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Investec Manufacturing PMI® Ireland

Economics Monthly

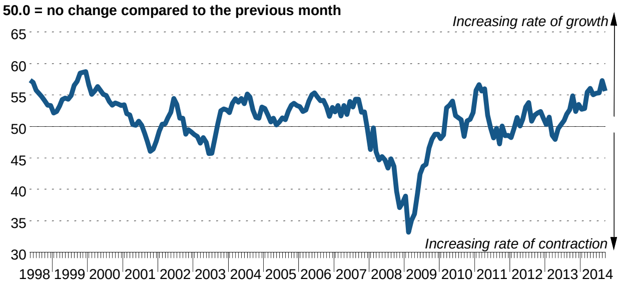
Embargoed until: 06:00 (UK Time) 1 October 2014

Manufacturing output growth remains sharp in September

Summary:

Further strong growth was recorded in the Irish manufacturing sector during September, with output and new orders continuing to rise. Firms responded to higher new business by increasing employment, and this extra capacity enabled them to deplete outstanding work. Both input costs and output prices decreased 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 – dipped to 55.7 in September from 57.3 in the previous month, but still signalled a marked improvement in operating conditions at Irish manufacturing firms. Business conditions have now strengthened in each of the past 16 months.

Although easing from the previous month, growth in new orders remained sharp in September amid new business from both new and existing clients. New export orders also increased, extending the current period of expansion to 15 months.

With new orders rising, manufacturers increased employment again, and the rate of growth ticked up to the sharpest in four months. This additional operating capacity enabled firms to work through backlogs of work for the second month running, and at a solid pace.

Manufacturing production continued to rise at a marked pace in September, with panellists highlighting increased new orders amid improved market conditions.

Input prices fell for the second successive month, and at a faster pace. Some panellists reported that excess supply in the market as a result of sanctions related to the Russian situation had led prices to fall. This was also reported to have contributed to a decrease in output prices, which declined at the sharpest pace since February 2010. Other factors leading to downward pressure on charges were lower input costs and falling prices in dairy markets, according to panellists.

Irish manufacturers raised their purchasing activity sharply again in September, with the rate of growth broadly similar to the previous month. Increased demand for inputs led to a further deterioration in vendor performance. Delivery times lengthened for the fourteenth consecutive month, albeit to a lesser extent than seen in August.

Higher new orders and forecasts of further growth in coming months led to an accumulation of stocks of purchases. This was the first rise in pre-production inventories in five months.

On the other hand, stocks of finished goods continued to fall, partly reflecting higher sales. The latest reduction was the strongest in three months.

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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 output growth remained sharp in September. While the headline PMI moderated to 55.7 from 57.3 in August, it nonetheless signifies a solid rate of expansion.

"Panellists reported increased orders from home and abroad during September, with both the New Orders and New Export Orders indices remaining in positive territory for a 15th successive month.

"This robust order growth has had a clear impact on manufacturers' purchasing activity. We note that the Quantity of Purchases index stands in positive territory for an eighth successive month, while Stocks of Purchases increased for the first time since April, an outcome explained by panellists as being in anticipation of higher new orders in the coming months. Stocks of Finished Goods decreased for a fifth month in a row in September due to higher sales activity.

"There were some interesting pricing trends during the month. Input prices fell sharply, with some panellists attributing the decline to sanctions relating to the Russian situation, which has led to excess supplies of some goods. Indeed, the extent of the drop in input prices was the largest seen in close to five years. Output prices also fell sharply during September, as firms passed on savings from both Russia-related factors and the slide in world dairy prices to end customers.

"One notable highlight within the report is the Employment index, which indicates that manufacturing firms added to headcounts for a 16th successive month in September.

"Last month we said that "while noting that the risks to global growth and (not unrelated) geopolitical tensions have increased in recent months, we expect to see continued progress into 2015". Some of the indices in today's release certainly reflect these factors, but we remain of the view that the recovery underway both domestically and in many of Ireland's key trading partners is sufficiently robust to withstand any pressures from those sources. Hence, our expectation remains that the Irish manufacturing sector will perform strongly into next 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 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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