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Investec

Investec Manufacturing PMI® Ireland

Economics Monthly

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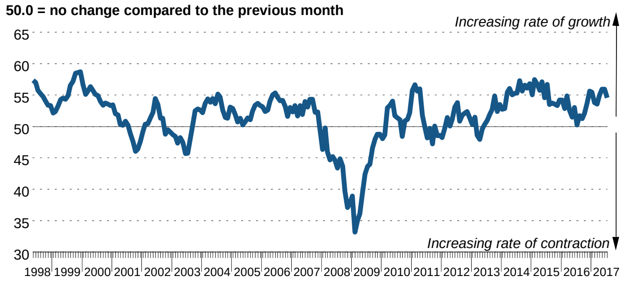
New order growth remains elevated in July

Summary:

Business conditions improved again in the Irish manufacturing sector during July. A further sharp rise in new orders was recorded, although rates of growth in output and employment eased. The rate of input cost inflation was the slowest in 2017 so far, while output prices also rose at a weaker pace.

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 – dipped from June's 23-month high of 56.0 to 54.6 in July, thereby signalling a weaker improvement in the health of the sector. That said, operating conditions still strengthened sharply over the month.

Central to the latest improvement in business conditions was a further sharp rise in new orders. The rate of expansion remained elevated despite easing slightly, with panellists reporting new work from both new and existing clients. New export orders also increased, albeit at the slowest pace since November last year.

New order growth supported a further increase in production at Irish manufacturers, extending the current sequence of rising output to one year. The rate of expansion was marked, but eased to a three-month low.

There were signs that strong demand conditions imparted pressure on capacity, both at Irish manufacturers themselves and in their supply chains.

Levels of outstanding business rose for the third consecutive month as a result of strong new order growth. Meanwhile, suppliers' delivery times lengthened to the greatest extent in over six years as vendors struggled to meet another substantial monthly increase in purchasing activity. The rate of expansion in input buying was only slightly weaker than in June, remaining well above the series average.

Manufacturers attempted to alleviate some of this pressure on capacity by increasing their staffing levels in July. That said, the rate of job creation was the slowest in nine months.

Higher raw material costs were reported by manufacturers in July, with input prices continuing to rise sharply. The rate of inflation eased to the weakest in the year-to-date, however. Output prices also rose at a slower pace, but charges have now increased in 14 successive months. Where selling prices were raised, panellists linked this to the passing on of higher input costs to clients.

Inventories of both purchases and finished goods dropped back in July after both had risen in June. Pre-production inventories fell modestly, while stocks of finished goods declined at a solid pace. Panellists reported a combination of deliberate inventory reduction and the use of stocks to help fulfil new orders.

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Business sentiment ticked up from June as approximately 49% of panellists forecast output to increase over the coming year. Optimism was mainly linked to predictions of higher new orders from both domestic and export clients.

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 further solid improvement in activity in July, albeit the headline PMI reduced to 54.6 from a 23-month high of 56.0 in June. According to respondents, the latest increase was mainly attributable to new order growth.

"A further sharp rise in New Orders was recorded in July, with panellists reporting new work from both new and existing clients, although the rate of growth eased slightly. New Export Orders increased for the eleventh consecutive month, but at the slowest rate since November last year, and some panellists mentioned having expanded into new markets.

"New order growth spurred a further increase in manufacturers' output levels, extending the current sequence of rising output to one year, but the rate of growth eased to a three-month low. Given the strong demand conditions, there were signs of emerging capacity pressures with Backlogs of Work increasing for three consecutive months and post-production inventory levels declining in July (and eight of the past nine months). In addition, suppliers' delivery times lengthened to the greatest extent in over six years as vendors struggled to meet strong demand for inputs.

"Manufacturers attempted to alleviate some of this pressure on capacity by again increasing staffing levels. However, although the current sequence of job creation has now extended to ten months, employment in July increased at its slowest pace since October last year.

"On the margin side, Input Prices continued to rise sharply. That said, input cost inflation eased in July and the latest increase was the weakest in the year-to-date. Against this backdrop it is unsurprising to see a further increase in Output Prices. Although the rate of growth in output prices also moderated last month, firms have increased prices for fourteen successive months. This has led to the Profitability index reaching its highest level in more than two years.

"Looking forward, manufacturers remained positive on the outlook with this optimism linked to expectations of further growth in both domestic and international orders. Around 49% of respondents predicted a rise in production in the coming year compared with just 9% that anticipated lower production levels. Following a strong performance by the manufacturing sector in H1 this year, and the generally improving global backdrop, we also remain upbeat about prospects for the sector over the remainder of the 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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