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Investec Manufacturing PMI® Ireland

Economics Monthly

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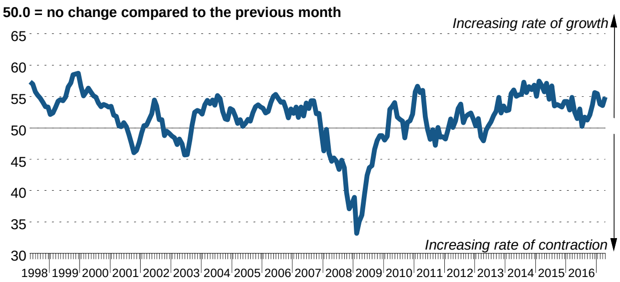
Manufacturers see fastest rise in new export orders for 21 months

Summary:

The health of the Irish manufacturing sector improved markedly during April, helped by stronger expansions in output, new orders and employment. Firms noted particular success in export markets over the month. Meanwhile, the rate of input cost inflation eased for the second month running from February's recent high, but manufacturers raised their output charges at a faster pace, encouraged by strong client demand.

Investec Purchasing Managers' Index®:



Sources: IHS 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 – rose to 55.0 in April from 53.6 in March. The reading signalled a marked improvement in the health of the sector, and the strongest in three months.

Central to the latest improvement in business conditions was a sharp and accelerated increase in new orders. Panellists suggested that export markets had been a key source of new work, with new orders from abroad rising at the fastest pace in 21 months.

This strength in export markets, and growth in new orders in general, encouraged manufacturers to increase their production during April. Output rose for the ninth month running, and at the fastest pace since January.

Stronger growth of production helped firms to reduce backlogs of work for the first time in seven months, despite marked rises in new orders. That said, the rate of depletion was marginal. Stocks of finished goods also decreased as firms delivered products quickly in response to new orders.

Manufacturers increased their staffing levels in order to support an expansion of output. The rate of job creation quickened noticeably from March and was the sharpest in the year-to-date.

The rate of input cost inflation eased for the second month running during April, but was still faster than the series average. A number of respondents linked higher input costs to increased commodity prices. While input costs rose at a weaker pace, the rate of output price inflation quickened. Moreover, the latest rise in charges was the steepest in more than six years. Panellists reported that improved client demand had enabled them to pass on higher input costs.

Stock shortages at suppliers led to a further lengthening of delivery times during April. Moreover, the latest deterioration in vendor performance was the most marked since June 2011.

Manufacturers raised their purchasing activity for the eighth consecutive month in April amid higher production requirements. The rate of expansion was

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solid and the fastest in 2017 so far. Stocks of purchases continued to fall, however.

Business sentiment dipped for the second month running and was the lowest since August last year. That said, strong confidence continued to be recorded amid expectations of further growth in new export orders.

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 release shows a bright start to Q2 for the sector, with the headline PMI rising to 55.0, a three month high, from 53.6 in March. This outturn was driven by improved market conditions both at home and abroad.

"One of the key highlights of today's release is the New Export Orders index, which indicates the fastest rate of growth in overseas orders since July 2015. Firms continue to invest in providing additional resources to meet this rising client demand, as evidenced by the Employment component of the PMI, which expanded at the second-fastest pace in the current seven month sequence of expansion in April. This increased production capacity, allied to a further depletion (the sixth in as many months) in Stocks of Finished Goods, contributed to the first decline in Backlogs of Work since last September.

"On the margin side, while the rate of increase in Input Prices slowed for a second successive month, it remains sharp. Panellists attributed the latest increase to higher commodity prices and the relative weakness of the euro against the US dollar. Some firms were, however, able to defray some of these cost pressures by hiking Output Prices (as they have done in each of the past 11 months), but this was not enough to prevent a fourth successive decline in the Profitability index.

"The forward-looking Future Output index indicates that sentiment has softened to the lowest since last August. This is a puzzling reading which conflicts with the faster growth in both hiring and purchases of inputs during April. It could be that seasonal issues are at play (unlike the other indices within the PMI, Future Output is unadjusted) here. In any event, we reiterate our view that the outlook for Irish manufacturing firms remains positive, supported by the improving international backdrop."

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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. 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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