



Investec Manufacturing PMI® Ireland



Economics Monthly

Fastest rise in new orders in the year-to-date

Growth in the Irish manufacturing sector continued to gain momentum at the end of the second quarter of the year, with output, new orders and employment all rising at sharper rates in June. On the price front, while input costs continued to increase strongly, the rate of output price inflation eased markedly amid strong competitive pressures.

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 56.6 in June from 55.4 in May. The latest reading signalled a sharp monthly improvement in business conditions, and one that was the most marked since January. The health of the sector has now strengthened in each of the past 61 months.

Central to the improvement in business conditions was a substantial increase in new orders during June. The rate of growth was the strongest in the year-to-date. Some firms reported that increases in new export orders had supported total new order growth. New business from abroad increased markedly, albeit at a slightly slower pace than in May.

Manufacturers responded to higher new orders by raising production, the twenty-third successive month of increasing output. Moreover, the rate of expansion quickened from the previous month. As well as increasing production, firms also used inventories to help satisfy orders. Stocks of finished goods decreased at a solid

pace that was the fastest in three months.

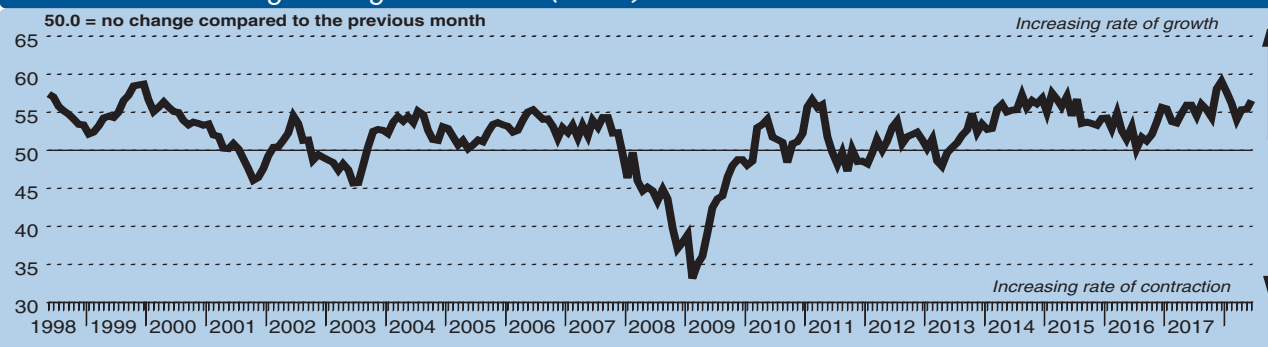
Efforts to meet customer demand encouraged manufacturers to increase their staffing levels in June, with the rate of job creation picking up from May. This added capacity did not prevent a further build-up in backlogs of work, however, given the strength of new order growth.

Input prices continued to increase at a sharp pace, albeit one that was the slowest in seven months. Panellists reported higher costs for a range of raw materials including metals, oil and plastics. While input costs continued to rise markedly, the rate of output price inflation slowed sharply during June amid competitive pressures. Where charges did increase, this was in response to higher input prices.

Irish manufacturing firms increased their purchasing activity at a substantial pace in line with higher new orders. The rate of expansion was the fastest in 2018 so far. This rise in demand for inputs, coupled with stock shortages at suppliers, resulted in longer delivery times. Stocks of purchases increased, meanwhile, but only at a marginal pace.

Business confidence remained elevated in June, despite dipping from May's 38-month high. Expectations of rising new orders, including from export markets, as well as new product launches are set to lead to increases in output over the coming year.

Investec Purchasing Managers' Index® (PMI®)



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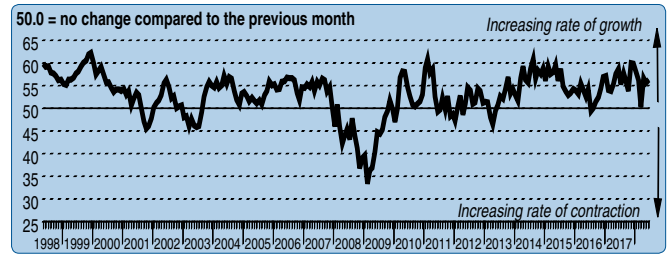
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Output Index

Q. Please compare your production/output this month with the situation one month ago.

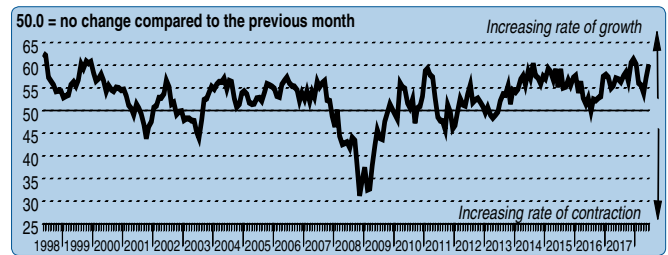
Irish manufacturing output continued to rise during June, extending the current sequence of growth to 23 months. Furthermore, the rate of expansion was sharp, having quickened slightly from the previous month. Panellists indicated that higher new orders were central to the latest increase in production.



New Orders Index

Q. Please compare the state of your new orders (in units) this month with one month ago.

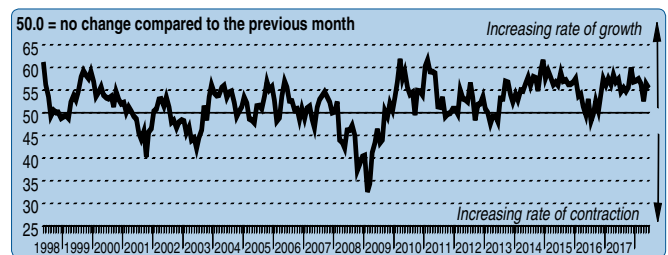
June data pointed to a substantial monthly increase in new orders at Irish manufacturing firms, with the rate of growth quickening to the fastest in 2018 so far. More than 37% of respondents signalled a rise in new business, while 13% posted a fall. Some firms linked higher total new orders to growth of new export business, while others indicated that expanded operations enabled them to deal with greater new order volumes.



New Export Orders Index

Q. Please compare the state of your new export orders (in units) this month with one month ago.

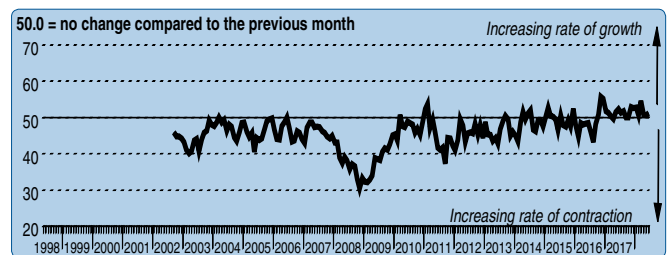
As has been the case in each of the past 22 months, new export orders increased during June. The rate of growth was marked, but eased from that seen in May. Panellists reported higher new orders from a range of export markets, including India, Russia, the UK and US. New product ranges and improved marketing contributed to increases in new business from abroad.



Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with one month ago.

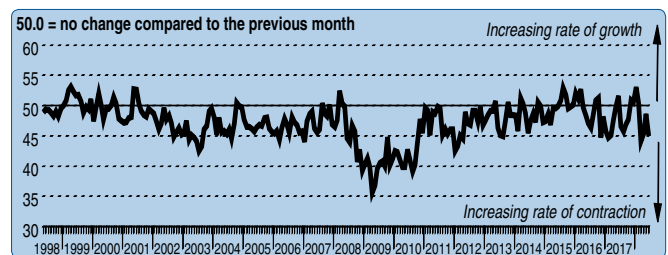
Irish manufacturing firms signalled another increase in backlogs of work during June, with respondents often attributing the rise to higher new orders. Outstanding business has accumulated in 14 successive months. Although the latest increase was slight, it was the sharpest in three months.



Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

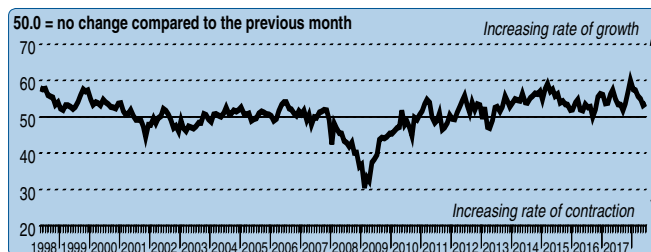
Stocks of finished goods decreased for the fourth successive month during June. Moreover, the rate of depletion was marked and the fastest since March. Some respondents linked lower inventory holdings to the shipment of finished products to customers, while others suggested that the strength of new order growth led them to use stocks to help satisfy orders.



Employment Index

Q. Please compare the level of employment at your unit this month with the situation one month ago.

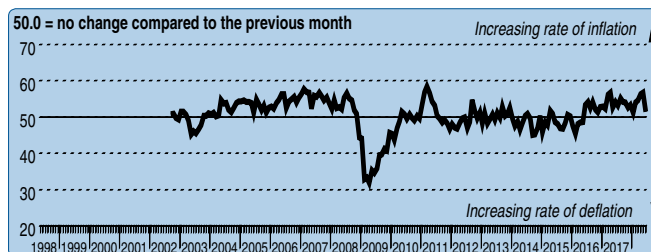
Manufacturers took on extra staff in June as part of efforts to meet customer demand. Employment increased for the twenty-first successive month. The latest rise was solid and quicker than seen in the previous month. Investment goods signalled the sharpest rise in employment of the three broad sectors covered.



Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

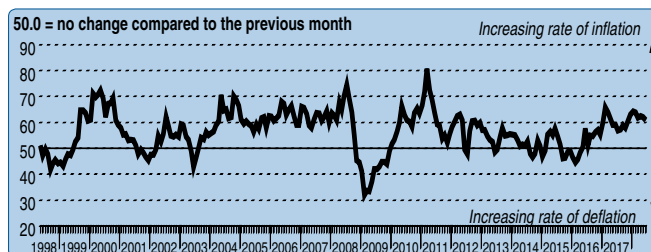
June data signalled a marked slowdown in the rate of output price inflation. After having risen at the fastest pace in 13 months during May, the latest increase was the weakest since January. While higher input costs led some firms to raise their selling prices, others reduced them in the face of strong competitive pressures.



Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

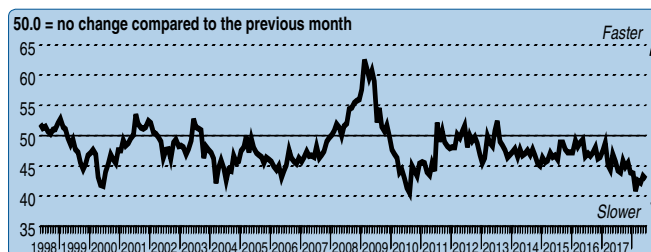
Input prices continued to increase at a sharp pace during June, albeit one that was the weakest in seven months. The rate of inflation was stronger than the series average. A number of panellists reported higher prices for metals including aluminium and steel, while higher costs for oil, plastics and timber were also mentioned.



Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

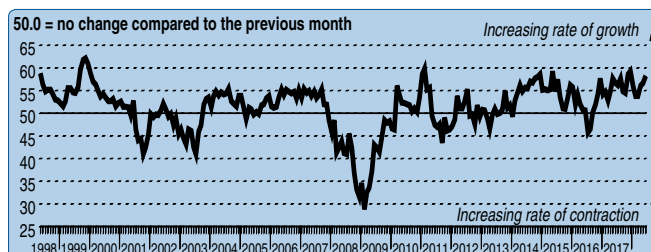
Suppliers' delivery times lengthened considerably during June, and to a greater extent than in May. Respondents indicated that strong demand for inputs and stock shortages at suppliers had been behind longer lead times. There were some reports of delays emanating from China. Around 17% of panellists saw delivery times increase, while just 1% noted an improvement in vendor performance.



Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

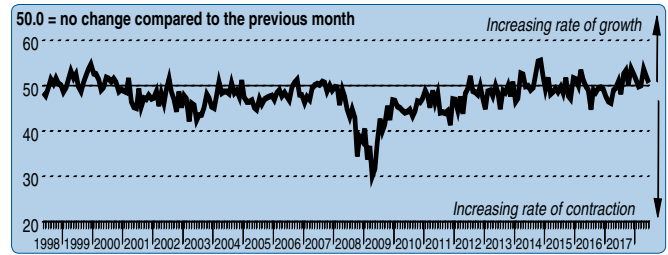
Irish manufacturers responded to increasing new orders by raising their purchasing activity during June. Moreover, the rate of expansion quickened for the third month running and was the strongest in the year-to-date. Input buying has now increased in each of the past 22 months. Investment goods producers posted the fastest rise in purchasing of the three broad sectors covered.



Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

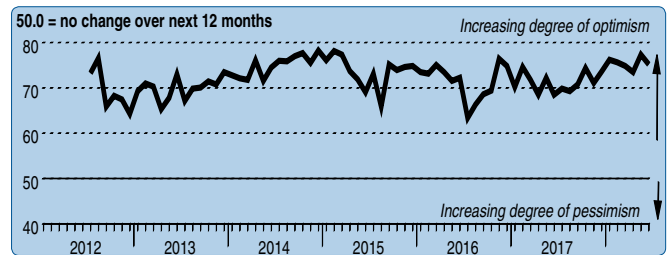
As has been the case in each of the past four months, stocks of purchases increased in the Irish manufacturing sector during June. That said, the rate of accumulation was only marginal and the slowest since March. Where pre-production inventories rose, panellists generally linked this to higher new orders.



Future Output Index

Q. Do you expect the level of business activity at your company to be higher, the same or lower than now in twelve months' time?

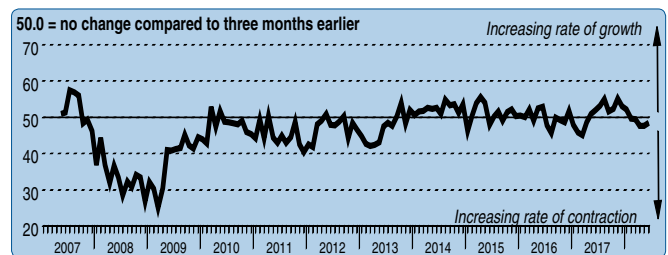
Although dipping from May's 38-month high, business confidence remained strong in June as around 55% of firms predicted a rise in production over the coming year. Expectations of increases in new orders, in some cases from export markets, supported optimism, while new product launches are also likely to lead to increases in output.



Profitability Index

Q. Please compare the profitability of your company's operations with the position three months ago.

Manufacturing profits decreased during the second quarter of 2018, extending the current sequence of declining profitability to five survey periods. That said, the rate of reduction eased to the weakest since March. Panellists reported that higher input costs was the main factor behind the latest fall in profits.



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. 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*[®] (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 PMI

Purchasing Managers' Index[®] (PMI[®]) surveys are now available for over 40 countries and also for key regions including the eurozone. They are 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.

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Price Changes / Supply Shortages

(as reported by purchasing managers in June)

Key to 1992 Manufacturing SIC codes, as used in the following tables

Prices on this page refer to the prices paid by Irish purchasing managers for items purchased by their manufacturing unit. The 1992 standard industry classification (SIC) codes of the companies that reported the changes are shown. For example, under the heading 'Metals' in the Items Up in Price table, Nickel was reported to be up in price by companies in the Fabricated Metal Products sector (SIC 28). Where an item has been reported up or down in price, or in short supply, the

number of consecutive months for which that item is listed relates to the number of months that any company in any industry has reported that item. Please note that sometimes items may be listed as having both risen and fallen in price in the same month. This may reflect differences in the sourcing of items by different companies (e.g. a difference between domestic and import prices), or variations in quantities purchased or other factors.

| | | | | | |
|-------|---|----|---|-------|--|
| 15/16 | Food, drink & tobacco manufacturing | 23 | Coke, petroleum and fuel manufacture | 30 | Office machinery & data processing equipment |
| 17 | Textile industry | 24 | Chemical Industry | 31 | Electrical machinery |
| 18 | Wearing apparel | 25 | Rubber & plastic products | 32 | Radio, television, and communication equipment |
| 19 | Leather & leather products | 26 | Non-metallic mineral products | 33 | Optical equipment |
| 20 | Wood & wood products | 27 | Basic metal manufacturing | 34 | Motor vehicle & parts |
| 21 | Pulp, paper & paper products | 28 | Fabricated metal products | 35 | Other transport equipment |
| 22 | Printing, publishing & reproduction of recorded media | 29 | Machinery & equipment not specified elsewhere | 36/37 | Other manufacturing |

Items in Short Supply

(with 1992 SIC shown for the industries reporting a change)

| | | | | | |
|-------------------------------|------------|--------------------------------|------------|-------------------------------------|------------|
| Metals | SIC | Chemicals | SIC | Miscellaneous | SIC |
| Stainless Steel | 28 | Carbon Dioxide | 15 | Float Glass - 2nd consecutive month | 26 |
| Steel - 7th consecutive month | 29 | | | Hydraulic Components | 29 |
| | | Paper/Timber | SIC | | |
| Electrical/Electronic | SIC | Timber | 20 | | |
| Capacitors | 32 | | | | |
| Electrical Products | 29 | Food | SIC | | |
| | | Butter - 6th consecutive month | 15 | | |

Items Down in Price

(with 1992 SIC shown for the industries reporting a change)

| | | | | | |
|-----------------------------------|------------|---------------|------------|----------------------|------------|
| Chemicals | SIC | Food | SIC | Miscellaneous | SIC |
| Calcium | 15 | Sugar | 24 | Dollar | 36 |
| Vitamin A - 2nd consecutive month | 15 | | | | |
| Vitamin B5 | 15 | Energy | SIC | | |
| Vitamin D | 15 | Energy | 21 | | |

Items Up in Price

(with 1992 SIC shown for the industries reporting a change)

| | | | | | |
|---|------------|--------------------------------|------------|--|------------|
| Metals | SIC | Plastics | SIC | Energy | SIC |
| Aluminium - 8th consecutive month | 28 | Polyamide (PA66) | 25 | Diesel - 2nd consecutive month | 26 |
| Cobalt | 15 | Polycarbonate | 25 | Electricity | 26 |
| Copper | 32 | PVC - 2nd consecutive month | 28, 33 | Energy - 3rd consecutive month | 24, 28 |
| Metals - 2nd consecutive month | 20 | | | Fuel - 3rd consecutive month | 28, 36 |
| Nickel - 6th consecutive month | 28 | Paper/Timber | SIC | Natural Gas | 24 |
| Steel - 20th consecutive month | 20, 28, 29 | Board - 8th consecutive month | 28 | | |
| | | Cardboard Boxes | 33 | Miscellaneous | SIC |
| Metal Manufactures | SIC | Pallets | 20 | Bags | 20 |
| Steel Products | 28 | Paper - 16th consecutive month | 21, 22 | Building Materials | 29 |
| | | Timber - 6th consecutive month | 20 | Carriage | 22 |
| Electrical/Electronic | SIC | | | Components | 29 |
| Capacitors | 32 | Packaging | SIC | Corrugated Materials - 7th consecutive month | 33 |
| Electronic Components - 2nd consecutive month | 32 | Cartons | 22, 33 | Furniture | 20 |
| | | Euro Pallets | 20 | Materials | 36 |
| Chemicals | SIC | | | Plasterboard - 2nd consecutive month | 20 |
| Bitumen - 2nd consecutive month | 26 | Textiles/Fabrics | SIC | Raw Materials - 4th consecutive month | 25 |
| Carbide | 28 | Fabric | 24 | Sheet Materials - 7th consecutive month | 20 |
| Lacquer - 2nd consecutive month | 20 | | | Transport - 4th consecutive month | 20, 36 |
| Paracetamol - 2nd consecutive month | 24 | Food | SIC | | |
| Phosphates | 24 | Barley | 15 | | |
| Sodium Hydroxide - 6th consecutive month | 24 | Butter | 15 | | |
| Titanium Dioxide - 3rd consecutive month | 24 | Protein | 15 | | |

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