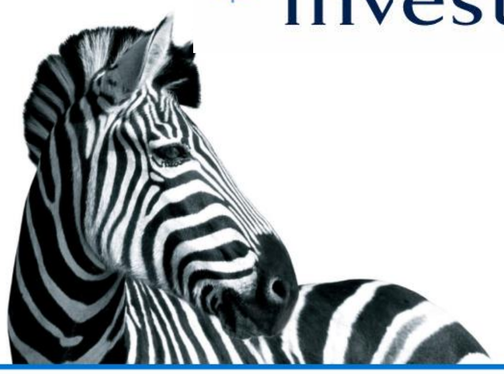
Investec Manufacturing PMI® Ireland



Economics Monthly

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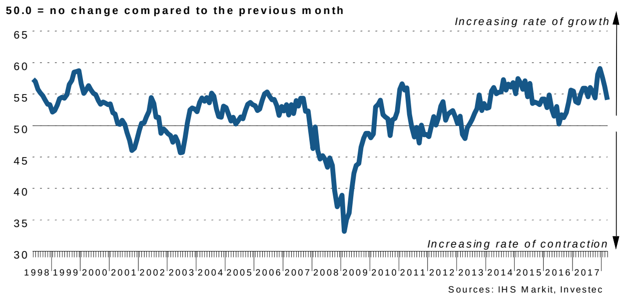
Snow disruption impacts manufacturing sector in March

Summary:

Disruption caused by Storm Emma at the start of March impacted business conditions in the manufacturing sector during the month. Output rose only marginally and firms were forced to use buffer stocks to help meet demand. New orders continued to rise sharply, however, as did employment, while business confidence data remained elevated.

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 54.1 in March from 56.2 in February. Although continuing to signal a solid monthly strengthening of the health of the sector, the rate of improvement eased to the weakest for a year.

Central to the weaker improvement in business conditions was a much slower rise in manufacturing output during the month. Production increased only marginally, and at the weakest pace since August 2016. Anecdotal evidence overwhelmingly linked the slowdown in output growth to snow disruption caused by Storm Emma.

The rate of expansion in new orders also eased in March, but only marginally. Total new business continued to rise sharply amid generally improving market conditions. A marked increase in new export orders was also recorded.

With new orders continuing to increase sharply, but production lines affected by the severe weather, manufacturers noted an increase in backlogs of work. Moreover, the rate of accumulation was the fastest since December 2016.

With firms struggling to fulfil new orders through production, they were forced to eat into buffer stocks. As a result, post-production inventories decreased steeply, and to the greatest extent in just over six years.

Suppliers' delivery times were also impacted by the snow in March. Lead times lengthened at a sharp pace overall, with supply chains already under pressure as a result of increasing demand for inputs.

Purchasing activity rose solidly, and at the same pace as in February, in line with higher new orders. Meanwhile, stocks of purchases were broadly unchanged.

New order growth also led to a further marked increase in staffing levels, extending the current sequence of job creation to a year-and-a-half.

Input prices continued to rise sharply in March, despite the rate of inflation easing for the second month running. Panellists reported higher costs for raw materials, in particular steel. Firms raised their output prices accordingly, resulting in the fastest increase in charges since August 2017.

Planned new product launches and predictions of rising new business supported continued confidence among manufacturers that output will increase over the coming year.

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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 the effect that Storm Emma had on the sector in March, with clear evidence of disruption to sector output and distribution. While the headline PMI still points to growth, at 54.1 in March (versus 56.2 in February) it has moderated to a 12 month low.

"The Output index was only marginally in positive territory last month, falling to its lowest since August 2016. The timing of this was particularly unhelpful, given that it coincided with yet another sharp rise in New Orders (extending the sequence of growth here to 20 months). Panellists benefited from rising demand from both domestic and overseas markets (the Eurozone was mentioned as a source of strength in the latter).

"The mismatch between output growth and demand saw the rate of increase in Backlogs of Work quicken to its highest since December 2016. This was in spite of the utilisation of inventories by companies in an effort to fill customer orders, with Stocks of Finished Goods depleting at its fastest rate in just over six years – and this pace would have been quicker were it not for the consistent build in stocks in the four preceding months.

"Notwithstanding the weather-related disruptions to production, Irish manufacturers continued to add to headcounts during the month.

"On the margin side, Input Prices recorded another sharp increase in March, led by rising raw materials costs, notably for steel. Companies were able to pass at least some of this pressure on by hiking Output Prices once again, but it wasn't enough to prevent a second successive sub-50 reading for the Profitability Index, indicating a deterioration in this metric.

"The Future Output Index of expectations was little changed last month, with c. 11 times as many manufacturers anticipating growth over the coming 12 months versus those who foresee a decline. Given the generally supportive international backdrop we view this optimism as well-founded. All in all, we wouldn't read too much into this month's data given the weather distortions and would expect a marked improvement when the April Manufacturing PMI report is released."

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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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