



AIB Ireland Manufacturing PMI®

Sharper contraction in output as new orders fall further in August

Key Findings

Steepest drop in production since February 2021

Third successive monthly decline in new orders

Input price inflation eases to 12-month low but remains historically elevated

Data were collected 12-23 August 2022.

The latest PMI® survey data from AIB highlighted further declines in output and new orders across the Irish manufacturing sector, while employment and stocks continued to expand. The fall in production quickened, leading to a steeper drop in backlogs. Cost pressures remained high but slowed since July, reflected in a softer rate of output price inflation. Latest data also revealed a further easing of pressure on supply chains, though lead times continued to lengthen markedly.

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 51.1 in August, down from July's 51.8, indicating a further overall improvement in operating conditions in the sector. The rate of growth was the weakest since October 2020 and only modest, with the PMI falling further below its long-run average of 52.3. The headline figure slipped for the fifth straight month in August – the longest sequence of month-on-month declines since mid-2019.

August 2022 continued a notable turnaround in the sector's performance compared with one year earlier. In August 2021 the PMI had registered a fifth straight reading above 60.0, supported by rapid gains in output, new orders, jobs and input stocks, although lengthy supplier delays were also a contributing factor.

Although the PMI remained in overall growth territory in August, this masked further declines in both new orders and output, the two largest components by weight (together these account for 55% of the PMI calculation). New orders fell for the third month running, albeit at a slightly weaker rate than in July. Survey respondents linked weaker demand to a reluctance among

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

customers to spend amid rising inflationary pressures and economic uncertainty. New export orders fell more quickly than in July, but at a rate just short of June's two-year record.

The continued downturn in new business resulted in a third successive monthly drop in output. Moreover, the rate of decline in August was the fastest since February 2021. This partly reflected efforts to clear backlogs, which fell for the fourth month running and at the fastest rate since January 2021, and also to limit growth in unsold stock. Inventories of finished goods rose for the second month running and at one of the strongest rates on record in August. The 12-month outlook for production remained positive, but expectations eased to a 22-month low reflecting firms' concerns around inflation and recession risks.

Manufacturers continued to expand workforces in August, despite the downturn in demand. Recruitment was linked to the US market and efforts to boost capacity. That said, the rate of job creation was the weakest since January 2021.

Pressure on manufacturing supply chains remained strong in August, but there was further evidence of relative improvement. Suppliers' delivery times rose markedly overall, but to the smallest degree since November 2020. This partly reflected weaker demand for inputs, as the volume of purchasing activity was unchanged in August following the first decline for 17 months in July. Delayed inputs continued to arrive at Irish manufacturers, with stocks of purchases across the sector rising at one of the fastest rates on record.

Inflationary pressures remained high in August, though the reduced pressure on supply chains contributed to the slowest rate of input price inflation for a year. This fed through to the softest rise in output prices since January, albeit one that remained elevated by historical standards.



Comment

Oliver Mangan, AIB Chief Economist, commented:

"The AIB Irish Manufacturing PMI survey for August shows a further loss of momentum in the sector as demand falters in the face of rising inflation. The PMI declined to 51.1 from 51.8 in July, the fifth consecutive monthly fall. While the index remained in expansion territory, it was the lowest reading since October 2020. Much weaker readings, though, have been seen in the rest of Europe for August, with the flash Manufacturing PMI moving down to 49.7 in the Eurozone and falling sharply to 46.0 in the UK.

"The impact of weakening demand on Irish manufacturing activity is clearly evident in the third consecutive monthly contractions in both output and new orders. The drop in new orders resulted in a further easing in capacity pressures, with backlogs of unfinished work declining for a fourth month running. Weakening demand also saw stocks of finished goods rise at the fastest pace in over three years.

"The overall headline PMI was supported by a further increase in employment, albeit at the slowest pace since January 2021, as well as a strong rise in stocks of input purchases. There was also a further lengthening of supplier delivery times, amid reports of ongoing shortages of materials and shipping delays. In terms of the 12-month outlook, while sentiment remained positive, it fell to its weakest level since October 2020.

"Meantime, while inflationary pressures remain strong, there are signs that they are beginning to slacken. Input costs continued to rise sharply, but at the slowest pace in a year. This helped output price inflation ease to a seven-month low, though it still remains elevated."

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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 12-23 August 2022.

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

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