



AIB Ireland Manufacturing PMI®

Further drop in manufacturing new orders in October

Key Findings

New orders decline at slightly weaker rate

Output rises for first time in five months as firms cut backlogs

Input price inflation eases to 20-month low

Data were collected 12-24 October 2022.

The October PMI® survey data from AIB revealed persistently weak underlying demand at the start of the final quarter of 2022 as new orders fell for the fifth month running. Output and employment both rose on the month, however, as firms made further inroads into backlogs. Input prices rose at a strong overall rate, albeit the slowest in 20 months as supply chains showed a further relative improvement and demand weakened.

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 registered 51.4 in October, little-changed from September's 51.5 and signalling a further modest overall improvement in operating conditions in the goods-producing sector. The October figure matched the average for the third quarter, and remained below its long-run trend level (since 1998) of 52.3.

The positive print in the October PMI figure reflected four of its five components. Output, employment and stocks of purchases all expanded during the month, while suppliers' delivery times lengthened further. New orders, the largest PMI component with a weight of 30%, remained negative.

New business received by Irish goods producers fell for the fifth consecutive month in October. The rate of reduction remained solid despite easing slightly since September. Survey respondents reported that high inflation had deterred customers from placing new orders. International demand remained weak, with new export orders falling the most since June.

Although new business fell, Irish manufacturers expanded output for the first time in five months. This reflected work to

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

reduce outstanding contracts, with backlogs falling at the fastest rate since January 2021. Inventories of finished goods rose for the fourth consecutive month, but at a slower rate than in August and September.

The sustained drop in new work influenced firms' purchases of inputs in October, with a decline registered for the third time in four months. As well as lower demand, reduced buying activity reflected sufficient stock levels, which rose for the nineteenth month running on the back of the arrival of previously ordered materials. That said, input inventories rose at the slowest rate over this sequence.

Suppliers' delivery times continued to lengthen to a historically marked degree in October, linked to staff shortages and high fuel costs in the transport sector, and ongoing shortages of electronic components. That said, the increase in lead times was the second-smallest of the past 23 months in a further sign of easing pressure on supply chains.

Input price inflation remained historically strong in October but eased for the fourth time in five months to a 20-month low, reflecting both improving supply chains and weakening demand conditions. In contrast, output price inflation edged up to a three-month high as firms passed on greater costs from materials, labour, fuel and energy.

The 12-month outlook among Irish manufacturers improved to a seven-month high in October. Anecdotal evidence linked positive expectations to export forecasts and hopes that the current downturn in demand will prove temporary. Reflecting expectations of higher output and ongoing efforts to address backlogs, firms continued to raise employment at the start of the fourth quarter.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"There was little change in the headline index in the AIB Irish Manufacturing PMI survey for October. The PMI remained within a narrow 51-52 range for a fourth consecutive month, with the index edging down to 51.4 from 51.5 in September. This signals a further modest improvement in business conditions in the sector. Much weaker readings are being seen in the rest of Europe, with the flash Manufacturing PMIs sinking deeper into contraction territory in October, at 46.6 in the Eurozone and 45.8 in the UK.

"However, there are some warning signals in the Irish data, with new orders, including export orders, declining for a fifth consecutive month as high inflation weighs on consumer demand, both at home and abroad. There was a slight increase in output as manufacturers continued to work to clear order backlogs and rebuild stocks of finished goods. As a result, firms were still hiring, with another solid increase in employment in the month.

"While suppliers' delivery times continued to lengthen in October, there are signs of easing pressures on supply chains. Meanwhile, manufacturers cut their purchases of inputs for the third time in four months. In terms of the 12-month outlook, sentiment rose for the second month running, hitting a seven month high, though it remains below its long run average.

"Despite the weakening in demand, inflationary pressures remain strong. Input prices continued to rise sharply, with pressure on energy, fuel, materials and labour costs, though the rate of increase slowed further to a 20-month low. Output price inflation also remained elevated, edging up to a 3-month high, as firms passed on higher costs to customers."

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Methodology

The AIB Ireland Manufacturing PMI® is compiled by S&P Global 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 12-24 October 2022.

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

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