

# Investec Manufacturing PMI® Ireland



Economics Monthly

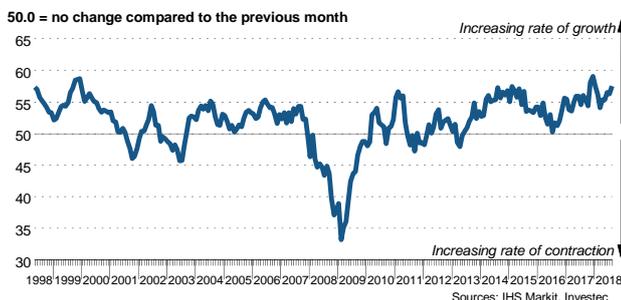
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## Sharpest rise in output in 2018 so far

### Summary:

Growth in the Irish manufacturing sector gained momentum midway through the third quarter of 2018. Sharp and accelerated increases in output and new orders were recorded, with firms raising purchasing activity and staffing levels accordingly. On the price front, while the rate of input cost inflation eased, it remained above the series average. Output prices increased solidly as firms partly passed on higher costs to their clients.

### Investec Purchasing Managers' Index®:



The seasonally adjusted Investec *Purchasing Managers' Index*® (PMI®) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – rose to 57.5 in August from 56.3 in July, thereby signalling a sharp and accelerated improvement in the health of the sector. Business conditions have now strengthened in each of the past 63 months, with the latest improvement the fastest since January.

New order growth quickened to the fastest in the year-to-date during August, with panellists reporting stronger demand in both domestic and export markets. The rate of expansion in new business from abroad also quickened and was the sharpest in three months.

Higher new business volumes encouraged firms to increase production, which also rose to the greatest extent in 2018 so far. Output growth has now been recorded in each of the past 25 months.

Sharp increases in new orders put further pressure on capacity at Irish manufacturers, resulting in a solid accumulation of backlogs of work that was the most marked since March. Firms made further efforts to alleviate capacity pressure by taking on extra staff. The rate of job creation was solid and little-changed since July.

Higher output requirements led to a substantial increase in purchasing activity, and the steepest in eight months. This fed through to a rise in stocks of purchases. Stocks of finished goods also increased, the first time in six months in which that has been the case. That said, the rate of accumulation was fractional.

Increases in prices for raw materials including metals and timber resulted in a further sharp rise in input costs during August. Although easing to a ten-month low, the rate of inflation remained elevated. A combination of higher input prices and improving client demand led manufacturers to raise their selling prices. The latest increase was solid, and broadly unchanged from July.

Some panellists mentioned that supply shortages had pushed up input costs during the month, as well as leading to delays in the receipt of items from suppliers. Delivery times lengthened to the greatest extent since February.

Business confidence improved in August, with firms strongly optimistic that output will be higher in 12 months' time than current levels. Respondents predicted that new order growth would be the main

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factor supporting increases in production. More than 56% of panellists expect output to rise over the coming year.

#### **Comment:**

Commenting on the Investec Republic of Ireland Manufacturing PMI survey data, Philip O'Sullivan, Chief Economist at Investec Ireland said:

*"The latest Investec Manufacturing PMI Ireland report shows that the sector gained momentum midway through Q3. The headline PMI rose to 57.5 in August, a seven month high, from 56.3 in July amid sharp increases in both output and new orders.*

*"New Order growth quickened to the fastest in the year so far, with strong demand reported from both domestic and export markets. The rate of expansion in New Export Orders was marked and the highest in three months with panellists citing the UK, the Eurozone and the Middle East as sources of new work.*

*"Given the strong order-book growth, it is no surprise to see further increases in the Backlogs of Work (to the highest since March), Quantity of Purchases (to the highest since December) and Employment indices. The current sequence of job*

*creation in the manufacturing sector has now extended to 23 months.*

*"Margins remain under some pressure however with input costs showing another sharp increase in August, albeit the latest increase was the slowest in ten months. Panellists reported higher costs for a range of raw materials including metals and timber. Supply shortages were also mentioned as a source of cost inflation in some cases, as well as contributing to delays in the receipt of purchased items (suppliers' delivery times lengthened to the greatest extent in six months in August). Although firms were able to defray at least a portion of this cost inflation by raising Output Prices, a seventh successive decline in the Profitability index was recorded.*

*"The forward-looking Future Output index remains very elevated and reached a three-month high in August. 56% of respondents expect a rise in production over the coming 12 months, while just 4% anticipate a decline. With a positive economic backdrop both in Ireland and abroad, we think this optimism is well-founded."*

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### Notes on Data and Survey Methodology

The Investec Republic of Ireland Manufacturing PMI<sup>®</sup> is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 285 industrial companies. The panel is stratified by GDP and company workforce size. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

The Purchasing Managers' Index<sup>®</sup> (PMI<sup>®</sup>) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction. The PMI is designed to show a convenient single-figure summary of the health of the manufacturing sector.

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