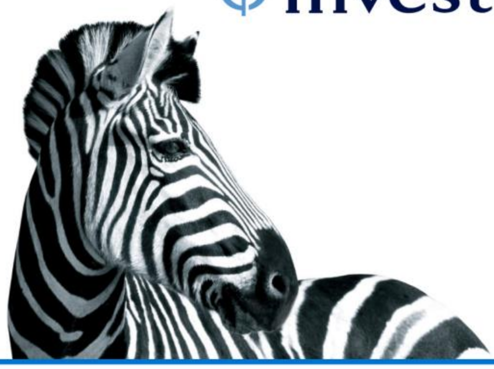

Investec Manufacturing PMI® Ireland

Economics Monthly

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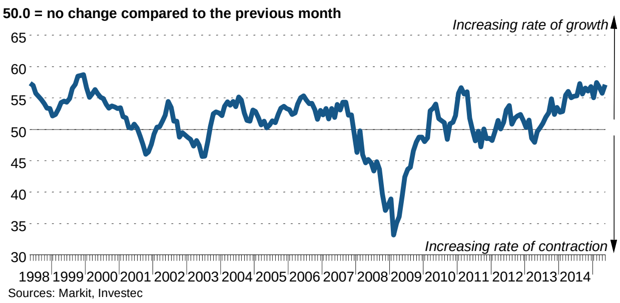
Growth of manufacturing output quickens to nine-month high

Summary:

Higher new orders from both domestic and export markets contributed to a further improvement in business conditions at Irish manufacturing firms in May. Both output and employment were increased at sharper rates than in April. Meanwhile, manufacturers raised their output prices for the second successive month on the back of further cost inflation.

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 – rose to 57.1 in May from 55.8 in April to signal a substantial strengthening of business conditions during the month. The reading was the highest in three months, with operating conditions now having improved throughout the past two years.

The rate of growth in new business quickened in May and was the fastest in three months. Some panellists reported having secured new clients, while others highlighted the impact of new product launches. New export orders also rose sharply, with euro weakness mentioned by some of those panellists recording an increase.

Higher new orders led to a further expansion of manufacturing output, thereby extending the current sequence of growth to two years. Moreover, the rate of increase was the sharpest since last August.

Despite the strong rise in new work, outstanding business decreased marginally amid reports of increased capacity. This was helped by a further substantial rise in employment, with the rate of job creation ticking up slightly in May.

Manufacturers also upped their purchasing activity at a considerable pace in response to greater output requirements. Moreover, the rate of expansion was the fastest since February 2011.

This increase in demand for inputs, and stock shortages at suppliers, led to a deterioration in vendor performance. Lead times lengthened for the twenty-second month in a row.

Input prices rose for the third month running in May, with the recent weakness of the euro against sterling and the US dollar the principal factor driving up costs. That said, the rate of inflation eased from that seen in April. Higher input costs led manufacturers to raise their charges for the second successive month, albeit only marginally.

Manufacturers continued to lower their stocks of purchases in May, extending the current sequence of depletion to three months. Panellists reported that inventories had been used in the production process. Meanwhile, the use of stocks of finished goods to help meet sales led to a marginal reduction in post-production inventories.

Investec Contact Details: www.investec.ie Investec.Economics@investec.ie +353 1 421 0496
To view the full range of Investec Research & Insights go to www.investec.ie/research

Markit Economics, Henley on Thames, Oxon RG9 1HG, UK Tel: +44 1491 461000 Fax: +44 1491 461001 e-mail: economics@markit.com

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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 reveals a further improvement in business conditions in May. The headline PMI rose to 57.1 from April's 55.8 and now stands at its highest level in three months. This reading also means the current sequence of growth for the sector now stretches to two years.

"Panellists reported a quickening in the rate of growth in New Orders, aided by new product launches. The pace of expansion implied by the New Export Orders index also increased last month, with euro weakness a factor behind this improvement.

"Over the past two years, Irish based manufacturing firms have persistently responded to rising client demand by increasing their headcounts and May was no exception to this trend, with nearly four times as many firms adding jobs than the number reporting a reduction in staffing levels. This increased capacity contributed towards the first (albeit marginal) drop in the Backlogs of Work index in four months, but ongoing depletion in Stocks of Finished Goods (for a sixth successive month) suggests that output levels remain insufficient to meet demand.

"Turning to margins, Input Prices rose for a third successive month in May, with the strength of sterling and the US dollar once again identified by respondents as the principal factor that is pushing up on costs. Firms were able to defray at least some of this pressure by raising Output Prices, but the increase here was only slight and slower than in the previous month. Despite the cost pressures, the rate of growth in the Quantity of Purchases index quickened to the fastest since February 2011, which gives a further indication of the favourable demand conditions in the sector at this time.

"At the beginning of May we identified the then upcoming UK General Election as a key risk factor for the manufacturing sector here, given that opinion polls had been pointing to a hung parliament and a resultant period of political uncertainty, with all that this would entail for sterling. In the event, the surprise overall majority achieved by the Conservatives has removed that risk, with the renewed strength in the pound relative to the single currency since the election providing a renewed tailwind for the 15% of Irish merchandise exports that go to Ireland's next door neighbour. This should lead to further positive Investec Manufacturing PMI readings for Ireland in the coming months, assuming that developments in Greece don't take a turn for the worse."

For further information please contact:

Markit
Andrew Harker, Senior Economist
Telephone +44-1491-461-016
Email andrew.harker@markit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@markit.com

Investec
Philip O'Sullivan, Chief Economist
Telephone +353-1-421-0496
Email philip.osullivan@investec.ie

Ronán Roche, The Reputations Agency
Telephone +353-1-661-8915
Email ronan@thereputationsagency.ie

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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 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.

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Investec Contact Details: www.investec.ie Investec.Economics@investec.ie +353 1 421 0496
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