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AIB Ireland Manufacturing PMI®

Stronger decline in manufacturing production as new work falls further

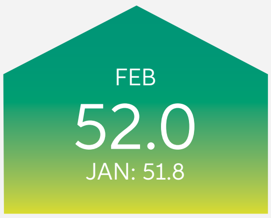
Key Findings

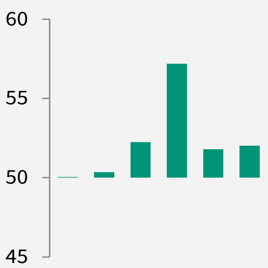
PMI above 50.0 due to sustained supply chain delays

Output price inflation highest in nearly a decade

Expectations for next 12 months remain buoyant

Ireland Manufacturing PMI





The Irish manufacturing sector was in a similar predicament in February as it was in the opening month of 2021, according to the latest PMI® data from AIB. On the one hand, output and new orders both fell for the second month running and severe pressure on supply chains remained. On the other, employment continued to rise, and sentiment remained strong as firms looked beyond the coronavirus crisis to a revival in demand later in 2021.

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

"The AIB Irish Manufacturing PMI was little changed in February at 52.0, which compared to 51.8 in January. Although the PMI remained above 50 and thus stayed in expansion territory, two key components of the survey, output and new orders, continued to contract, pointing to ongoing underlying weak business conditions in the sector.

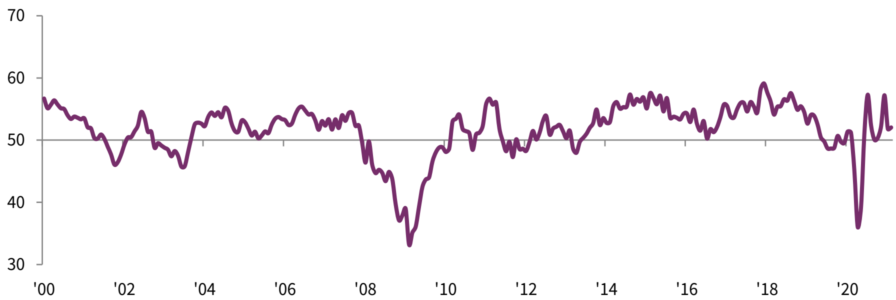
"Tight Covid lockdown restrictions, both here and elsewhere, are creating a challenging backdrop for businesses, with firms reporting weak demand and thus falling new orders in Ireland and from the UK. As a result, there was a further marked decline in manufacturing output in the month, with order backlogs continuing to fall too. This also manifested itself in declining inventories of both inputs and finished products.

"Supply chains remained under severe pressure, with Brexit widely cited as the main cause of major delays, leading to a further marked lengthening in delivery times. Rising administration and transport costs as a result of Brexit, as well as upward pressure on prices of raw materials, are generating increased inflationary pressures. Input prices rose at their fastest pace in four years, with output price inflation hitting a ten year high.

"On a more positive note, employment rose again for a fifth consecutive month. Meanwhile, firms remained very optimistic about the 12-month outlook for production. They expect the rollout of Covid vaccines to bring an improvement in economic conditions as lockdown restrictions are lifted during the course of the year."

Manufacturing PMI

sa, >50 = improvement since previous month



Overview

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 52.0 in February, little-changed from 51.8 in January. The latest figure signalled an overall improvement in manufacturing business conditions, but this continued to flatter the performance of the sector in terms of key metrics for new orders and output. These two components of the PMI, the largest by weight (at 30% and 25% respectively), continued to signal declines, although the new orders index provided a positive directional influence. The suppliers' delivery times component again provided a strongly positive overall impact due to near-record supply chain delays, offsetting the weak trends from output and new orders. Meanwhile, the employment index had a positive impact both in terms of level and direction in February, while the stocks of purchases index was the opposite as pre-Brexit stockpiling was unwound.

The volume of new work received by Irish manufacturers declined further in February, mainly the result of tougher lockdown measures introduced to fight the second wave of the coronavirus disease 2019 (COVID-19) pandemic. The post-Brexit trading environment was also mentioned as a factor in weakening demand. That said, rates of decline in both total new orders and new export business both eased since January.

The sustained drop in new work continued to negatively impact output in February, which declined for the second month running. Moreover, the rate of contraction was the strongest since May 2020. More positively, employment rose for the fifth month running and at a stronger rate, as firms expected a rebound in workloads later in 2021.

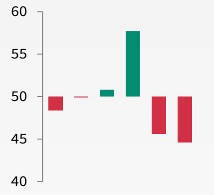
Although output fell sharply in February, the volume of outstanding business continued to decline, continuing the broad trend of under-utilised capacity stretching back to September 2018. Over this period, backlogs have risen only once, in July 2020 during the initial rebound from the first lockdown. The rate of decline in backlogs in February was only modest, however, and slower than the trend seen over the past two-and-a-half years.

The volume of inputs ordered by manufacturers fell in February, but severe pressure on supply chains remained as delivery times lengthened again to a near-record degree. Raw material shortages and increased shipping and customs costs drove input price inflation to the highest in four years. This was passed on to customers as manufacturing output prices rose the most since March 2011 (and at the fourth-highest rate in the series history).

Despite the further drop in new orders and supply chain difficulties, Irish manufacturers remained upbeat regarding output growth over the next 12 months. Sentiment eased since January but remained above the long-run trend level since 2012, as companies expect a reduced economic impact from COVID-19 as vaccines are rolled out and restrictions lifted.

Output Index

Last six months

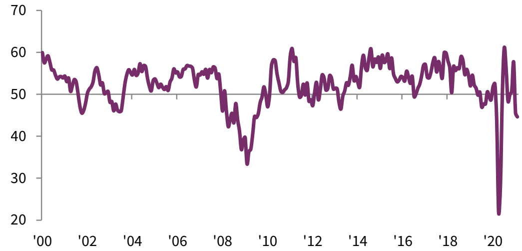


February data signalled another sharp fall in manufacturing output in Ireland, and the rate of decline accelerated slightly to the fastest since May 2020.

Anecdotal evidence overwhelmingly linked lower production to tougher COVID-19 restrictions. Brexit-related disruption was mentioned by a small number of firms.

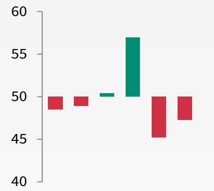
Output Index

sa, >50 = growth since previous month



New Orders Index

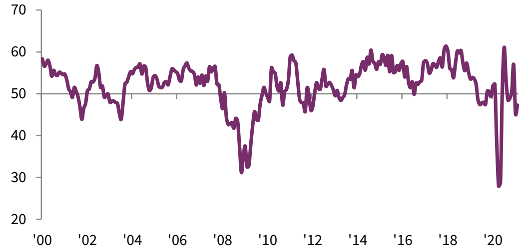
Last six months



New business received by Irish manufacturers contracted for the second month running in February. Weaker demand in the goods-producing sector was widely linked to new coronavirus lockdown measures, with Brexit also mentioned. That said, the rate of decline eased compared with January.

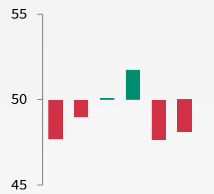
New Orders Index

sa, >50 = growth since previous month



New Export Orders Index

Last six months

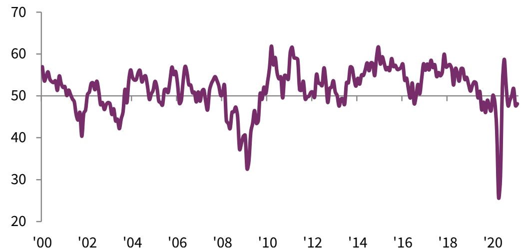


International demand for Irish manufactured goods weakened again in February. A number of firms mentioned an impact on demand from strict UK lockdown measures, while there were also reports of no new customers during the month.

As was the case with total new orders, exports declined more slowly in February compared with one month previously.

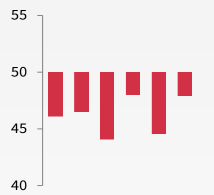
New Export Orders Index

sa, >50 = growth since previous month



Backlogs of Work Index

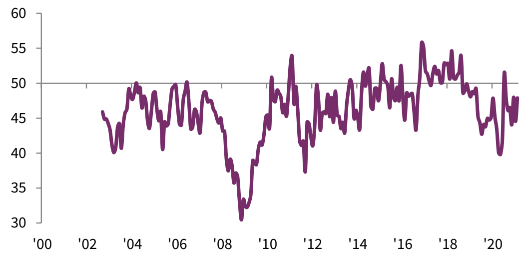
Last six months



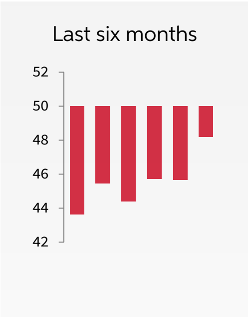
Continuing the general trend shown for the past two-and-a-half years, backlogs of work fell again in February (growth has been registered only once since September 2018, in July 2020). Companies linked lower levels of incomplete orders to weak underlying demand stemming from COVID-19 restrictions. The rate of backlog depletion slowed since January, however.

Backlogs of Work Index

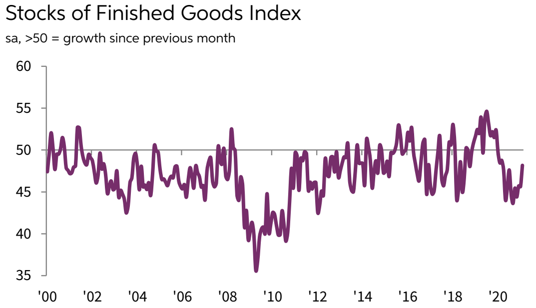
sa, >50 = growth since previous month



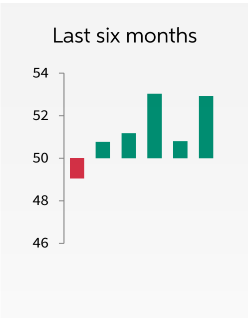
Stocks of Finished Goods Index



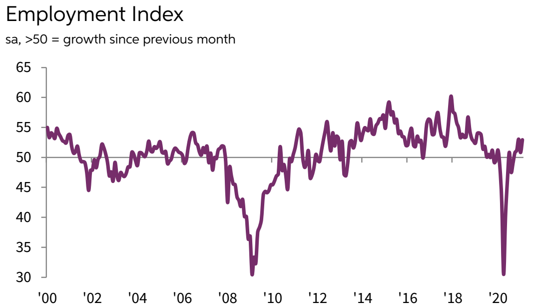
Producers in Ireland continued to trim their inventories of final goods in February. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the fourteenth successive month, marking the longest period of continuous destocking in nearly eight years. That said, the rate of decline was the slowest since March 2020.



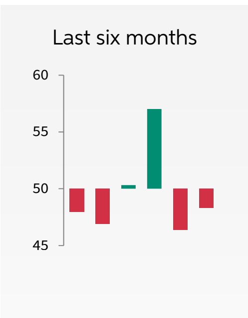
Employment Index



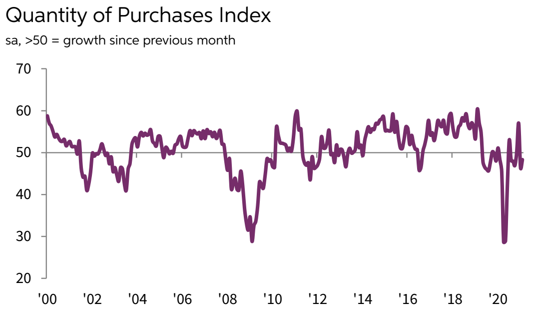
Irish manufacturers added jobs for the fifth month running in February, linked by firms to efforts to raise production capacity in anticipation of recovering demand. The rate of expansion accelerated from January's marginal pace and almost matched December's recent peak. The strength of workforce growth during the current sequence is comparable to that seen during 2019, but weaker the trend seen during 2014-18.



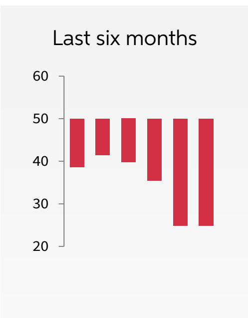
Quantity of Purchases Index



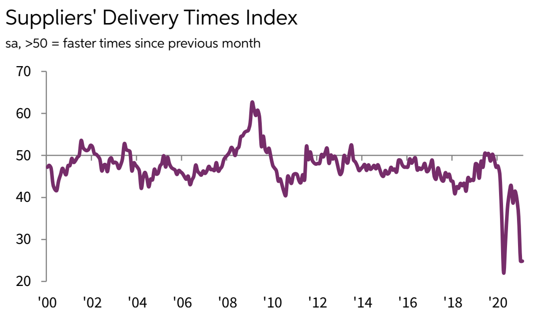
Purchasing activity in the Irish manufacturing sector declined again in February, linked to coronavirus shutdowns, previous stockpiling in late-2020 ahead of the end of the Brexit transition period, and supply chain issues. The rate of decline eased since January, however.



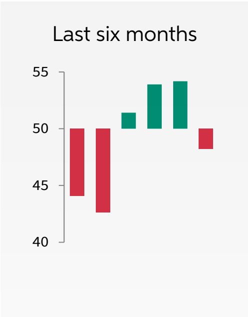
Suppliers' Delivery Times Index



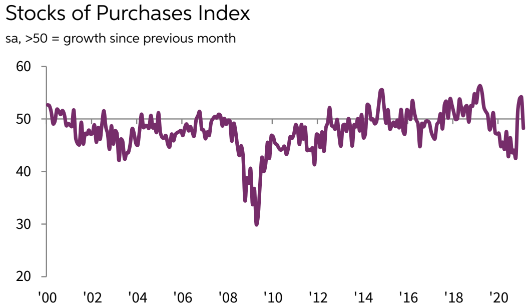
Supply chains in the Irish manufacturing sector remained under severe pressure in February. The seasonally adjusted Suppliers' Delivery Times Index was unchanged from January and the joint-second lowest on record. Unlike anecdotal evidence for output and new orders, the impact of Brexit was the overwhelming factor put forward by panellists for delays, though COVID-19 disruption and container shortages in general were also mentioned.



Stocks of Purchases Index

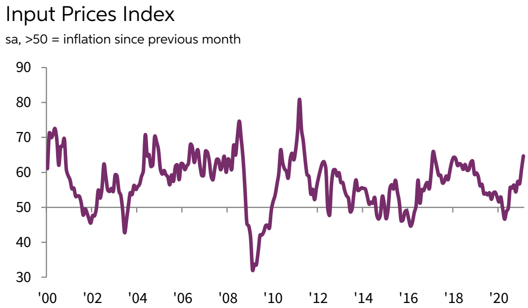


The level of inputs held in stock at Irish manufacturers declined for the first time in four months in February, as the impact of pre-Brexit stockpiling dissipated. The rate of contraction was only modest, however, and weaker than those registered throughout the previous period of destocking from November 2019 to October 2020. Firms linked lower inventory levels to weak near-term demand resulting from lockdown restrictions, and reduced purchases of new inputs.

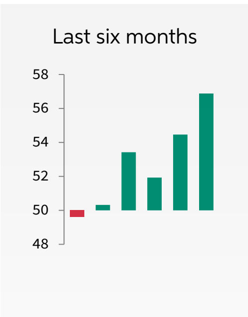


Input Prices Index

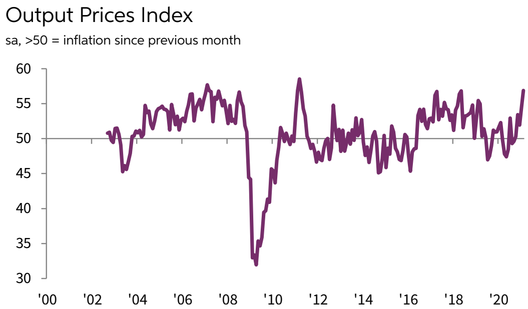
February data signalled a further build-up of cost inflationary pressure in the Irish manufacturing sector. The rate of input price inflation accelerated for the third time in four months, to the fastest since February 2017. While some firms mentioned higher raw material prices, most anecdotal evidence pointed to higher shipping and customs costs associated with new UK trading arrangements as the main driver of higher overall input costs.



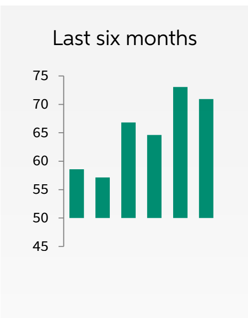
Output Prices Index



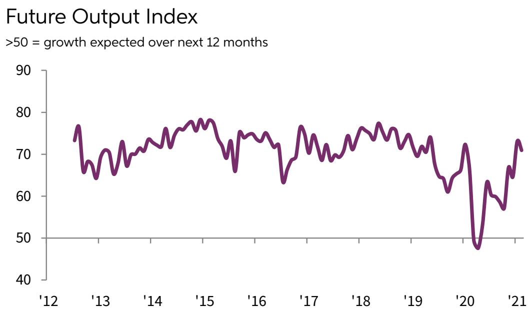
Manufacturers raised their prices at a stronger rate in February. The seasonally adjusted Output Prices Index rose for the fifth time in six months, and signalled the fastest rate of inflation since March 2011. It was also the fourth-highest since the series began in September 2002. Firms reported passing on higher raw material prices and Brexit-related administrative costs on to customers.



Future Output Index



The 12-month outlook for Irish manufacturing production remained firmly positive in February. The Future Output Index eased from January's 20-month high, but was the second-highest since January 2020 and remained above the long-run trend level since 2012. Firms linked positive forecasts to a reduced impact from COVID-19 as lockdown restrictions ease and vaccination campaigns grow.



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Methodology

The AIB Ireland Manufacturing PMI® is compiled by IHS Markit 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 11-19 February 2021.

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

About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.

PMI® By IHS Markit