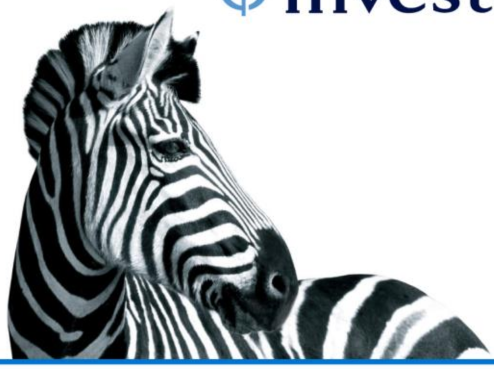


Investec Manufacturing PMI® Ireland

Economics | Monthly

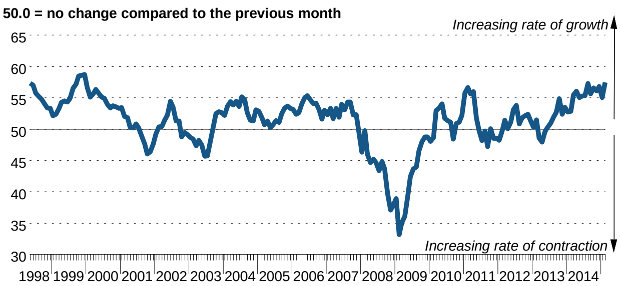
Embargoed until: 06:00 (UK Time) 2 March 2015

PMI rises to highest since December 1999

Summary:

Growth in the Irish manufacturing sector gained momentum during February, with output and new orders each rising at faster rates than at the start of the year. Meanwhile, the pace of job creation quickened to the joint-sharpest in the survey history amid signs of increased capacity pressures in the sector. Both input costs and output prices continued to fall during the month.

Investec Purchasing Managers' Index®:



Sources: 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 57.5 in February, from 55.1 in the previous month. This signalled the most marked strengthening of business conditions in the sector since December 1999.

New orders at Irish manufacturing firms rose at a considerable pace during February, with the rate of expansion picking up to the fastest since August 2014. Anecdotal evidence pointed to success in securing new orders from both new and existing clients. The rate of growth in new export business also quickened during the month.

Rising new orders from both domestic and export clients led to another strong expansion in manufacturing production. Despite this, backlogs of work increased, with the rate of accumulation being the strongest since February 2011.

Amid pressure on operating capacity manufacturers took on extra staff at a sharp pace. Moreover, the rate of job creation was the joint-fastest in the survey history, equal to that seen in the first month of data collection in May 1998.

Input costs decreased for the second successive month, albeit at a reduced pace. Lower prices for oil and plastics outweighed the inflationary effects of a weaker euro.

With input prices falling and reports of ongoing competitive pressures, firms lowered their output charges again in February. A depreciation in the value of the euro also helped lead to reduced charges in export markets.

A further sign of increasing capacity pressure in the sector was provided by a marked lengthening of suppliers' delivery times. Panellists reported that rising demand for inputs had contributed to the latest deterioration in vendor performance.

Purchasing activity increased sharply, and at a broadly similar pace to the previous month. This resulted in an accumulation of stocks of purchases, as firms attempted to build inventories in response to expectations of further increases in new work. Finally, stocks of finished goods continued to fall, with panellists linking the latest decline to rising new order volumes.

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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 a marked strengthening in conditions in the manufacturing sector here in February. The headline PMI rose to 57.5 last month from January's 55.1 and now stands at its highest level since December 1999 – a remarkable outturn considering the more unsettled global backdrop of late.

"Panellists reported rising demand from both domestic and overseas clients. The New Orders index rose to its highest level in six months while the New Export Orders index signified a 20th successive month of expansion, with the UK identified by respondents as a key source of new work during the month. Given the surge in New Orders, it is unsurprising to see that the Backlogs of Work index rose above the 50 'no change' line for the first time in seven months during February, while Stocks of Finished Goods reduced for a third consecutive month.

"A particular highlight of the release is the Employment index, which reveals that the rate of job creation has accelerated to the joint-fastest in the history of the survey, equal only with the first month of data collection in May 1998. Respondents attributed the latest rise in staffing levels to efforts to increase capacity. In another sign of confidence, the Quantity of Purchases index rose again in February, with just over four in every five manufacturing firms reporting higher or unchanged purchases compared to January.

"Despite the buoyant demand conditions, Irish manufacturing firms lowered their output prices for a second successive month in February. Three causes were identified by panellists for this move – lower input costs, competitive pressures and a weaker euro. Overall input costs fell for a second month running, albeit at a marginal pace. The depreciation of the euro against both the US dollar and sterling has led to rises in the cost of some imported items.

"As noted above, this is a surprisingly good report, especially when you consider some of the unhelpful international developments seen during February, such as Greece, Ukraine, the Middle East and North Africa. Last month we said that "the sector remains in growth mode". Today's report gives an indication of how resilient this growth is, but we would caution that any uncertainty ahead of the upcoming UK election (given that Ireland's closest neighbour has repeatedly been identified by manufacturers as a key source of demand) is likely to put that to the test."

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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 geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Irish GDP. 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. 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.

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index® (PMI®) series, which is now available for 32 countries and key regions including the Eurozone. The PMI series have become 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. For more information, e-mail economics@markit.com.

About Investec

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