

Investec Manufacturing PMI[®] Ireland



Economics Monthly

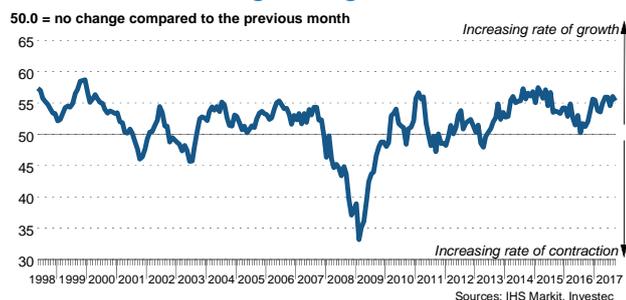
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New order growth at 26-month high in September

Summary:

Business conditions in the Irish manufacturing sector continued to improve markedly at the end of the third quarter of the year, with a sharper rise in new orders the key driver of the latest expansion. There were slower increases in output and employment, however, while cost inflation quickened.

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 – posted 55.4 in September, down from 56.1 in August but still signalling a marked monthly improvement in the health of the sector. Business conditions have now strengthened in each of the past 52 months.

New orders rose at a sharp and accelerated pace in September, with the latest expansion the strongest in 26 months. All three broad sectors saw new business rise, with intermediate goods firms posting the strongest growth. New export orders also increased, albeit at a weaker pace. According to respondents, new business from abroad was secured from a number of international markets, although the strength of the euro against sterling reportedly limited demand from UK customers.

Manufacturing production rose for the fourteenth successive month in September. The rate of expansion was sharp, despite easing slightly from that seen in August.

Employment growth also slowed at the end of the third quarter, reaching its weakest since staffing levels started to rise one year ago. Weaker hiring and strong new order growth resulted in increases in backlogs of work at some companies, although others mentioned having been able to reduce outstanding business. Overall, work-in-hand was little-changed over the month.

The rate of input cost inflation quickened to a three-month high in September and was sharper than the series average. Higher prices for raw materials including wood and metals were reported. Increased costs led to a further monthly rise in output prices, the sixteenth in as many months. The rate of inflation was marked, albeit weaker than in August.

Some panellists suggested that shortages of materials caused longer suppliers' delivery times in September as increasing demand for inputs added to pressure on vendor capacity. Purchasing activity rose for the thirteenth successive month, and at a marked pace.

Rising purchasing activity in response to higher new orders resulted in a second successive monthly increase in stocks of purchases. Moreover, the rate of accumulation quickened to the fastest since March 2016. On the other hand, stocks of finished goods decreased for the third month in a row.

Business sentiment was at a four-month high in September, with close to 49% of panellists forecasting a rise in output over the coming year. Confidence was largely a reflection of optimism

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surrounding future new orders, with a number of firms predicting increases in new business from abroad.

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 that business conditions in the sector continued to improve markedly at the end of the third quarter of the year. The headline PMI recorded its 52nd successive above-50 reading in September, coming in at 55.4, little changed from the previous month's 56.1 outturn.

"A key highlight of today's release is the New Orders component, which posted its sharpest expansion in 26 months. This strong outturn came in spite of slower growth in New Export Orders, which some panellists attributed to the euro's strength against sterling and resultant impact on demand from UK customers.

"Notwithstanding the increase in client demand, Irish manufacturing firms eased the pace of hiring activity last month, with the Employment component moderating to its weakest in the current 12 month sequence of expansion.

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"Backlogs of Work also moderated last month, falling to just above the 50 'no-change' line. At first glance, this seems incongruous given the strong order growth and slower hiring activity. However, this anomaly is likely explained by a third successive monthly depletion in Stocks of Finished Goods, which suggests to us that inventories are being used to part-fulfil client orders.

"On the margin side, Output Prices increased for a 16th successive month, but this was largely reflective of the pass-through of higher Input Prices. On the latter, the rate of cost inflation quickened in September, particularly for raw materials such as wood and metals. In any event, the Profitability component remained in positive territory in September, although the rate of expansion has cooled to the slowest since the three months to May.

"The forward-looking Future Output index improved to the highest in four months in September, with seven times as many respondents predicting a rise in output over the next 12 months against those who are pessimistic. Given the strengthening economic backdrop both at home and abroad, we concur with those who are positive on the outlook."

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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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