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Investec Manufacturing PMI® Ireland

Economics Monthly

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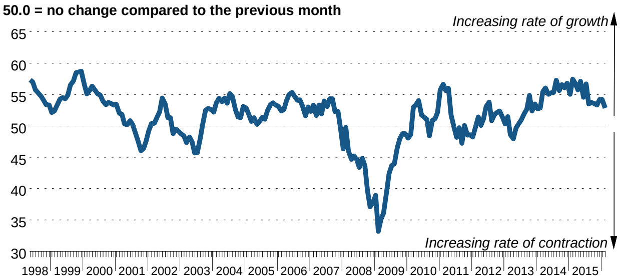
Manufacturing sector sees slowdown in growth during February

Summary:

Growth eased in the Irish manufacturing sector in February as new orders increased at the weakest pace since late-2013. Output and purchasing activity also rose at slower rates, but employment bucked the wider trend by increasing more quickly than at the start of the year. The rate of input cost deflation quickened to the fastest since November 2009, with output prices also falling at a sharper pace in response.

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 – fell to 52.9 in February from 54.3 in January, still signalling an improvement in the health of the manufacturing sector but the weakest for two years. Business conditions have now strengthened on a monthly basis in each of the past 33 months.

Data signalled a slowdown in new order growth in the Irish manufacturing sector, with the latest rise the weakest since November 2013. Where new orders did increase, panellists often mentioned higher new business from export markets, in turn reflecting new orders from the UK and US. Growth in new export business also slowed, however.

In line with the trend in new business, output increased at a weaker pace in February. That said, the latest solid expansion in production extended the current sequence of growth to 33 months.

Backlogs of work decreased for the second month running, and at a sharp pace that was the fastest since February 2014.

With new order growth slowing, some panellists indicated that they had sufficient input holdings and thereby reduced their purchasing activity. However, others continued to increase input buying in response to higher new orders. Overall, purchasing activity rose, but at a much reduced pace, while stocks of purchases were unchanged. Stocks of finished goods rose for the third month running, albeit at a weaker pace.

In contrast to a number of other indices from the latest survey, employment rose at a faster pace in February. The rate of job creation was the sharpest in five months.

Input prices decreased at a sharp and accelerated pace amid lower costs for items including oil, food and polymers. Moreover, the latest fall in input prices was the sharpest since November 2009. Similarly, output prices decreased at a faster rate, in response to both lower input costs and competitive pressures.

Suppliers' delivery times lengthened again in February, albeit to the least extent in the current 31-month sequence of longer lead times.

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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 suggests that the global headwinds may be starting to weigh on the manufacturing sector here. The headline PMI fell to 52.9 in February from the previous month's 54.3 reading. While this still signals that the sector is in growth mode, the implied pace at which it is expanding is the slowest for two years.

"The report shows that growth in New Orders has moderated to its weakest since November 2013. Within that, New Export Orders growth eased to the slowest since February 2014. We suspect that at least a part of this relates to recent euro strengthening, although we should note that some respondents cited the US and UK as the main source of new export orders.

"Given the weaker growth in New Orders, it is no surprise to see that Backlogs of Work fell for the sixth time in the past seven months, with the last month's rate of depletion the fastest recorded since February 2014. In a similar vein, a third successive monthly increase (albeit marginal) in Stocks of Finished Goods was recorded in February, while the rate of expansion in the Quantity of Purchases index was the weakest since October.

"If there is a particularly bright spot within this report it is the Employment index, where the rate of job creation quickened to a five month high. Employers have added to headcounts for 33 successive months now, but we question whether the current rate of job creation is sustainable given some of the trends noted above.

"On the margin side, Input Prices fell very sharply in February, with the latest decline the strongest recorded since November 2009. This drop was attributed to commodity price weakness in areas such as oil, food and polymers. However, at least some of this benefit was passed on by manufacturing firms to their customers, with the Output Prices index declining for a second successive month.

"When the Investec PMIs for January were released a month ago we cautioned that "Ireland will not be immune to any slowdown in international trade". We suspect, therefore, that some of the index changes noted above are connected to the more troubled global backdrop. With that being said, on balance we expect that the sector will record another year of growth in 2016."

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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. 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 over 30 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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