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Investec Manufacturing PMI® Ireland

Economics Monthly

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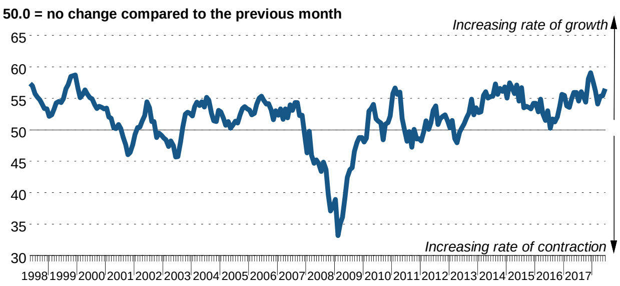
Fastest rise in new orders in the year-to-date

Summary:
Growth in the Irish manufacturing sector continued to gain momentum at the end of the second quarter of the year, with output, new orders and employment all rising at sharper rates in June. On the price front, while input costs continued to increase strongly, the rate of output price inflation eased markedly amid strong competitive pressures.

Investec Purchasing Managers' Index®:



Sources: IHS Markit, Investec

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 56.6 in June from 55.4 in May. The latest reading signalled a sharp monthly improvement in business conditions, and one that was the most marked since January. The health of the sector has now strengthened in each of the past 61 months.

Central to the improvement in business conditions was a substantial increase in new orders during June. The rate of growth was the strongest in the year-to-date. Some firms reported that increases in new export orders had supported total new order growth. New business from abroad increased markedly, albeit at a slightly slower pace than in May.

Manufacturers responded to higher new orders by raising production, the twenty-third successive month of increasing output. Moreover, the rate of expansion quickened from the previous month. As well as increasing production, firms also used inventories to help satisfy orders. Stocks of finished goods decreased at a solid pace that was the fastest in three months.

Efforts to meet customer demand encouraged manufacturers to increase their staffing levels in June, with the rate of job creation picking up from May. This added capacity did not prevent a further build-up in backlogs of work, however, given the strength of new order growth.

Input prices continued to increase at a sharp pace, albeit one that was the slowest in seven months. Panellists reported higher costs for a range of raw materials including metals, oil and plastics. While input costs continued to rise markedly, the rate of output price inflation slowed sharply during June amid competitive pressures. Where charges did increase, this was in response to higher input prices.

Irish manufacturing firms increased their purchasing activity at a substantial pace in line with higher new orders. The rate of expansion was the fastest in 2018 so far. This rise in demand for inputs, coupled with stock shortages at suppliers, resulted in longer delivery times. Stocks of purchases increased, meanwhile, but only at a marginal pace.

Business confidence remained elevated in June, despite dipping from May's 38-month high. Expectations of rising new orders, including from export markets, as well as new product launches are set to lead to increases in output over the coming year.

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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 enjoyed a strong finish to Q2. The headline PMI rose to 56.6 in June, a five month high, from May's 55.4 reading amid higher client demand. New Orders received were the best seen in 2018 so far, with higher growth from both domestic and overseas customers.

"While the rate of growth in New Export Orders was marginally slower than in the previous month, panellists reported a number of bright spots, with higher demand seen from the likes of India, Russia, the US and UK.

"Given the ongoing growth in customer orders, it is no surprise to see an uptick in both the Quantity of Purchases and Employment indices. Despite these extra resources, a further rise in Backlogs of Work (the 14th in as many months) was recorded, while Stocks of Finished Goods were depleted for a fourth successive month as firms used inventories to try to meet client orders.

"There were indications of pressure on the margin side, with Input Costs increasing at a marked pace due in the main to higher raw materials prices (aluminium, steel, oil, plastics and timber were all cited by panellists). While firms were able to defray at least a portion of this by upping Output Prices once again, the rate of sales price inflation slipped to the weakest since January. This likely explains June's report being the fifth successive survey period in which the Profitability index recorded a sub-50 reading.

"Notwithstanding this, however, the forward-looking Future Output index remains very elevated, with around 55% of firms expecting to see a rise in production over the coming year, with this assessment based on the anticipation of stronger growth in export markets in particular. With global growth expected to remain close to 4% per annum into the medium term, we think this optimism is well founded."

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Notes on Data and Survey Methodology

The Investec Republic of Ireland Manufacturing PMI® 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® (PMI®) 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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About Investec

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