![PMI By IHS Markit]

Investec Manufacturing PMI® Ireland

Economics Monthly

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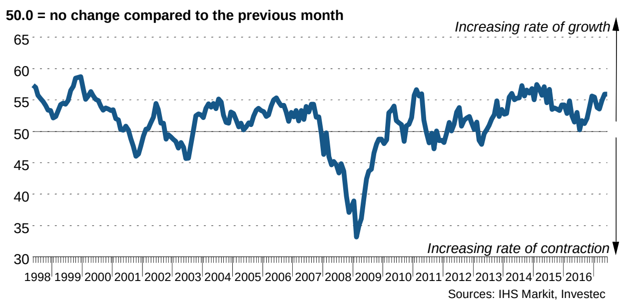
Output growth accelerates to near two-year high

Summary:

The Irish manufacturing sector experienced a strong end to the second quarter of the year, with the latest improvement in business conditions the greatest since July 2015. Growth was driven by a sharp and accelerated rise in production, while new orders and employment continued to increase markedly. On the price front, cost inflation remained elevated, with output prices rising at a faster pace than in May.

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 – ticked up to 56.0 in June from 55.9 in May, thereby signalling a further sharp strengthening of operating conditions. Moreover, the latest improvement in the health of the sector was the most marked since July 2015.

The key highlight from the latest survey was a sharp and accelerated rise in manufacturing production. Output increased at the fastest pace for close to two years on the back of improving client demand leading to higher new orders. Intermediate goods producers posted the fastest rise in production of the three broad sectors covered.

New orders rose for the eleventh month running, linked to stronger client demand and new business from abroad. The rate of expansion in new export orders quickened slightly from that seen in May.

The strength of new order growth resulted in a second successive monthly rise in backlogs of work, with the rate of accumulation the most marked in the year-to-date.

Increasing production requirements led firms to expand both their staffing levels and purchasing activity in June. Job creation has now been recorded in each of the past nine months. Meanwhile, the latest strong rise in input buying resulted in an accumulation of stocks of purchases for the first time in 14 months.

Stocks of finished goods also rose, thereby ending a seven-month sequence of depletion. The rate of accumulation was modest, but the strongest since March 2016.

The rate of input cost inflation was unchanged from that seen in May, remaining elevated. In some cases, supply shortages had been behind the rise in prices. This was also a factor behind a further lengthening of suppliers' delivery times.

Panellists looked to pass on higher input costs to clients in June, with strong client demand enabling them to raise selling prices. The thirteenth consecutive monthly increase in output prices was solid, and quicker than that seen in the previous month.

Predictions of further growth in new orders supported optimism among Irish manufacturing firms that output will increase over the coming 12 months. Sentiment dipped from May, but remained strongly positive, with 44% of panellists predicting a rise in production.

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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 Irish manufacturing sector experienced a strong end to the second quarter of the year. The headline PMI rose from 55.9 in May to 56.0 in June, with the latter implying the fastest pace of growth since July 2015.

"The report shows that New Orders rose for the 11th month in a row. Encouragingly, the rate of growth in New Export Orders quickened slightly from May's outturn. This improved client demand prompted a second successive rise in Backlogs of Work, with the rate of accumulation the most marked in the year to date.

"Given the increased production requirements, it is no surprise to see that firms continue to add to headcounts, with the Employment component posting a ninth successive above-50 reading. Apart from higher staffing levels, we note that firms are also investing in growing their inventories, with Stocks of Purchases returning to growth for the first time in 14 months, while the seven month sequence of declines in Stocks of Finished Goods also came to a close in June.

"On the margin side, the rate of growth in cost inflation implied by the Input Prices Index remained sharp in June, with plastics and dairy products among the items cited as having increased in price over the month. Firms have been seeking to pass on such cost pressures to their customers and with the Output Prices Index having posted 13 consecutive above-50 readings it is clear that they have been enjoying a degree of success with this. In any event, helped by volume growth, the Profitability index remained in positive territory for a second month.

"While the return to inventory build-up gives a good indication of how firms assess their prospects, the Future Profitability index further demonstrates this, as it reveals that business sentiment remained strongly positive in June, with more than six times as many respondents expecting production to increase over the coming 12 months as opposed to those anticipating a decline.

"Today's release provides us with a complete picture of how the Manufacturing sector performed over the course of H1 2017. We note that the implied growth rate quickened over the course of Q2, indicating that the sector exited the period with a strong tailwind behind it. Given how leveraged Ireland is to international economic developments and the generally improving global backdrop, we are unsurprised by this."

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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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