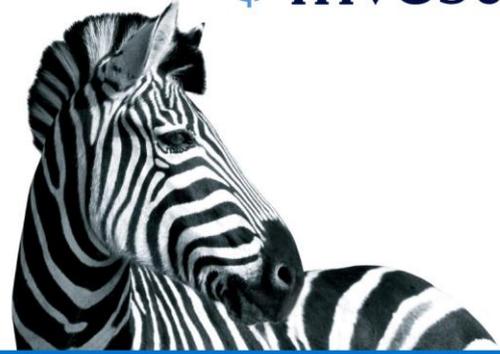


Investec Manufacturing PMI® Ireland



Economics Monthly

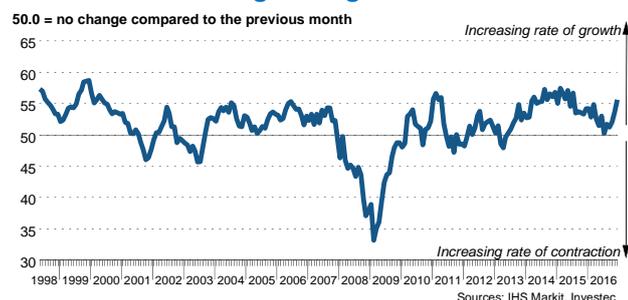
Embargoed until: 06:00 (Dublin) / 06:00 (UTC) January 3rd 2017

Production growth quickens to 17-month high

Summary:

The Irish manufacturing sector showed further signs of recovery following the UK's decision to leave the EU, with business conditions strengthening to the greatest extent in almost a year-and-a-half during December. The improvement was supported by faster growth in output, new orders and employment, while outstanding business and purchasing activity also rose sharply.

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 – increased to 55.7 in December from 53.7 in November, thereby signalling a marked improvement in the health of the sector, and one that was the strongest since July 2015. The rate of improvement has strengthened in each of the past three months.

Irish manufacturing production rose at a sharp and accelerated pace in December, with the rate of growth at a 17-month high.

New business rose at a much faster pace during the month amid stronger client demand. Meanwhile, signs of improvement in the UK market helped to

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support a sharp monthly rise in new export business, and one that was the fastest since January.

Strong new order growth continued to impart pressure on capacity at manufacturers. Backlogs of work rose markedly, and at a pace that was only slightly slower than November's series record. With outstanding work rising sharply, panellists used inventories to help fulfil orders. As a result, stocks of finished goods decreased for the second month running, albeit to a lesser extent than in the previous month.

Firms responded to higher workloads by raising employment again. Moreover, the rate of job creation quickened to a 19-month high.

The rate of input cost inflation eased in December and was slower than the series average. Where a rise in input prices was recorded, this was mainly linked to higher raw material costs. Rising cost burdens led some firms to increase their output prices accordingly in December. Charges rose at a solid pace that was the sharpest in three months.

Irish manufacturing firms raised their purchasing activity sharply. Moreover, the rate of expansion quickened for the third month running to the fastest since May 2015. Higher input buying was mainly reflective of rising production requirements. Despite higher purchasing activity, stocks of inputs decreased as items were used in the production process.

Finally, suppliers' delivery times lengthened amid reports of higher demand for inputs and stock shortages at vendors.

Comment:

Commenting on the Investec Republic of Ireland Manufacturing PMI survey data, Philip O'Sullivan, Chief Economist at Investec Ireland said:

"Today's Investec Manufacturing PMI Ireland release shows that the sector exited 2016 with a very strong tailwind behind it, supporting our previous contention that the worst of the pressure seen in the aftermath of the UK's Brexit vote has passed. The headline PMI improved to 55.7, implying the fastest pace of growth in 17 months, from November's 53.7 outturn.

"Within the release we see ample reasons to be cheerful. New Orders, which briefly dipped into negative territory in the immediate wake of the UK's referendum on EU membership, expanded at their fastest pace since last January. Signs of improvement in Ireland's closest neighbour helped to support a sharp monthly rise in New Export Orders. Increased client demand also fuelled a further sharp rise in Backlogs of Work, extending the sequence of growth here to three months.

"In a potent sign of confidence over the sustainability of the spike in New Orders, the rate of expansion in

manufacturers' Quantity of Purchases quickened to its fastest pace since May 2015. Despite this increase, firms' Stocks of Purchases declined (albeit modestly) for an eighth successive month. In a further sign of confidence around the outlook for the sector, the rate of expansion in job creation accelerated for a third successive month to the fastest pace in 19 months.

"On the margin side, Input Costs once again rose sharply, with firms blaming higher raw material costs for this. Manufacturers were, however, able to pass on at least a portion of this by hiking Output Prices (as they have done for seven months now).

"The headline Manufacturing PMI has been consistently above the 50 'no change' mark separating expansion from contraction for 43 months. While growth slowed precipitously following the UK's Brexit vote, the accelerated pace of expansion seen since then shows that the sector has gotten back on track, presumably aided by the kicker from a strong US dollar and ongoing domestic strengthening."

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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.

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