

# Investec Manufacturing PMI<sup>®</sup> Ireland



Economics Monthly

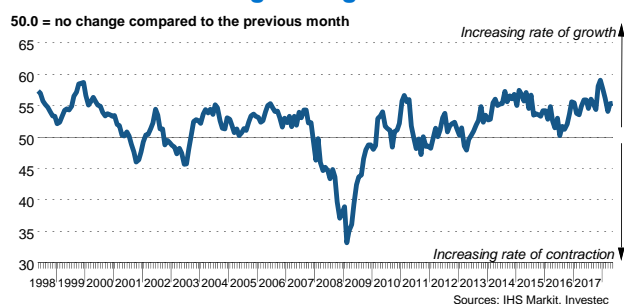
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## New order growth quickens to four-month high

### Summary:

Business conditions continued to improve markedly in the Irish manufacturing sector during May. The rate of new order growth accelerated sharply, helping to support further increases in output and employment. Meanwhile, business confidence hit a 38-month high. Inflationary pressures remained elevated, with output prices rising to the greatest extent in 13 months.

### Investec Purchasing Managers' Index<sup>®</sup>:



The seasonally adjusted Investec *Purchasing Managers' Index*<sup>®</sup> (PMI<sup>®</sup>) – an indicator designed to provide a single-figure measure of the health of the manufacturing industry – ticked up to 55.4 in May from 55.3 in April. The latest reading signalled a further marked monthly improvement in the health of the sector. Business conditions have now strengthened on a monthly basis throughout the past five years.

A key positive from the latest survey was a marked acceleration in the rate of growth in new business. New orders rose at the fastest pace since January, with some panellists mentioning strength in export markets. In line with this, the rate of expansion in new business from abroad also accelerated.

Higher new orders led manufacturers to increase production during May. The rate of expansion was

marked, but eased slightly from that seen in April. Output has now risen in each of the past 22 months.

Another accumulation of backlogs of work was also linked by panellists to higher new orders. That said, the pace at which outstanding business increased was only slight due to increased staffing levels. Employment rose for the twentieth consecutive month in May, albeit to the weakest extent since September last year.

Manufacturers noted a rise in input costs again in May, with the rate of inflation remaining sharp. Panellists often mentioned higher oil prices, with plastics and metals also reportedly costing more. Firms responded to higher input costs by raising their output prices during the month. Moreover, the rate of inflation quickened to the sharpest since April 2017.

Purchasing activity increased at the fastest pace in 2018 so far. Further strong growth of input buying continued to impart pressure on supply chains as evidenced by another substantial lengthening of delivery times. Despite delays in receiving items, stocks of purchases rose for the third month running in May.

In contrast to the picture for pre-production inventories, stocks of finished goods decreased, the third month running in which this has been the case. Panellists reported that the shipping of finished products to clients had been behind the latest decline in inventories.

Business confidence improved in May, with optimism regarding the 12-month outlook for production the strongest since March 2015. Around 58% of respondents predict a rise in output over the coming year. Confidence was linked to expectations

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of increases in new orders, often from export markets.

#### **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 overall business conditions continued to improve in the sector during May. The headline PMI ticked up to 55.4, a three month high, from April's 55.3 reading.*

*"A key positive from the latest survey was a marked acceleration in the rate of growth in New Business, which rose at its fastest pace since January amid stronger demand from both home and abroad (growth in New Export Orders recovered after a sharp moderation in April).*

*"Despite this stronger demand, Backlogs of Work rose only modestly. This was, we suspect, largely due to the utilisation of inventories to meet customer orders (Stocks of Finished Goods depleted for a*

*third successive month), as the rate of increase in the Employment index slumped to an eight month low.*

*"The report also shows that inflationary pressures remain very high for Irish manufacturers, with the latest rise in Input Costs driven by rising oil, plastics and metal prices. Companies were, however, able to pass some of this cost pressure on to end-customers, but this wasn't enough to prevent a fourth successive sub-50 reading for the Profits index.*

*"Notwithstanding this margin pressure, firms remain very upbeat on their prospects, with close to three-fifths of panellists (one of the highest shares in three years) expecting to see a rise in output over the coming 12 months. This confidence was linked to expectations of increases in New Orders, particularly from overseas. Given the supportive international backdrop, we think this optimism is warranted."*

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#### Notes on Data and Survey Methodology

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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