News Release

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AIB Ireland Manufacturing PMI®

First rise in new orders for nine months

Key findings

Production volumes stabilise in February

Sharp drop in backlogs as firms boost staffing

Business sentiment strengthens to one-year high

Ireland's manufacturing sector posted in expansion territory in February amid a renewed upturn in new orders and strong growth in workforce numbers. Output volumes, meanwhile, stabilised and purchasing activity dropped at the sharpest pace in three months. Inflationary pressures continued to cool, as signalled by rates of input price and output charge inflation easing to 26- and 23-month lows, respectively. Firms were optimistic about future output and registered the strongest degree of confidence in a year.

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.

At 51.3 in February, up from 50.1 in January, the latest PMI reading was indicative of an improvement in the health of Ireland's manufacturing sector, the second in as many months. The latest expansion was the most pronounced since last October but was mild overall and remained subdued in the context of historical data.

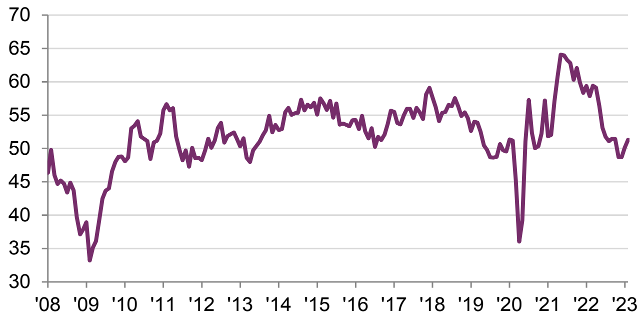
The biggest driver in the latest sector improvement was fresh order book volume growth in February. Notably, the upturn was the first since last May and linked to a relative strengthening in underlying demand conditions. By contrast, demand from overseas fell further in February and at the sharpest pace since May 2020.

Against a backdrop of rising intakes of new work and some relative improvement in output volumes, firms added to their headcounts midway through the first quarter of the year. The latest expansion in workforce numbers was the third in as many months and the most pronounced in eight months. Planned company expansions was another factor supporting recruitment endeavours, said survey respondents.

Following three consecutive months of contraction, production volumes across Ireland's manufacturing sector stabilised during February. While some firms registering output growth mentioned increasing inflows of new orders, others who saw a reduction attributed it to historically subdued demand.

AIB Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

Data were collected 10-21 February 2023.

Comment

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

"After a period of weak activity over the winter months, the AIB Irish Manufacturing PMI moved back into expansion mode in February. The headline index rose to 51.3 from 50.1 in January and 48.7 in both December and November. By contrast, the flash manufacturing PMIs for the US, Eurozone and UK remained in contraction territory in February, at 47.8, 48.5 and 49.2, respectively, pointing to ongoing declines in manufacturing activity in those economies.

"A key factor behind the improvement in Irish manufacturing was the first rise in new orders since last May, albeit a modest one and amid continuing weakness in exports orders. Output also stabilised, having contracted in eight of the previous nine months. Increasing order books helped employment expand for a third consecutive month and at the quickest pace since last June.

"Meanwhile, spare capacity is becoming increasingly evident, with order backlogs continuing their steep decline for a tenth month in a row. Firms also cut back sharply on the volume of inputs purchased, while stocks of finished goods were broadly stable. Irish manufacturers are becoming increasingly upbeat, with sentiment about the outlook for the coming 12 months climbing to its highest level in the past year.

"There was a further easing in inflationary pressures, especially for inputs, where the rate of increase slowed to its lowest level since December 2020. Meantime, the rise in output prices was the smallest in almost two years. That said, prices are still rising, with firms reporting further increases in raw material, energy, transport and labour costs, which they are passing on in higher selling prices to customers."

There was further evidence of spare capacity in Ireland's manufacturing sector in February. Backlogs of work fell steeply and at the sharpest pace since June 2020 while stocks of finished goods accumulated further in February, albeit only slightly. The respective movements were both linked to historically muted demand conditions.

Reportedly, firms chose to adjust input buying in line with the quieter business conditions seen over the past few months. Purchasing activity was cut for the seventh time in eight months and at the strongest pace since last November. Conversely, there was a sustained, but softer, expansion in holdings of raw materials and semi-finished goods.

Average lead times lengthened in February following the slight improvement in January. The extent of lengthening, however, was significantly lower than rates recorded over much of the past three years.

Pricing pressures came further off the boil midway through the first quarter of the year. In fact, rates of input price and output charge inflation slowed from the preceding month to reach 26- and 23-month lows, respectively. That said, in both cases, prices rose at paces above their historical averages. Anecdotal evidence suggested that higher prices across a broad range of inputs continued to be partly passed on to clients in the form of higher selling prices.

Looking to the coming 12 months, Irish manufacturing firms were strongly upbeat. The degree of confidence and was the most pronounced in a year and historically elevated. Where optimism was reported, this was linked to hopes for a general improvement in market conditions.

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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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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. ihsmarkit.com/products/pmi.html.