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Investec

Investec Manufacturing PMI® Ireland

Economics Monthly

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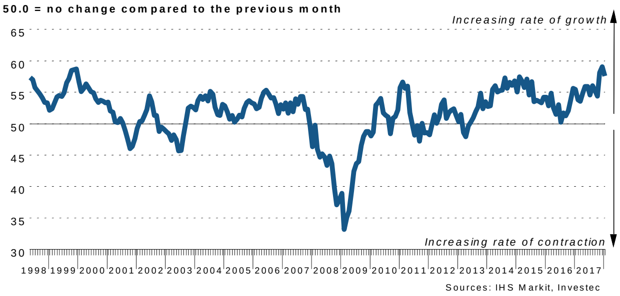
PMI remains elevated at start of 2018

Summary:

The Irish manufacturing sector made a positive start to 2018, with output, new orders and employment all increasing sharply again during January. Improving economic conditions, both in Ireland and abroad, underpinned the latest improvements, while also supporting optimism regarding the 12-month outlook. The rate of input cost inflation accelerated, but competitive pressures meant that output prices were raised only 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 57.6 in January, down from December's record of 59.1. The latest reading signalled a further sharp improvement in the health of the manufacturing sector, albeit the weakest in three months.

As has been the case on a monthly basis throughout the past year-and-a-half, manufacturing output rose in January. The rate of expansion was substantial, with panellists indicating that higher output largely reflected new order growth.

Increased production volumes added to stocks of finished goods. Moreover, the rate of accumulation was the second-fastest in the survey's history, second only to the record set in April 1999.

New orders continued to rise sharply, with the rate of growth only slightly weaker than December's near-record pace. Respondents signalled higher new orders from both new and existing clients. New export orders also increased, and at a faster pace than in the previous month.

Rising client demand led to a ninth successive monthly increase in backlogs of work in the Irish manufacturing sector, with the rate of accumulation little-changed from those seen in November and December.

With new orders increasing, firms raised staffing levels accordingly. The rate of job creation eased from December's record, but remained considerable.

The rate of input cost inflation accelerated for the third month running and was the fastest since February 2017. Panellists reported higher oil prices, alongside increases in the cost of raw materials such as chemicals and steel.

Some panellists passed higher costs on to clients, leading to a further increase in output prices. That said, competitive pressures reportedly limited pricing power and the rate of inflation eased to the weakest in the current 20-month sequence of rising charges.

Purchasing activity continued to rise sharply in response to higher output requirements, although the rate of growth eased. A slower increase in stocks of purchases was also recorded. Improving demand in the European economy and related shortages of raw materials resulted in the most

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marked lengthening of suppliers' delivery times since April 2011.

Strengthening economic conditions are set to support further increases in output, with optimism at a 14-month high in January.

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 positive start to 2018 for the sector. While the headline PMI eased slightly from the all-time high of 59.1 that was recorded in December, January's 57.6 reading is consistent with a sharp improvement in activity.

"The report shows strong demand from domestic and overseas customers. The New Orders index posted an 18th successive monthly increase, while New Export Orders rose at a slightly faster pace than the exit rate for 2017.

"The responses to this higher demand were predictable. The Quantity of Purchases index posted a 17th successive above-50 reading, with the sequence of growth in Employment just one month shorter. Despite these additional resources, Backlogs of Work rose at a pace that was little-changed from the preceding two months.

"There is evidence that manufacturers are positioning themselves for ongoing strong customer demand in the months ahead, with Stocks of Purchases increasing, while Stocks of Finished Goods rose for a third successive month, notwithstanding the uptick in client orders. We also note that the Future Output index of expectations increased at its fastest pace in 14 months, which suggests that December's record Manufacturing PMI reading may be eclipsed in the coming quarters.

"Turning to margins, Input Prices rose at their sharpest rate since February 2017 last month, with panellists blaming higher commodity prices (oil, steel and chemicals were all cited by respondents) for this. However, efforts to defray this by hiking Output Prices seem to have met with only mixed results, with only one-in-ten panellists achieving higher like-for-like selling prices in January compared to in the previous month. In any event, the Profitability index remained in positive territory for a ninth successive survey period, buoyed by volume growth.

"In its updated World Economic Outlook release last week, the IMF upgraded its global growth forecasts by 20bps to 3.9% for each of 2018 and 2019. This follows estimated growth of 3.7% in 2017. This stronger backdrop augurs well for the Irish manufacturing sector, which is highly leveraged to international events. We expect to see further strong Manufacturing PMI readings as 2018 progresses."

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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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