



The British Constructional Steelwork Association Limited

Unit 4 Hayfield Business Park, Field Lane, Auckley, Doncaster DN9 3FL
Telephone: 020 7839 8566
Email: postroom@steelconstruction.org
Website: www.steelconstruction.org

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ALL MEMBERS MEMORANDUM No 169-22

REPUBLIC OF IRELAND MANUFACTURING PMI – SEPTEMBER 2022

Weaker fall in output contrasts with sharper decline in new orders in September

The latest PMI® survey data from AIB showed a mixed performance from the Irish manufacturing sector in September. Although output was only fractionally lower on the month and the rate of job creation accelerated, new orders and backlogs both fell at faster rates. Lower demand led to a cut in purchasing and a further easing of pressure on supply chains. The rate of input price inflation eased to a 19-month low, but output price inflation edged higher.

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 51.5 in September, up slightly from August's 22-month low of 51.1, indicating a twenty-fourth successive overall improvement in operating conditions in the goods producing sector. The rate of growth was the second-weakest since October 2020 and only modest, with the PMI remaining below its long-run average of 52.3.

The full Republic of Ireland Manufacturing PMI® Report is attached.

Lorraine MacKinder
BCSA Membership Manager



AIB Ireland Manufacturing PMI®

Weaker fall in output contrasts with sharper decline in new orders in September

Key Findings

Stronger jobs growth and stable output trend lift PMI

New orders fall at fastest rate since January 2021

Input price inflation remains high, but eases to 19-month low

Data were collected 12-23 September 2022.

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The slight rise in the PMI was driven by a much weaker fall in output and a faster rate of employment growth. These twin impacts were almost offset by a sharper decline in new orders, reduced pressure on suppliers' delivery times (worsening lead times positively influence the PMI score) and a slower rise in stocks of purchases.

The overall improvement in business conditions signalled by the headline figure masked a fourth successive monthly contraction in new orders, the longest sequence of consecutive monthly falls since mid-2019. Moreover, the rate of decline was the fastest since January 2021. New export orders also fell for the fourth month running, albeit at a modest pace. Lower demand reportedly reflected increased caution among customers due to the risk of a recession in the economy, high prices and

Ireland Manufacturing PMI

sa, >50 = improvement since previous month



Sources: AIB, S&P Global.

geopolitical instability.

Production declined for the fourth month running in September. That said, the latest contraction was only marginal and weaker than the drop in new work, reflecting efforts to clear backlogs. Incomplete work fell for the fifth consecutive month, and at the fastest rate since January 2021. The comparatively strong trend in output versus new orders was also reflected in another solid rise in stocks of finished goods, the third in succession and the fifth-sharpest on record.

A sign of weak output over the coming months was provided by the new orders to inventories ratio, which fell to its lowest since May 2020. The 12-month outlook for production improved slightly since August, but was still the second-lowest in nearly two years with anecdotal evidence highlighting recession and inflation risks. Despite the weak outlook, employment rose at the fastest rate in three months.

Irish manufacturers cut their purchases of inputs in volume terms for only the second time since early-2021 in September. This was linked to a drop-off in demand as well as high raw material and energy prices placing pressure on budgets. Pressure eased on supply chains, with lead times lengthening to the smallest degree since November 2020. But the delayed delivery of previously ordered items led to a further rise in input stocks. Some firms mentioned recent bulk buying to avoid price increases.

Input prices continued to rise steeply in September, linked to ongoing global shortages, the strong US dollar and high energy prices. That said, the rate of inflation eased further to a 19-month low, partly reflecting weaker demand and reduced supply chain pressures. The rate of output price inflation was little-changed from August's seven-month low, but still higher than in any survey period prior to July 2021.



Comment

Oliver Mangan, AIB Chief Economist, commented:

"There was little change in the headline index in the AIB Irish Manufacturing PMI survey for September. The PMI rose to 51.5 from 51.1 in August and was close to the reading of 51.8 in July. This signals a further modest improvement in business conditions in the sector, but is below the long-run average of 52.3. Much weaker readings, though, are being seen in the rest of Europe, with the flash September Manufacturing PMI in contraction territory at 48.5 in both the Eurozone and UK.

"The Irish data for September were a bit of a mixed bag. New orders, including export orders, fell for a fourth consecutive month, a worrying sign reflective of weakening demand in the face of rising price pressures. There was only a marginal decline in output, though, as manufacturers continued to work to clear backlogs and rebuild stocks of finished goods. As a result, firms were still hiring, with employment rising at its fastest pace in three months.

"Pressures on supply chains continued to ease in September, with lead times lengthening to the smallest degree since November 2020. Meanwhile, manufacturers cut their purchases of inputs for only the second time since early 2021. In terms of the 12-month outlook, sentiment rose only slightly from August, thus remaining near a two year low, weighed down by high inflation and fears of recession.

"Despite some easing in supply and capacity constraints, inflationary pressures remain strong. Input costs continued to rise sharply, though the rate of increase slowed further to a 19-month low. Output price inflation also remained elevated, though again it has eased appreciably from earlier in the year."

Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353 1 6417176
E: AIBeconomics.Unit@aib.ie
W: www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353 1 641 2869
M: +353 87 739 0743
E: paddy.x.mcdonnell@aib.ie

Graham Union
AIB Press Office
T: +353-1-6412430
M: +353-85-2088343
E: Graham.X.Union@aib.ie

S&P Global
Trevor Balchin
Economics Director
S&P Global Market Intelligence
T: +44-1491-461-065
trevor.balchin@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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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 September 2022.

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.

ihsmarkit.com/products/pmi.html

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