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AIB Ireland Manufacturing PMI®

Manufacturing in strongest downturn since August 2009 as coronavirus outbreak hits sector

Key Findings

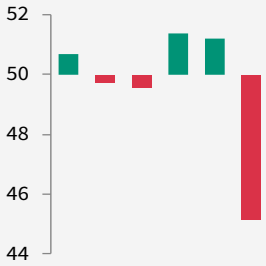
Fastest drop in production since May 2009

Unprecedented lengthening in suppliers' delivery times

Output expectations collapse to record low

Ireland Manufacturing PMI

Last six months



The March AIB PMI® survey of Irish manufacturers indicated a sudden, severe downturn in the sector at the end of the first quarter as the coronavirus outbreak accelerated outside mainland China, further disrupting supply chains and causing a collapse in demand and confidence. Output, new orders and exports all fell at the fastest rates since the first half of 2009, while output expectations were negative for the first time since this series began in mid-2012.

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

"The AIB Irish Manufacturing PMI data for March contain no surprises, with a sharp fall in activity levels reported as the coronavirus outbreak impacts supply and demand worldwide. The headline index dropped to 45.1 from 51.2 in February, so it has moved well below the key 50 level that signals a shift into contraction territory.

"Further sharp falls in the PMI are likely over the next couple of months - the Irish index troughed at below 35 during the last recession in 2008-09. New orders collapsed in March, falling by 14.1 points from February. This signals that further declines in output, which fell by a record 8.9 points in March, are on the cards. Indeed, expectations for output levels in twelve months' time have fallen by 22.8 points in the past two months.

"The impact of the virus was not just seen in falling orders and output. Employment in manufacturing fell at its fastest pace since July 2009. Purchasing activity also declined at the quickest rate since September 2011. Cancelled orders and weak demand saw depleting levels of outstanding business as firms worked through backlogs. There were also unprecedented delays in the delivery of inputs as a result of disruptions to global supply chains. Meanwhile, both input and output prices fell marginally on weakening global trends.

"Overall, the PMI data confirm that there was an abrupt and steep fall in manufacturing in March. Worse is to come, but there is also scope for a sharp rebound in activity when the coronavirus pandemic abates."

Manufacturing PMI

sa, >50 = improvement since previous month

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PMI® By IHS Markit

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 fell from 51.2 in February to 45.1 in March, indicating the sharpest downturn in the Irish goods-producing sector since August 2009. The month-on-month drop, at 6.1 points, was the largest on record since the survey began in May 1998, surpassing the 5.7 point fall in February 2009 during the depths of the global financial crisis.

The new orders index contributed most to the dive in the PMI in March, falling a record 14.1 points since February, followed by output and employment respectively. Stocks of purchases had a broadly stable influence on the headline figure, while a record lengthening in suppliers' delivery times had a positive impact. Under normal circumstances, supply chain delays are a sign of rising demand and hence the suppliers' delivery times index is inverted in the PMI calculation.

The volume of new orders received by Irish manufacturers fell rapidly in March, linked to a substantial drop in demand related to the accelerating coronavirus disease 2019 (COVID-19) pandemic. The rate of contraction was the fastest registered since April 2009. Similarly, new export orders fell at the fastest rate since April 2009.

The seasonally adjusted Output Index fell by a record 8.9 points in March to signal the fastest contraction in manufacturing production since June 2009. Lower output reflected both the collapse in incoming new work and widespread disruption to supply chains and purchasing due to the escalating coronavirus outbreak.

With output and new work both falling sharply, manufacturers shed staff in March. Employment had already declined modestly in three of the prior four months and the latest reduction was the fastest since July 2009, albeit as not as severe as those registered in late-2008 and the first half of 2009. Firms reported adjusting workforces to reflect a lack of activity, new orders and cancelled projects.

With great uncertainty surrounding the accelerating global coronavirus outbreak, the 12-month outlook for production was the worst on record in March. The Future Output Index posted a record month-on-month decline and was at the lowest level since it was first compiled in July 2012. A number of firms noted that the economic fallout from the measures taken globally to halt the spread of the virus would take a long time to recover from.

With new orders falling at the fastest rate in more than a decade, manufacturers cut back on purchases of new inputs. Overall buying activity declined at the sharpest rate since September 2011. This, combined with falling oil prices, contributed to the first reduction in average input prices paid by manufacturers since April 2016. Firms reduced their own prices for the first time in six months, albeit only marginally.

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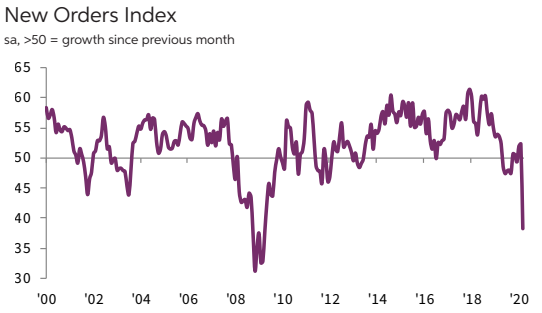
Output Index

Irish manufacturing production fell at the fastest rate since May 2009 in March, reflecting widespread disruption as a result of the coronavirus outbreak. Moreover, the seasonally adjusted Output Index posted a record month-on-month drop of 8.9 points since hitting a 12-month high in February.

New Orders Index

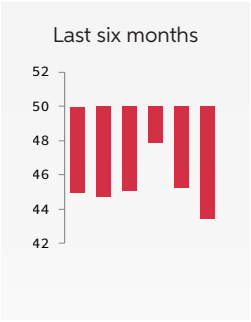
The seasonally adjusted New Orders Index fell by a series-record 14.1 points in March and signalled the fastest contraction in new business since April 2009 during the depths of the global financial crisis. This represented an abrupt reversal following four gains in the prior five months. Firms widely linked fewer new orders to uncertainty and restrictions related to the coronavirus pandemic, although there were some reports that panic buying had boosted demand in certain sectors such as food and healthcare.



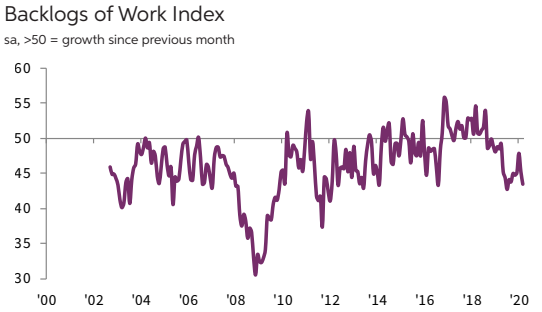
New Export Orders Index

The volume of new business received from export markets fell for the ninth time in 11 months in March. Moreover, the rate of contraction accelerated sharply from February's modest pace and was the fastest since April 2009. As was the case for total new work, firms mainly blamed the coronavirus outbreak for weakening demand.

Backlogs of Work Index



With a lack of incoming new work, manufacturers in Ireland continued to deplete their levels of outstanding business in March. Backlogs have fallen continuously since September 2018. The rate of decline in the latest period was the fastest since July 2019. Firms reported that cancelled orders and falling demand had enabled them to complete existing contracts.



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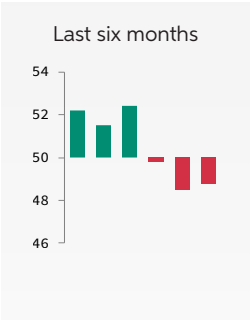
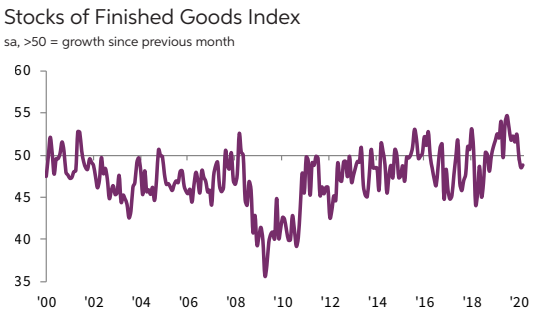
Stocks of Finished Goods Index

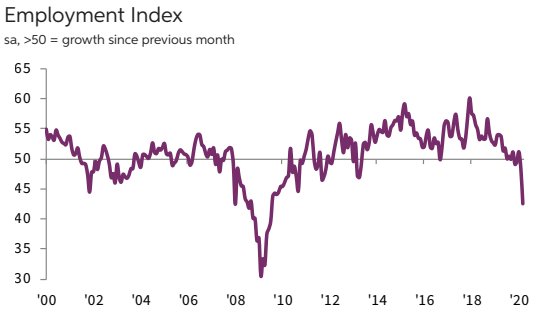


The volume of final goods held in stock at Irish manufacturers contracted for the third month running in March. The rate of decline was little-changed from February, which was the strongest since October 2018. Some firms reported having to sell direct from stock as current output had been held up by missing components.



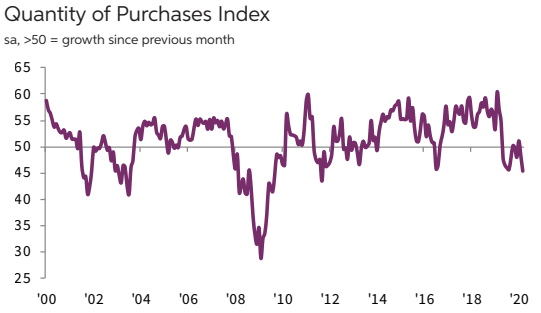
Employment Index

Manufacturing employment in Ireland declined for the fourth time in five months in March. Moreover, the rate of job shedding accelerated markedly, with the seasonally adjusted Employment Index registering the third-biggest one-month fall in the survey history. The latest figure signalled the sharpest reduction in the workforce since July 2009. Firms blamed job losses on cancelled projects, a lack of activity and difficulties finding replacements for leavers.



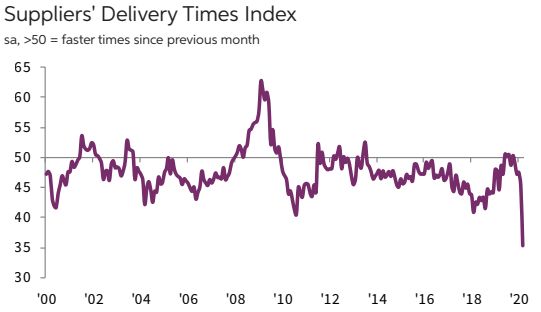
Quantity of Purchases Index

Purchasing activity by Irish manufacturers fell sharply in March, linked to fewer orders, cancelled projects and difficulties sourcing materials. Input volumes have fallen nine times in the past 11 months, and the rate of reduction in the latest period was the fastest since September 2011. That said, some firms reported buying more inputs during the month in anticipation of further disruption related to the coronavirus outbreak.



Suppliers' Delivery Times Index

March heralded unprecedented delays in the delivery of inputs ordered by Irish manufacturers. The seasonally adjusted Suppliers' Delivery Times Index fell by a record 9.9 points to its lowest level since the survey began in May 1998. Firms mainly linked longer lead times to the impact of the coronavirus outbreak on global supply chains.



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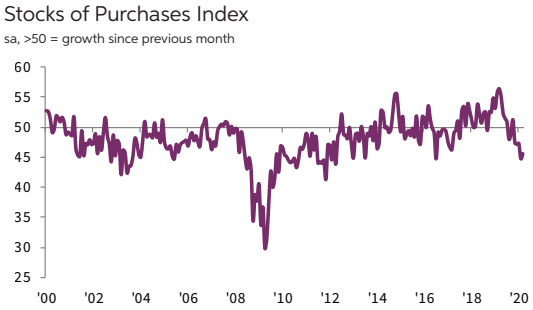
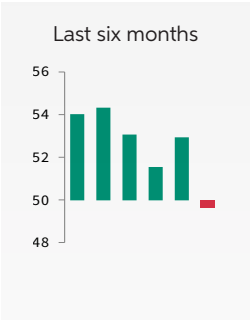
Stocks of Purchases Index

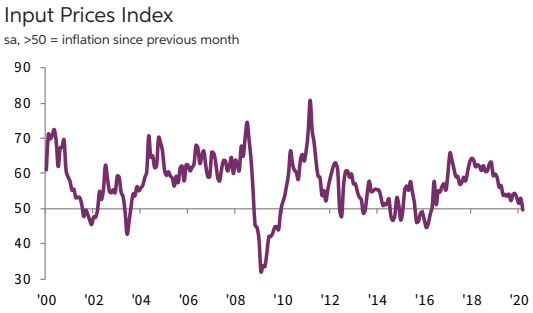
Stocks of purchases at goods producers fell for the fifth month running in March. The rate of inventory depletion was strong but eased since February, which had seen the fastest depletion since July 2016. Survey respondents reported efforts to align inventories with lower workloads, and also lower stocks due to delays from suppliers.



Input Prices Index

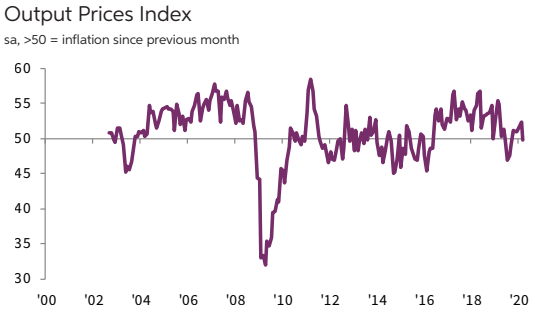


The seasonally adjusted Input Prices Index fell below the no-change mark of 50.0 in March, signalling lower average purchasing costs at Irish manufacturers for the first time since April 2016. Firms linked lower input prices to falling costs for fuel and raw materials and weaker demand for inputs generally. That said, the overall rate of reduction was only marginal.

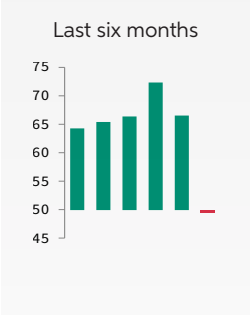


Output Prices Index

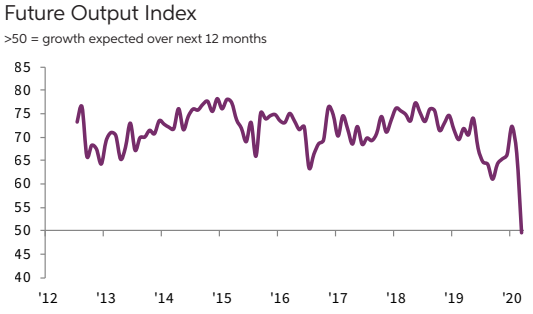
Irish manufacturers reduced their output prices on average in March, having previously increased them at the fastest rate since March 2019 in February. March's reduction was the first in six months, although the rate was only fractional. Firms linked discounting to cyclical reductions and falling global prices.



Future Output Index



For the first time since the series began in July 2012, the Future Output Index registered below 50.0 in March, falling a record 17 points since February. This represented a collapse in confidence among manufacturers regarding the 12-month outlook for production. Firms, on balance, expect output at their units to fall from current levels by March 2021. Companies widely linked negative sentiment to great uncertainty surrounding the global coronavirus outbreak and the subsequent economic impact.



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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.

March data were collected 12-24 March 2020.

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.

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