Investec Manufacturing PMI® Ireland

Economics | Monthly

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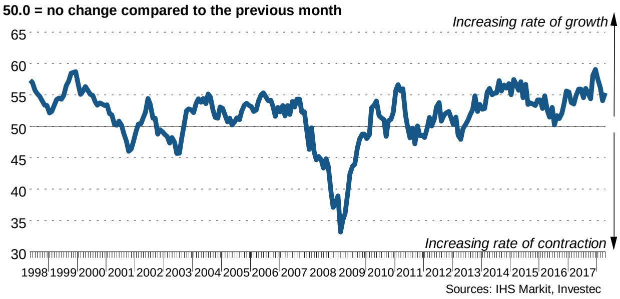
Output growth rebounds, but new orders rise at weaker pace in April

Summary:

Growth of manufacturing output rebounded from March's weather-related slowdown during April, helping lead to a stronger improvement in business conditions. On a less positive note, the rate of expansion in new orders eased for the fourth month running. Meanwhile, both input costs and output prices rose at sharper rates at the start of the second quarter.

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 55.3 in April from 54.1 in March, thereby signalling a marked and accelerated monthly improvement in the health of the sector. Business conditions have now strengthened in each of the past 59 months.

After production lines had been impacted by snow disruption in March, the rate of expansion in manufacturing output picked up markedly in April and was sharp. As well as improved weather conditions, panellists also linked production growth to higher new orders.

Although new orders continued to rise in April, the rate of expansion slowed for the fourth month in a row to the slowest since November 2016. The rate of expansion in new business from abroad also eased and was the weakest for a year-and-a-half.

With production lines back up and running, the rate of backlog accumulation was much slower in April. Outstanding business was up only marginally over the month. Meanwhile, firms continued to use inventories to help fulfil orders, resulting in a second successive monthly fall in stocks of finished goods.

The rate of job creation eased further from December's record, but remained sharp as manufacturers took on extra staff to support growth of output. Employment has now risen in 19 successive months.

Inflationary pressures strengthened in April, with both input costs and output prices rising at faster rates than in March. Where input prices increased, panellists mentioned higher costs for raw materials such as paper, steel and timber. The passing on of these higher cost burdens to customers led to a further marked increase in selling prices, and one that was the fastest for a year.

The rate of growth in purchasing accelerated to the fastest in 2018 so far as firms responded to rising new orders. Strong increases in input buying fed through to an increase in stocks of purchases, and at the joint-fastest pace since November 2014.

Rising demand for inputs and raw material shortages led to a marked lengthening of suppliers' delivery times. The deterioration in vendor performance was one of the strongest in the survey's history.

Firms generally expect output to rise over the coming year, with optimism linked to predictions of

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improving market conditions and new product launches. That said, confidence eased from March.

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 that growth of output has rebounded from March's weather-related slowdown. The headline PMI strengthened to 55.3 in April from the 12 month low of 54.1 that was recorded in March.

"The improvement in the headline PMI does not, however, map on to each of the components of the survey. New Order growth cooled to the slowest since November 2016, while New Export Orders advanced at their weakest pace since October 2016. On the latter point, Asia and Europe were seen as the strongest sources of demand in the month.

"The moderation in client demand has had a knock-on effect on other components of the report. While Backlogs of Work have increased for 12 successive months, the latest rise was only slight. Employment growth cooled to a six month low, with only one-in-seven firms adding to headcounts in April.

"On the margin side, Irish manufacturing firms signalled a further sharp increase in input costs last month, with higher raw materials prices (including paper, steel and timber) blamed for this. That inflationary pressure, in turn, has led to a strengthening in the rate of growth in output prices, to the fastest in a year, as firms seek to pass on higher costs. However, higher sales prices were not enough to prevent a deterioration in the Profitability Index, where the rate of decline has quickened to the strongest since the three months to end-March 2017.

"Notwithstanding the uptick in costs, firms stepped up their Quantity of Purchases last month. Admittedly, some of this may have been down to an element of catch-up following the snow in March. Our suspicion in this regard is driven by the rate of accumulation in Stocks of Purchases accelerating to the joint-fastest since November 2014.

"The forward-looking Future Output index cooled to its lowest for five months, although it remains well into positive territory, with around 95% of panellists saying that they anticipate output to be either the same or higher 12 months hence. With global growth at a seven year high, we think that this optimism is well-placed."

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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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