

Investec Manufacturing PMI[®] Ireland



Economics Monthly

Embargoed until: 06:00 (Dublin) / 06:00 (UTC) January 2nd 2018

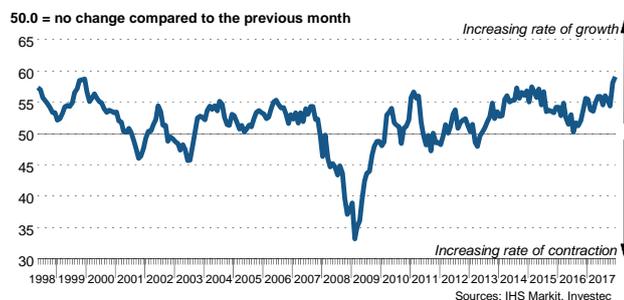
PMI hits record high in December

Summary:

Business conditions improved at a record pace in the Irish manufacturing sector at the end of 2017. Stronger new order growth was registered, supporting a further substantial increase in output and the fastest rise in employment since the survey began in 1998.

As well as seeing demand improve over the past month, firms are confident that workloads will continue to rise in future. This contributed to job creation and also resulted in inventory building.

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 59.1 in December from 58.1 in November. This pointed to the most marked improvement in the health of the sector since the survey began in May 1998, surpassing the previous record set in December 1999.

New orders increased at a substantial pace in the final month of the year, with the rate of growth accelerating to the fastest since June 1998. Respondents mainly linked the rise to improving client demand. Meanwhile, new export orders also increased sharply, albeit at a reduced pace.

Higher new orders resulted in a further steep increase in output at Irish manufacturers, with the rate of growth unchanged from that seen in November. Production has now risen in each of the past 17 months.

Central to the record improvement in business conditions was a new peak in the rate of job creation. Employment rose at the sharpest pace in the survey's history in response to higher new orders and the expansion of capacity in anticipation of future projects. The increase in operating capacity was insufficient to prevent a further build-up in backlogs of work, which rose solidly again during December.

Predictions of rises in new orders and new product lines led to confidence among manufacturers that output will increase over the coming year. These expectations encouraged firms to accumulate inventories. Both stocks of purchases and finished goods increased during the month.

Stock building and higher production requirements were behind a further sharp increase in purchasing activity in December. Moreover, the rate of expansion quickened to the joint-fastest since February 2011.

Higher demand for inputs and stock shortages at suppliers resulted in a further lengthening of vendor delivery times. Furthermore, the extent of the latest lengthening of lead times was the most marked in four months.

The rate of input cost inflation quickened to a nine-month high at the end of the year amid higher raw material costs and increased supplier prices. Output prices also rose at a faster pace during December.

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The solid increase in charges extended the current sequence of inflation to 19 months.

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 exited 2017 with a very strong tailwind behind it. The headline PMI improved from the previous month's 58.1 to 59.1 in December, with the latter being the strongest reading in the history of the series (which dates back to May 1998).

"Unsurprisingly, the report shows an uptick in growth in New Orders, with December's outturn the strongest in the current 17 month sequence of growth (and third-fastest in the survey's history). This was in spite of an easing in growth in New Export Orders, although overseas demand remained marked, particularly from North American customers. Stronger customer demand prompted some predictable responses from Irish manufacturers, with Employment growth surging to a record high, while Quantity of Purchases accelerated to the joint-fastest since February 2011.

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Despite these additional resources and a slight uptick in Stocks of Finished Goods, manufacturers' Backlogs of Work increased for an eighth successive month in December.

"Turning to margins, the report shows that Input Costs rose at their fastest pace in nine months, with higher raw material costs widely mentioned by panellists. Firms were able to defray at least a portion of these cost pressures by hiking Output Prices, however, this was not enough to prevent a moderation in the rate of growth implied by the Profitability Index.

"Given the strong conditions evident in the manufacturing sector, it is no surprise to see that firms are upbeat about the outlook, with the Future Output index strengthening in December as more than six times as many companies expect to see growth in 2018 as opposed to those who anticipate a decline. With global growth expected to improve to a seven year high in 2018, we think that firms are right to be confident about their prospects for this year."

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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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