



AIB Ireland Manufacturing PMI®

Output falls for first time in 16 months

Key Findings

Renewed decline in production due to impact of inflation

New orders and exports both fall

Input costs continue to rise sharply

Data were collected 13-23 June 2022.

The latest PMI® survey data from AIB highlighted the increasingly negative impact of rising costs on demand in the Irish manufacturing sector. New orders decreased for the first time in 16 months during June, with production also down. This represented a marked turnaround from the picture at the start of the second quarter, when both were rising sharply.

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 posted 53.1 in June, down from 56.4 in May and the lowest reading since February 2021. The headline figure posted above the 50.0 no-change mark to signal an overall improvement in business conditions despite renewed declines in output and new orders. The index was held up by marked job creation, a rise in stocks of purchases and a further lengthening of suppliers' delivery times (this index is inverted in the PMI calculation).

The reduction in new orders in the Irish manufacturing sector ended a 15-month sequence of expansion. Respondents indicated that steep inflationary pressures was the principal factor leading demand to fall. New export orders also decreased for the first time in 16 months, and at a solid pace that was the fastest since the first wave of the COVID-19 pandemic. As with total new business, price pressures was the main factor acting to dampen international demand, according to survey respondents.

Manufacturers responded to lower new orders by scaling back production midway through the year. Output decreased for the first time since February 2021. Production was down in the consumer and intermediate goods sectors, but rose at

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

investment goods producers.

Declining new orders meant there was a degree of spare capacity at manufacturers, which they used to work through outstanding business. Backlogs were subsequently down for the second month in a row, and to the greatest extent since January 2021.

Cost pressures remained elevated in June. Although slowing from the previous month, the rate of inflation was still faster than any seen prior to the COVID-19 pandemic. Higher charges for energy and transportation were the main factors pushing up cost burdens, according to respondents. In turn, firms increased their own selling prices rapidly, although the pace of inflation slowed sharply from the series record posted in May.

June data pointed to a near-stalling of purchasing activity, with the fractional increase the weakest in the current 16-month sequence of expansion. Some firms lowered input buying in line with falling new orders, but others continued to buy more amid ongoing supply-chain disruption.

Suppliers' delivery times lengthened substantially again, and to a greater extent than in May, with delays often linked to stock shortages at vendors. Efforts to mitigate supply-chain disruption and hedge against cost increases led to a rise in stocks of purchases, albeit one that was only modest.

Meanwhile, stocks of finished goods decreased for the twelfth month running, and at the fastest pace since January.

Firms remained confident that output will increase over the next 12 months, with sentiment supported by hopes for improvements in new orders. The level of optimism was broadly in line with that seen in the previous month. That said, some firms expressed concern regarding the potential impact of price rises on demand.

Comment

Oliver Mangan, AIB Chief Economist, commented:

"There are clear signs that the slowdown in global manufacturing activity is extending to Ireland in the AIB Irish Manufacturing PMI survey for June. The Irish index fell to 53.1 in the month, down from 56.4 in May and 59.1 in April. While the index remained in expansion territory, it was the lowest reading since February 2021. The fall was in line with the trend seen in other economies - the flash June indices fell to 52.0 and 53.4 in the Eurozone and UK, respectively, with the US index declining to 52.4.

"The marked softening in business conditions in Irish manufacturing was led by the first declines in new orders and output since early 2021, reflecting the increasingly negative impact of rising inflation on demand. There was a particularly steep fall in new export orders. The drop in orders saw an easing in capacity pressures, as evidenced by declining backlogs for a second month running.

"The overall headline PMI was supported by a further strong increase in employment, as well as a rise in stocks of purchases and continued lengthening of supplier delivery times. Firms noted ongoing stock shortages at suppliers because of supply-chain disruptions. In terms of the 12-month outlook for activity, sentiment remained positive and has been stable for the past three months. However, some firms expressed concerns about the impact of rising prices on consumer demand.

"In this regard, the upward pressure on input prices is still intense, with marked increases in energy and transportation costs. Meanwhile, the rate of output price inflation remains elevated, though it did slow sharply to a five month low in June."

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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 13-23 June 2022.

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

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