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Investec Manufacturing PMI® Ireland

Economics Monthly

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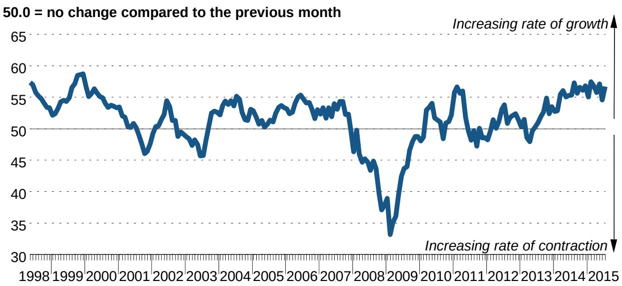
Growth of production picks up in July

Summary:

Operating conditions in the Irish manufacturing sector continued to improve in July as growth of output, new orders and employment all accelerated during the month. On the price front, a slower rise in input costs was recorded, while output prices decreased for the second month running.

Investec Purchasing Managers' Index®:



Sources: Markit, Investec

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 56.7 in July from 54.6 in June to signal a further marked strengthening of business conditions, and one that was greater than in the previous month. The health of the sector has now improved in each of the past 26 months.

Manufacturing output rose at a faster pace in July, with panellists reporting having worked on both existing business and an increased amount of new work during the month. Production has increased continuously since June 2013, with growth in consumer goods output the fastest of the three market groups covered by the survey.

The rate of expansion in new orders also picked up from June amid improving client demand and successful advertising campaigns. Meanwhile, the weakness of the euro continued to underpin growth of new export business.

Rises in both current and future output requirements led to another strong rise in employment. Despite increased operating capacity, outstanding business rose for the first time in three months, reflecting the pace of new order growth.

Firms also reacted to greater production requirements by raising their purchasing activity at a sharp and accelerated rate. Consequently, stocks of purchases were depleted at a fractional pace that was the weakest in the current five-month sequence of decline.

Meanwhile, stocks of finished goods increased for the first time in nine months amid efforts to build inventories and the slower delivery of products to customers.

Although input prices continued to increase in July, the rate of cost inflation eased to the slowest in the current five-month period of rising input prices. The weakness of the euro was the main driver of cost inflation, while falling prices for some raw materials reportedly led to reduced cost pressures.

Competition and falling prices in world dairy markets contributed to the latest reduction in output prices, the second in as many months. The rate of decline was modest, but faster than seen in June.

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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Finally, suppliers' delivery times lengthened solidly, extending the current sequence of deterioration to two years.

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 marked improvement in business conditions, having strengthened over the previous month. The headline PMI rose to 56.7 in July from the previous month's 54.6, while the sequence of above-50 readings now stretches to 26 months.

"The New Orders index rose at a faster pace in July, with the sequence of positive readings now extending to 25 months. The New Export Orders index also strengthened in July (the strongest reading since February) and it is no surprise that Euro weakness continues to underpin the latest expansion. Reflecting the strength of new order growth, backlogs of work increased during the month, ending a two-month sequence of falling outstanding business. This occurred despite an increase in operating capacity over the period.

"Given the positive conditions reported above, it is encouraging to see that firms continued to add to headcounts in July, extending the current series of job creation to 26 months. Furthermore, the rate of increase was stronger than in June with respondents citing greater production requirements and anticipated growth in new orders as factors that had led them to take on extra staff during the month. This outturn is all the more reassuring given the apparent margin pressure within the sector at this time, with Input Costs rising for a fifth successive month, albeit at a slower pace than June, while Output Prices declined for the second consecutive month. While Euro weakness against sterling and the US dollar continues to be blamed for rising Input Costs, some raw materials were reported to have fallen in price during the month.

"Overall, the strengthening of output, new orders and employment in July gives confidence to our view that activity levels for Irish manufacturing firms are likely to pick up again in Q3 after a slower finish to Q2. While increased uncertainty over Greece is likely to have weighed on Markit's flash Eurozone composite PMI which softened to 53.7 in July, the single currency's continued weakness against both the dollar and sterling augurs well for exports to the US and UK, two critical markets for Irish exporters."

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 by company size 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.

About Investec

Investec in Ireland, a member of the Investec Group, is a leading specialist bank and wealth and investment manager in Ireland and is based in Harcourt Street, Dublin 2.The Investec Group is a leading international, specialist-banking group, with headquarters in Johannesburg, South Africa. The group was founded in 1974 and currently has approximately 8,000 employees with offices in 14 countries. Investec acquired NCB in 2012. NCB Group, now trading as Investec Securities Holdings Ireland Limited is one of Ireland's leading financial services groups, whose main activities include Stockbroking (private client and institutional), Bonds, Corporate Finance, Venture Capital Investment and International Funds Listing. Investec Group is quoted on the Johannesburg and London stock exchanges with a market capitalisation of circa £4.2bn as of 31 March 2013. Investec's three principal areas of business worldwide are Specialist Banking, Wealth and Investment and Asset Management. For more information, visit www.investec.ie.

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