News Release

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AIB Ireland Manufacturing PMI®

Sector stablises amid softer downturn in new orders

Key Findings

Lead times shorten for first time since October 2019

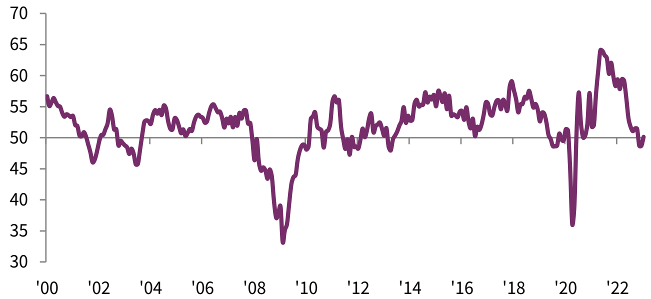
Post-production inventories expand at second-sharpest rate in survey history

Input price inflation dips to two-year low

Data were collected 12-24 January 2023.

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

Business conditions in Ireland's manufacturing sector were stable in the first month of 2023, according to the latest AIB PMI® data. While the current lull in demand reportedly continued to contribute to sustained reductions in output and new orders, rates of decline softened for both. As such, firms were more positive about their future and registered the strongest degree of confidence in 11 months.

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 rose from 48.7 in December to 50.1 in January to signal a broad stabilisation in overall operating conditions in Ireland's manufacturing sector in the first month of 2023. That said, the latest reading, though only fractionally above the neutral 50.0 threshold, was the strongest in three months, breaking the previous two-month sequence of decline.

A softer reduction in order book volumes contributed to the uplift in January's PMI reading. In fact, the latest fall in new orders was the weakest in the current eight-month sequence of decline and eased markedly from December's 31-month record. That said, overall demand conditions remained relatively muted amid ongoing reports of a general market slowdown. Meanwhile, the downturn in international demand for Irish manufactured goods was sustained and strengthened since December.

Irish goods producers reportedly cut output to adjust for weak demand conditions and subsequently, for the seventh time in eight months, Irish production volumes contracted in January.

To reflect falling orders and lower output, firms cut back purchasing activity for the fifth consecutive month in January. By contrast, there was a sustained and solid accumulation in pre-production inventories.

January survey data again displayed evidence of spare capacity in Ireland's manufacturing sector. Against a backdrop of subdued demand, firms focused on working through existing orders and building-up stocks of finished products. As such, there was a reduction in backlogs for a ninth month in a row, and one that was sharp overall and the steepest since June 2020. Meanwhile, post-production inventories accumulated for the seventh successive month and at the second-fastest pace in survey history.

Some positive developments this month came from a second successive month where Irish manufacturing firms added to their workforce numbers. That said, the rate of job creation was weaker than seen in most months seen over the past two years. Another advancement came from a renewed improvement in vendor performance in January. The latest improvement was the most pronounced since July 2013 and followed a 38-month sequence of consecutive deterioration.

Concurrently, inflationary pressures cooled in January, as indicated by rates of input cost and output price inflation sinking to 24- and 22-month lows respectively. That said, in both cases, rates were stronger than their historical averages. Reportedly, high energy and supplier prices continued to add to average cost burdens.

Finally, optimism remained across Ireland's manufacturing sector. In fact, the overall degree of confidence was the strongest since last February amid hopes for a general market improvement. That said, some concerns about the current inflationary environment remained.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"After two months in contraction territory, the AIB Irish Manufacturing PMI for January showed a stablisation in business conditions in the sector at the start of this year. The headline index rose to 50.1 from 48.7 in December and November. The Irish reading contrasts with the weak flash manufacturing PMIs for the US, Eurozone and UK in January. While improving, they came in at 46.8, 48.8 and 46.7, respectively, pointing to ongoing declines in manufacturing activity in those economies.

"Encouragingly, the Irish data showed the smallest fall in new orders since they first began to decline in June last year, though demand remains muted. The pace of contraction in output also eased considerably, with just a small fall in the month. Two factors helped in this regard. There was a further marked decline in order backlogs as firms cleared outstanding work, while stocks of finished goods rose for the seventh month running, recording their second biggest increase in the survey's history.

"There were a number of quite positive features in the January survey. Employment expanded at a solid pace, while there was a shortening of suppliers deliver times, the first seen since October 2019 in a clear sign that pressures on supply chains have eased considerably.

"Meanwhile, there was also a further marked easing in inflationary pressures. The rate of increase in input costs and output prices, while still quite high, fell to 24 and 22 month lows, respectively. Not too surprisingly then, there was a good improvement in sentiment in regard to the outlook for the year ahead, with confidence rising to its highest level since last February."

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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 January 2023.

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

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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