

AIB Ireland Manufacturing PMI®

Strongest deterioration in Irish manufacturing sector performance for over three years in June

Key findings

Sharpest fall in production since February 2021

Marked reduction in purchasing activity

First fall in selling prices since September 2020

Amid ongoing demand weakness, Irish manufacturing firms continued to see a decline in the health of the sector during June. Downturns in new orders and output were both sustained with the rate of contraction in the latter the sharpest since February 2021. Firms responded accordingly by cutting back their buying activity at the steepest pace for three years. Employment numbers were down for the first time in seven months as firms were increasingly reluctant to replace voluntary leavers. Meanwhile, cost pressures continued to ease, as reflected in the sharpest fall in selling prices since February 2016.

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.

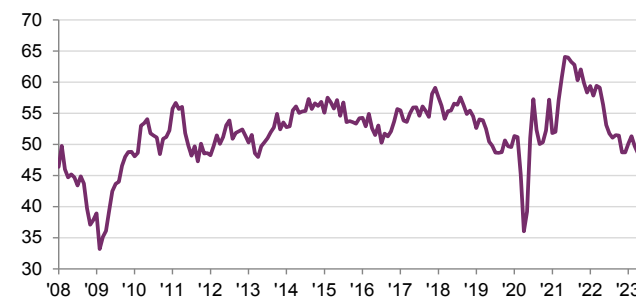
Posting at 47.3 in June, falling fractionally from 47.5 in May, the headline PMI index pointed towards a fourth successive deterioration in the overall health of the Irish manufacturing sector. Moreover, the rate of decline was the strongest in over three years.

Reports of demand weakness were widespread across the latest survey. The impacts of this were clearly felt with regards to new orders, which declined for the fourth month running in June. Difficulties in securing sales were especially prevalent in the export market. Foreign client demand deteriorated for the thirteenth successive month and at a strong rate overall.

Matching the subdued picture for demand, Irish manufacturers scaled back production during June. The decline in output levels was the eighth in successive months and the most pronounced since February 2021. Aside from demand weakness, less favourable weather conditions were named as a factor contributing to the latest reduction.

With production requirements falling, firms responded accordingly by reducing their purchasing activity during June. Moreover, the rate of decline quickened to a substantial pace that was the sharpest in three years. As such, pre-production inventory levels contracted for the third month in a row and at a strong pace overall. When explaining the decline, panel members often mentioned their efforts to purposefully reduce

AIB Ireland Manufacturing PMI
sa, >50 = improvement since previous month



Sources: AIB, S&P Global PMI.
Data were collected 12-23 June 2023.

Comment

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

"The AIB Irish Manufacturing PMI for June indicates that the sector remained in contractionary territory at the end of the second quarter. The headline index registered a reading of 47.3 in June, which was slightly below the 47.5 level it recorded in May and marked the fourth consecutive month of contraction. The contraction in Irish manufacturing activity is in line with the trend in most other economies, amid a global downturn in the sector. The flash June Manufacturing PMIs for the Eurozone, UK and US slipped further to 43.6, 46.2 and 46.3, respectively.

"Irish manufacturing continued to be hampered by subdued demand, including in overseas markets. This was reflected in new orders falling for a fourth month in-a-row, with export orders contracting for a thirteenth successive month. The weakness in demand, meant that production continued to be scaled back, and is now at its lowest level since early 2021.

"Amid the lower level of production, firms continued to scale back their purchases of inputs, with June seeing the sharpest pace of reduction in three years. Spare capacity continued to be evident in the sector as backlogs of outstanding work maintained their steep downward trend.

"Against the backdrop of weaker activity levels, employment decreased for the first time in seven months, with the rate of decline, the sharpest in nearly three years.

"Despite the more challenging market conditions, Irish manufacturers continue to be optimistic about the future, with confidence rising to a three month high.

"Meanwhile, the weaker demand dynamics in the sector resulted in a further marked easing in inflationary pressures. Input prices fell for the third consecutive month, driven by falls in raw material and energy prices. A combination of reduced inputs costs and increased competition saw output prices decrease again in June."

stocks of purchases in line with subdued demand. Firm also maintained a preference towards lower post-production inventories, as highlighted by a second consecutive fall in stocks of finished goods.

Elsewhere, there was a fresh reduction in staffing numbers during June. Irish manufacturers lowered employment levels for the first time in seven months and at the sharpest rate in close to three years. According to survey respondents, voluntary resignations and a growing reluctance to replace leavers led to the latest decline in workforce numbers.

Nevertheless, an element of spare capacity within the Irish manufacturing sector remained evident at the end of the second quarter of the year. The level of outstanding work depleted for a fourteenth successive month and at a marked pace overall. Firms were reportedly able to make inroads in their backlogs due to the current lull in demand.

The weak demand environment acted to reduce cost pressures further in June. Input prices dropped for the third month in a row and at the sharpest pace since April 2020. The fall in operating expenses provided firms with some leeway to reduce their own output charges. Selling prices subsequently decreased for a second successive month, and at the pace that was the most pronounced since February 2016. Lower raw material and energy prices combined with current competitive pressures led to the sustained declines, according to survey respondents.

Meanwhile, supply pressures also subsided. Average lead times shortened for the fourth month in a row, aided by an improvement in shipping times from overseas suppliers.

Despite deteriorating market conditions, Irish manufacturing firms remained optimistic in their projections for future output in June. The degree of confidence strengthened to a three-month high amid hopes of an upcoming boost in sales volumes.

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Survey 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. Data collection began in May 1998.

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.

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

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