

# Investec Manufacturing PMI® Ireland



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## Manufacturing PMI rises to 25-month high

### Summary:

The Irish manufacturing sector saw growth pick-up midway through the third quarter of the year. Sharp and accelerated expansions in both output and new orders were recorded, feeding through to additional hiring and purchasing activity. Meanwhile, predictions of new product launches and further improvements in client demand supported strong optimism regarding future growth prospects.

### 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 56.1 in August from 54.6 in July. This signalled a fifty-first consecutive monthly improvement in the health of the sector, with the latest the most marked since July 2015.

Manufacturing production increased at a substantial pace during August, with the rate of expansion faster than in July. Panellists mainly linked higher output to new order growth.

The pace of increase in new business also quickened, and was the sharpest since January. Firms reported having been able to secure new customers, with some mentioning success in international markets. New export orders rose at a

marked pace, extending the current sequence of expansion to one year.

Increasing levels of new work resulted in a further build-up of outstanding business during August, although the pace of accumulation was modest. Firms often used inventories to help meet orders, leading to a sharp reduction in stocks of finished goods that was the fastest since March.

Manufacturers attempted to alleviate some pressure on capacity by taking on extra staff, the eleventh month running in which job creation has been recorded. Employment rose solidly, albeit at the weakest pace since last October.

There was also evidence of capacity pressures in supply chains as vendor delivery times lengthened to the greatest extent since April 2011. This partly reflected an accelerated pace of expansion in purchasing activity as firms raised input buying in line with higher new orders. Increasing purchasing activity fed through to an accumulation of stocks of purchases, the greatest in close to a year-and-a-half.

Strong demand for inputs also encouraged suppliers to raise their charges during August. As a result, input prices faced by Irish manufacturing firms increased sharply, and at a faster pace than in July.

Firms were often able to pass on higher input costs to their clients thanks to the strength of demand. Output prices rose at the sharpest pace since April, with some mentions of higher charges for food products.

Finally, business sentiment remained strongly positive in the sector during August, reflecting the planned launch of new products and expected

Investec Contact Details: [www.investec.ie](http://www.investec.ie) [Investec.Economics@investec.ie](mailto:Investec.Economics@investec.ie) +353 1 421 0496  
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improvements in demand from both domestic and export clients.

#### **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 conditions in the sector improved during August. Last month saw the PMI strengthen to 56.1, a 25 month high, from July's 54.6 outturn amid stronger demand from clients both at home and abroad.*

*"The data show that the rate of growth in New Orders has quickened to the fastest since January. Panellists reported an uptick in growth in New Export Orders which they linked to the securing of new customers and success in international markets. In turn, this higher demand contributed to an increase in Backlogs of Work – the fourth in as many months – despite the utilisation of inventories to meet orders (Stocks of Finished Goods depleted at their fastest pace since March).*

*"Strong demand also prompted manufacturers to add to both staffing levels, with the Employment*

*index recording an 11th successive above-50 reading, and their Quantity of Purchases, which rose at the joint-fastest pace in the current 12 month sequence of expansion.*

*"On the margin side, the rate of input cost inflation ticked up in August, led by higher raw materials costs. However, manufacturers were able to pass on at least some of this pressure by hiking output prices (as they have persistently done for 15 months now). In any event, the Profitability index shows that earnings have increased in four successive survey periods, with August's outturn the best seen since the three months to April 2015.*

*"The forward-looking Future Output index was little changed last month, with more than 90% of panellists expecting to see flat or rising output over the next 12 months. Given the improving international economic backdrop (last week we said that there was "a growing chance that the pace of global expansion will exceed 4% in 2018", from an estimated +3.6% outturn this year), we think that Irish manufacturing firms are right to be upbeat about the outlook."*

#### **For further information please contact:**

##### **IHS Markit**

Andrew Harker, Associate Director  
Telephone +44-1491-461-016  
Email [andrew.harker@ihsmarkit.com](mailto:andrew.harker@ihsmarkit.com)

Joanna Vickers, Corporate Communications  
Telephone +44-207-260-2234  
Email [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

##### **Investec**

Philip O'Sullivan, Chief Economist  
Telephone +353-1-421-0496  
Email [philip.osullivan@investec.ie](mailto:philip.osullivan@investec.ie)

Ronán Roche, The Reputations Agency  
Telephone +353-1-661-8915  
Email [ronan@thereputationsagency.ie](mailto:ronan@thereputationsagency.ie)

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The Investec Republic of Ireland Manufacturing PMI<sup>®</sup> 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<sup>®</sup> (PMI<sup>®</sup>) 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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