



AIB Ireland Manufacturing PMI®

New orders fall at faster rate in December

Key Findings

Manufacturer clear backlogs at marked pace

Pre- and post-production stocks continue to accumulate

Input price inflation eases to 22-month low

Data were collected 6-16 December 2022.

The Irish manufacturing sector recorded a second month of deteriorating operating conditions in December as new orders fell sharply, according to the latest AIB PMI® data. The contractions in new and outstanding work accelerated, while output fell more slowly and stocks of both inputs and finished goods built up. Pressure on supply chains eased further, leading to the slowest round of input price inflation since February 2021.

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.

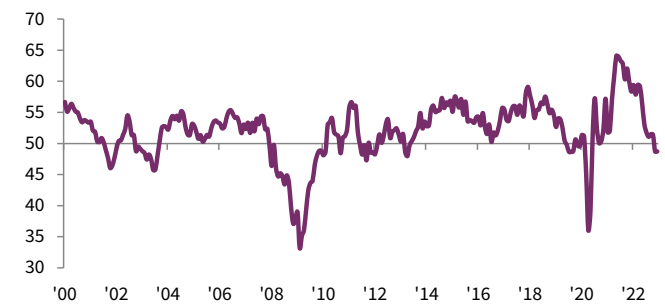
The PMI registered 48.7 in December, unchanged from November, indicating a second successive monthly deterioration in operating conditions in the goods-producing sector. The stable trend in the headline figure followed a sequence of seven falls in eight months. The rate of decline signalled in the final two months of 2022 was not as severe as the lockdown-related downturn in March-May 2020, but slightly stronger than that registered on average during the second half of 2019.

Of the five components, two weighed on the PMI in December: a faster decline in new orders and a less severe lengthening in supplier lead times. These were offset by a slower reduction in output, a faster rise in stocks of purchases and a renewed increase in employment.

The volume of new orders fell for the seventh successive month in December, highlighting a sustained downturn in demand. Moreover, the rate of decline accelerated further to the strongest since May 2009, when excluding the lockdown in spring 2020. More positively, new export orders fell at the slowest rate in the current seven-month sequence of decline.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

Faced with falling new work, manufacturers continued to clear their backlogged orders in December. Outstanding business fell for the eighth month running, and at the fastest rate since June 2020. This contributed to a rise in stocks of finished goods for the sixth month running.

Production declined for the sixth time in seven months in December, although the accelerated clearance of backlogs meant that the rate of contraction eased and was not as fast as the drop in new work.

Irish manufacturers expanded their workforces in December, having cut them in November for the first time in over two years. Recruitment was linked to investing in new capacity for 2023, with companies' expectations for output over the next 12 months picking up in December. That said, the overall rate of job creation was only marginal and expectations for production were below the long-run survey average, reflecting concerns over the economic outlook, the energy crisis and high inflation.

Purchasing was scaled back again in December as demand weakened further and firms reported excess stocks. Input inventories rose for the twenty-first consecutive month, and at one of the fastest rates on record. Weaker demand for inputs translated into a further easing of pressure on supply chains, where lead times lengthened to the smallest extent since February 2020.

Input price inflation continued to run above the long-run survey average in December, with 38% of firms reporting increased average input prices, especially for energy. That said, the rate of inflation eased for the fifth month running to a 22-month low. Output price inflation remained historically elevated and accelerated since November.



Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI remained in contraction territory in December for the second month running, with the headline index unchanged from November at 48.7. This points to a continued deterioration in business conditions in the sector, with new orders in particular falling sharply. The weak PMI reading of 48.7 is broadly into line with the trend seen elsewhere, though the pace of contraction is not as marked in Ireland - the flash manufacturing PMIs stood at 46.2, 47.8 and 44.7 in the US, Eurozone and UK in December.

"Orders have been in decline since June reflecting weakening demand. This has resulted in the downturn in manufacturing activity seen in the closing two months of the year. As noted, there rate of decline in new orders was quite marked in December, though much less so for new export orders. Falling orders led to another drop in output, the sixth decline in the past seven months.

"Meanwhile, stocks of finished goods rose for the sixth month running. Stocks of inputs also continued to rise, while order backlogs fell for an eighth consecutive month as firms cleared outstanding work. On a more positive note, employment rose, albeit only marginally. In terms of the 12-month outlook, sentiment also improved, though it remains at a historically subdued level.

"There was a further easing of supply chain pressures, with only 12% of firms reporting longer suppliers' delivery times. Meantime, the rate of input price inflation while still elevated, continued to ease, hitting a 22-month low. Output price inflation also remained high, accelerating in December, though still at the second lowest level in the past 19 months."

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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 6-16 December 2022.

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

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