Investec Manufacturing PMI® Ireland

Economics | Monthly

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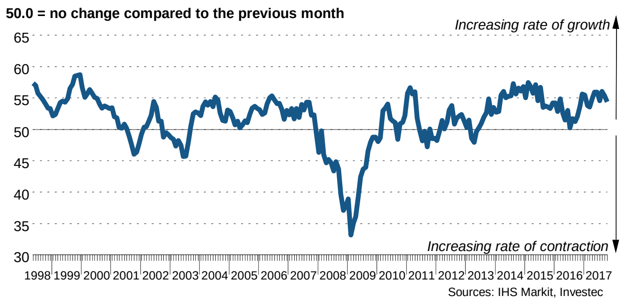
New order growth remains sharp in October

Summary:

The Irish manufacturing sector recorded a further solid improvement in business conditions at the start of the fourth quarter of the year. That said, there were signs of growth slowing in October, particularly with regards to output which increased at the weakest pace in seven months. On a more positive note, the rate of job creation picked up and inflationary pressures eased slightly.

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 – dipped to 54.4 in October from 55.4 in September. The reading signalled a solid monthly improvement in the health of the sector, albeit the weakest since March. Business conditions have now strengthened in each of the past 53 months.

New orders continued to increase at a sharp pace in October, despite the rate of growth easing from that seen in September. Some panellists mentioned strength in export markets. In fact, new export business rose at the fastest pace in four months with new orders from other European countries often mentioned.

While growth of new orders remained marked, the rate of expansion in manufacturing production eased and was the slowest since March. The latest increase extended the current sequence of growth to 15 months, however.

Employment rose at a solid and accelerated pace during October as firms responded to higher new orders. This increase in capacity meant that firms were able to keep on top of workloads despite sharp new order growth. As a result, backlogs of work were little-changed for the second month running.

Weaker rises in both input costs and output prices were registered in October. Input prices continued to increase sharply on the back of higher costs for raw materials such as metals and plastics. The passing on of higher input prices to clients led to a solid increase in charges, albeit the weakest in three months.

Suppliers' delivery times lengthened again, and to a greater extent than in September. Panellists reported that higher demand for inputs had been behind longer lead times.

Purchasing activity rose at a marked pace, despite the rate of expansion easing for the second month running to the weakest since March.

Stocks of purchases, meanwhile, rose only marginally. While some panellists reported increasing their pre-production inventories in line with higher demand, others mentioned efforts to limit stock holdings. Stocks of finished goods continued to decline in October, the fourth month running in which this has been the case. Although solid, the rate of depletion was the weakest in the current sequence of falling post-production inventories.

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Business sentiment picked up to an eight-month high, with panellists mainly basing optimism on predictions of continued growth of new orders.

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 reveals a further solid improvement in business conditions at the start of the final quarter of the year. With that being said, the implied rate of growth in activity has cooled to the lowest since March. The headline PMI was 54.4 in October, down from the previous month's 55.4 outturn.

"The report shows that, despite a recent slowdown, the rate of growth in New Orders remains sharp, helped by overseas demand – the New Export Orders index quickened to a four month high, with many panellists reporting stronger demand from European and Asian markets.

"In response to this healthy demand, Irish manufacturers continue to add to their headcounts, with the Employment index expanding at its fastest rate since June. Helped by these extra resources and depletion of inventories (Stocks of Finished Goods fell for a fourth successive month), the Backlogs of Work index recorded only marginal growth for a second month in a row.

"On the purchasing side, firms' Quantity of Purchases rose at a solid if somewhat slower pace than had been seen in September, unsurprisingly mirroring the move in New Orders. Stocks of Purchases recorded only minimal growth in the month.

"Turning to margins, Input Prices rose at a marked rate in October, with panellists citing higher raw materials prices as being behind this move. Firms were able to pass on at least some of this pressure by hiking Output Prices (as they have for 17 successive months now). In any event, the Profitability Index improved slightly in the period to end-October from the previous survey period.

"Encouragingly, the forward-looking Future Output index shows that confidence among Irish manufacturers regarding the 12 month outlook for production picked up to an eight month high, with roughly 17 times as many panellists expecting to see a rise in output as opposed to the number anticipating a decline. Given the positive outlook for the Irish and wider global economies, we view this bullishness as 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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