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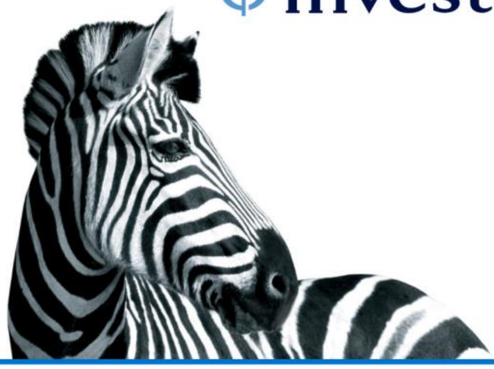
Investec Manufacturing PMI® Ireland



Economics Monthly

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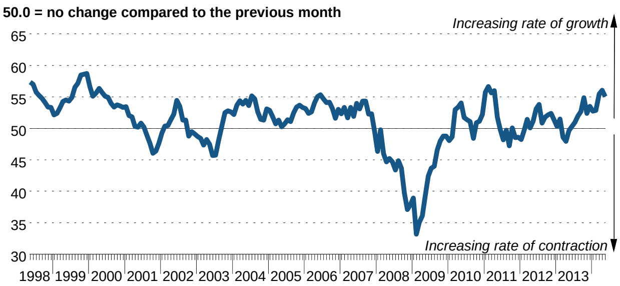
Sharpest rise in employment since December 1999

Summary:

May data signalled a further marked improvement in the Irish manufacturing sector. Solid growth of output and new orders was recorded and firms reacted to increased workloads by raising employment at the fastest pace since December 1999. The rate of input cost inflation remained only slight during the month and firms reduced their output prices again in response to strong competition.

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 – posted 55.0 in May, down from April's reading of 56.1 but still signalling a sharp monthly improvement in business conditions in the sector. Operating conditions have now strengthened throughout the past year.

Manufacturing output increased for the twelfth month running in May, with the rate of expansion remaining sharp despite slowing from that seen in April. According to respondents, higher sales had been the main factor leading production to increase.

New orders increased at a solid pace, helped by the launch of new products. The rate of growth in new export business picked up to the strongest since last October, with the UK highlighted as a key source of new orders.

Firms responded by taking on extra staff for the twelfth month running. Moreover, the rate of job creation quickened to the strongest since December 1999 and was one of the fastest in the history of the series which began in May 1998.

Higher staffing levels helped firms to reduce backlogs of work as some panellists reported having made conscious efforts to lower outstanding business. Backlogs fell marginally following a rise in the previous month.

The rate of input cost inflation remained only marginal in May. Although some firms saw a rise in raw material costs, a strengthening of the euro against the dollar had reportedly led to lower prices for imported items.

Meanwhile, output prices continued to fall amid strong competitive pressures. That said, the rate of decline eased from that seen in the previous month.

Manufacturers recorded a further solid increase in purchasing activity, extending the current sequence of expansion to four months. Greater demand for inputs and a lack of stock at suppliers led to longer vendor lead times.

Stocks of purchases were broadly unchanged, ending a two-month sequence of accumulation. Stocks of finished goods also decreased for the first

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time in three months, partly due to the delivery of products to 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 the sector expanded for a twelfth successive month in May. While the headline PMI moderated to 55.0 from April's 56.1, it nonetheless signifies another sharp monthly improvement in business conditions in the sector.

"The key highlight within today's report is the Employment component, which expanded at its fastest pace since December 1999. The latest improvement in hiring activity stems from increased workloads, with the New Orders component having recorded above-50 readings in each of the past 11 months.

"The economic improvement across Ireland's key trading partners is supportive for many of the manufacturing firms based here, and we note that some panellists credited the UK as being the main factor behind last month's acceleration in growth of New Export Orders (to the fastest pace since October). UK GDP expanded for a fifth successive quarter in Q1 2014 (+0.8% q/q), with the economy of Ireland's largest trading partner now just 0.6% below its 2008 peak.

"Other components suggest little by way of slack in the manufacturing sector. The Quantity of Purchases component rose for the tenth time in the past 12 months, while the Stocks of Purchases and Stocks of Finished Goods components both declined (albeit marginally) for the first time in three months. Elsewhere, the Suppliers' Delivery Times component showed that lead times have now increased in each of the past ten months.

"On the margin side, while input prices rose for a tenth successive month, the latest increase was only slight and chiefly driven by higher raw materials costs. Output prices declined for a fifth successive month in May. Taken together, these dynamics are unhelpful, but we would expect volume growth to outweigh margin pressure when it comes to manufacturers' net profits.

"Taken together with recent positive Services PMI and Construction PMI readings, today's Manufacturing PMI report provides a further reminder of the strong momentum across much of the private sector in Ireland."

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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 PMIs 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.