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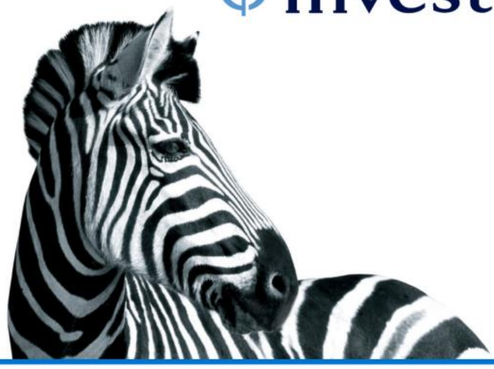

Investec Manufacturing PMI® Ireland

Economics Monthly

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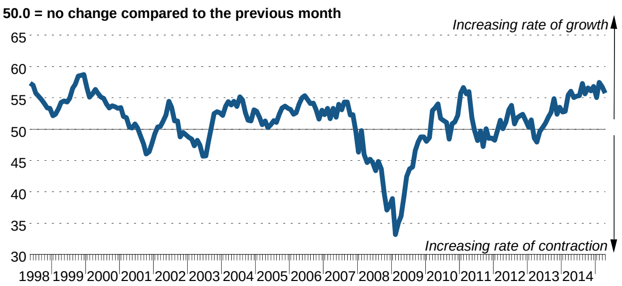
Output growth remains sharp in April

Summary:

The Irish manufacturing sector continued to see strong improvements in business conditions at the start of the second quarter of the year. Although new work increased at a slightly weaker pace, the rate of production growth picked up. The weakness of the euro continued to impart inflationary pressure on firms' costs, but this was mitigated to some extent by a first increase in output prices in 2015 so far.

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 – registered at 55.8 in April, thereby signalling a further sharp monthly improvement in business conditions. That said, the reading was down from 56.8 in the previous month and pointed to the weakest strengthening of operating conditions in three months.

The rate of expansion in manufacturing output quickened in April and was substantial. Where production increased, this was linked to strengthening client demand, with some firms specifying increased new export orders.

Data signalled growth of both total new work and new export business, although in both cases the rates of expansion were slower than seen in March. New product launches and the weakness of the euro had reportedly helped firms to secure new work. Where new export orders increased, the UK was again mentioned as a source of new business.

Rising output requirements led to another sharp rise in employment at Irish manufacturing firms. This rise in operating capacity was not sufficient to prevent a third successive monthly accumulation of backlogs of work, although the latest increase was only fractional.

Input price inflation was recorded for the second month running, again linked to the weakness of the euro against both sterling and the US dollar. Moreover, the rise in costs during April was the sharpest since September 2013. In response to higher cost burdens, firms increased their output prices, the first time in 2015 so far that inflation of charges has been recorded.

A further marked increase in purchasing activity was recorded in April, with the rate of growth little-changed from the previous month. This added capacity pressure to suppliers, resulting in another lengthening of lead times.

Modest declines in both stocks of purchases and finished goods were recorded in April. Pre-production inventories fell as inputs were used to support growth of output, while the use of finished goods to help fulfil order requirements led to a decrease in post-production inventories.

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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, notwithstanding a slight weakening in the pace of growth in April, the sector here remains in expansion mode. The headline PMI came in at 55.8 (was 56.8 in March), extending the run of above-50 readings to 23 months.

"More than twice as many firms reported rising New Orders compared to those who saw a decline. As we have seen in recent months, Irish manufacturing firms continue to benefit from new product launches and euro weakness, both of which have helped to bolster their sales. On the latter, it was no surprise to see the UK and US identified as key sources of new business.

"Increased output requirements have led Irish based manufacturing firms to continue to take on extra staff, extending the current sequence of job creation to 23 months. Despite this investment in headcounts, Backlogs of Work increased, albeit slightly, for a third successive month in April. Another sign that firms are struggling to keep up with demand is the fifth successive monthly decline in Stocks of Finished Goods.

"Turning to margins, Input Prices rose sharply for a second successive month in April, with respondents attributing this to the euro weakness noted above, which has pushed up the cost of imported inputs that are denominated in foreign currencies. A minority of firms were able to offset at least a part of this pressure by raising their Output Prices, however. Despite the currency headwind, Irish manufacturing firms' purchasing activity increased for the fifteenth successive month in April and at a slightly higher pace than that recorded in March.

"We are not particularly surprised by the slight moderation in the headline PMI. Previously published flash Eurozone PMI releases for April indicate that growth in activity across the currency union was a touch lower than in the previous month. CSO data show that 36% of Irish merchandise exports go to the countries that share the euro. Looking ahead, while manufacturing firms based in Ireland are clearly upbeat on their prospects (as evidenced by rising headcounts and purchasing activity), we are a little cautious ahead of next week's UK general election – if the outcome of that were to put sterling under pressure relative to the euro this will be unhelpful for the sector, as 16% of Irish merchandise exports go to the UK."

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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 geographically 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 32 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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