had continued to moderate, reflecting renewed uncertainty around the long-term impact of coronavirus and the terms of any Brexit trade deal.

### 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.

Data were collected 11-23 September 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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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