

Investec Manufacturing PMI® Ireland



Economics Monthly

New order growth quickens to four-month high

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.

The seasonally adjusted Investec Purchasing Managers' Index® (PMI®) – 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.

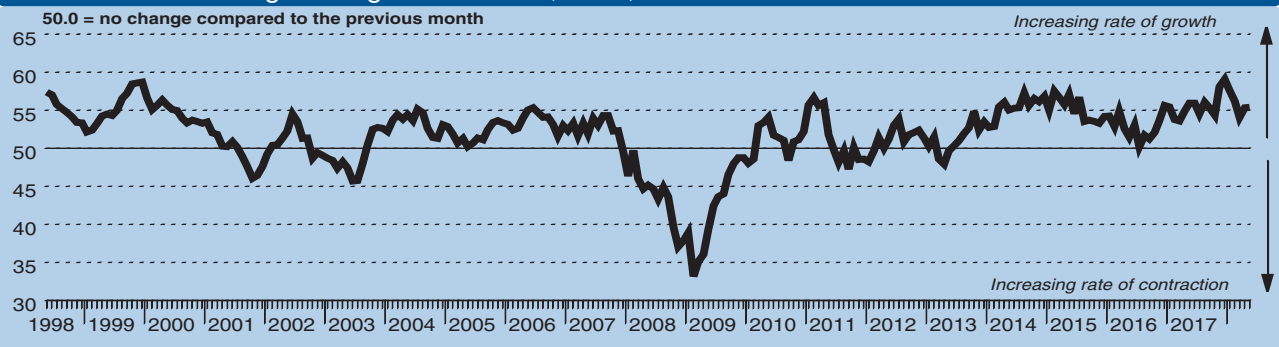
Manufacturers noted a rise in input costs again in May, with the rate of inflation remaining sharp. Panellists often mentioned higher oil prices, with plastics and metals also reportedly costing more. Firms responded to higher input costs by raising their output prices during the month. Moreover, the 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 of increases in new orders, often from export markets.

Investec Purchasing Managers' Index® (PMI®)



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.

T: +353-1-421-0496

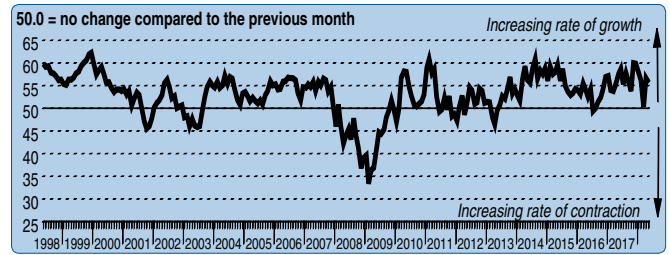
E: Investec.Economics@investec.ie

W: www.investec.ie

Output Index

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

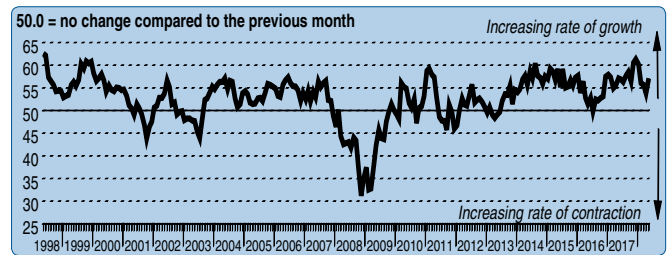
Irish manufacturing output rose sharply again during May. After rebounding in April, the rate of expansion eased slightly in the latest survey period, but remained above the series average. Panellists mainly linked the rise in production to higher new orders. The investment goods sector posted the fastest rise in output.



New Orders Index

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

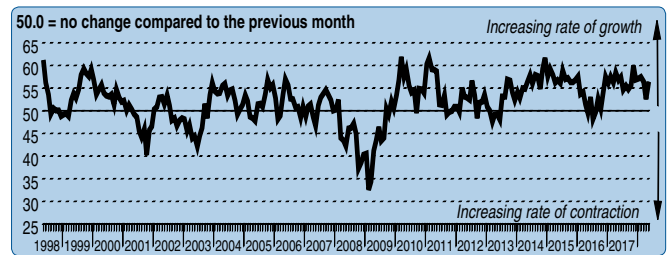
May data pointed to a sharp and accelerated monthly increase in new orders at Irish manufacturing firms. The rate of growth was the fastest since January. New business has now expanded in each of the past 21 months. Some panellists highlighted the impact of new export orders on total new business.



New Export Orders Index

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

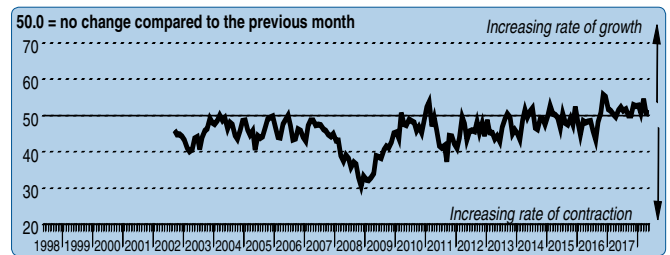
The rate of expansion in new export orders rebounded in May, after having slowed to an 18-month low in April. New business from abroad rose sharply, and extended the current sequence of growth to 22 months. Panellists indicated that the launch of new products and entry into new markets had contributed to the rise in new export orders.



Backlogs of Work Index

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

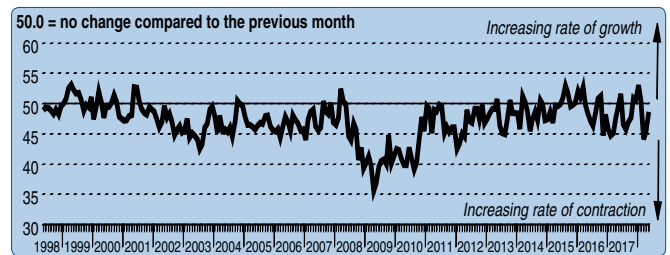
Irish manufacturing firms registered another monthly increase in backlogs of work during May. That said, the rate of accumulation was slight, and eased to the joint-weakest in the past seven months. Where outstanding business increased, respondents linked this to higher new orders. On the other hand, some panellists indicated that higher staffing levels enabled them to work through backlogs.



Stocks of Finished Goods Index

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

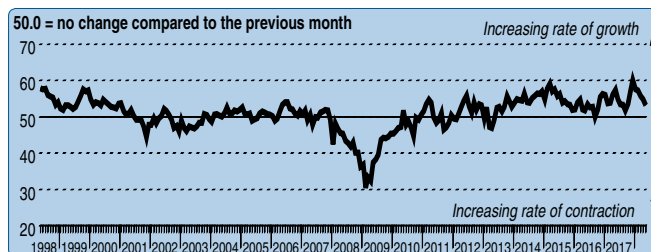
Stocks of finished goods decreased for the third successive month in May. That said, the rate of depletion was only modest and the weakest in the current sequence of falling inventories. According to respondents, the shipping of finished products to customers resulted in a reduction in warehouse holdings.



Employment Index

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

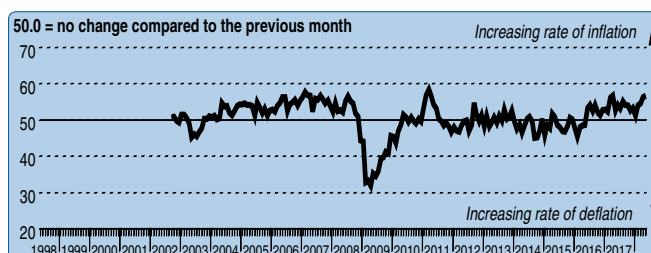
As has been the case in each of the past 20 months, employment increased during May. Although solid, the rate of job creation eased for the fifth month running and was the slowest since September last year. Respondents indicated that higher staffing levels mainly reflected increased output requirements. All three broad sectors saw employment rise, led by investment goods.



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.

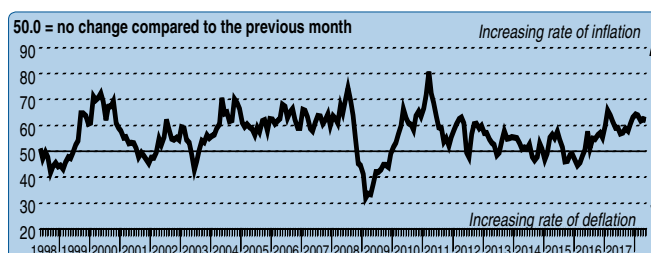
The rate of output price inflation accelerated in May, the fourth month running in which this has been the case. As a result, prices charged increased to the greatest extent since April 2017. Around 18% of panellists reported a rise in output prices, which they attributed to the passing on of higher input costs to customers. On the other hand, just 3% of respondents lowered charges.



Input Prices Index

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

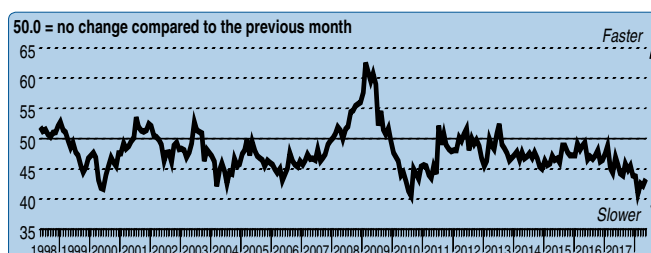
Input costs continued to rise at a substantial pace in May, with the rate of inflation only slightly lower than seen in April. The latest increase was sharper than the series average. Rising oil prices were mentioned by panellists, with this also feeding through to higher costs for plastics. There were also reports of metals being up in price over the month.



Suppliers' Delivery Times Index

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

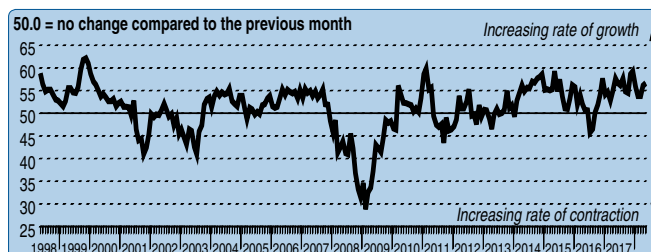
May data pointed to a further sharp lengthening of suppliers' delivery times, linked by respondents to difficulties in sourcing raw materials and strong demand for inputs. That said, the rate of deterioration in vendor performance eased to the weakest in four months. More than 14% of panellists reported longer delivery times, against 2% that saw them shorten.



Quantity of Purchases Index

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

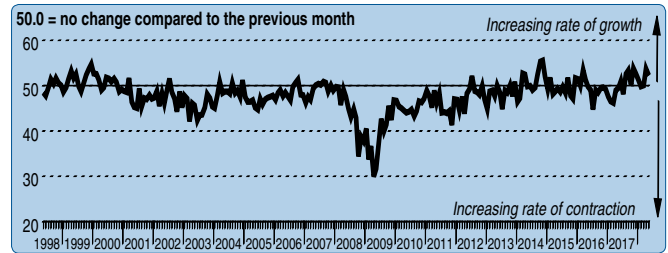
Purchasing activity increased considerably during May, with the rate of expansion picking up to the fastest in the year-to-date. Input buying has now risen in each of the past 21 months. Growth of purchasing was registered across each of the three broad sectors monitored, led by investment goods producers.



Stocks of Purchases Index

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

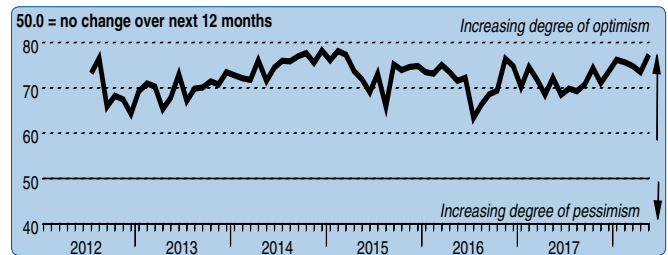
Increasing client demand encouraged manufacturers in Ireland to increase their holdings of pre-production items in May. Stocks of purchases rose for the ninth time in the past ten months, the only exception being a pause in February. That said, the latest accumulation was weaker than that seen in April.



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?

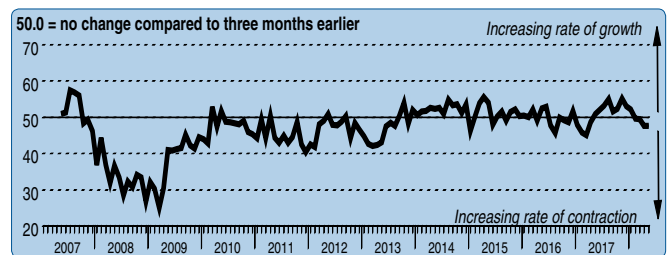
Manufacturers were strongly optimistic that output will rise over the coming 12 months. Moreover, May saw sentiment improve to the strongest in 38 months. Higher new orders and stronger new export business were the main factors contributing to optimism. Approximately 58% of panellists predicted output to be higher than current levels in 12 months' time.



Profitability Index

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

Manufacturing profitability continued to deteriorate over the three months to May, extending the current sequence of falling profits to four survey periods. The pace of decline was broadly in line with that seen in April. Anecdotal evidence suggested that rising input costs were behind the reduction 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.

Tel: +44 1491 461000

e-mail: economics@ihsmarkit.com

Website: <https://ihsmarkit.com/products/pmi.html>

Price Changes / Supply Shortages

(as reported by purchasing managers in May)

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, Aluminium 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	Paper/Timber	SIC
Brass	28	Caffeine	24	Board - 2nd consecutive month	21
Bronze	28				
Steel - 6th consecutive month	29	Plastics	SIC	Food	SIC
		Engineering Plastics	25	Butter - 5th consecutive month	15
		Silicone	33		
Electrical/Electronic	SIC			Miscellaneous	SIC
Electronic Components - 5th consecutive month	29			Containers - 2nd consecutive month	21
				Float Glass	26

Items Down in Price

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

Chemicals	SIC	Vitamin D3	15
Casein	15	Vitamin E	15
Vitamin A	15		

Items Up in Price

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

Metals	SIC	Plastics	SIC	Energy	SIC
Aluminium - 7th consecutive month	28	Engineering Plastics	25	Diesel	26
Copper Alloy - 2nd consecutive month	28	Plastic - 6th consecutive month	24	Energy - 2nd consecutive month	21
Lead - 2nd consecutive month	28	Polyamide	33	Fuel - 2nd consecutive month	26, 28, 35
Metals	20, 28	Polyethylene	33	Gas	24
Nickel - 5th consecutive month	28	PVC	28		
Stainless Steel	28			Miscellaneous	SIC
Steel - 19th consecutive month	20, 24, 28, 29, 36	Paper/Timber	SIC	Aggregates	26
		Board - 7th consecutive month	28	Contract Labour - 3rd consecutive month	21, 24, 26, 28
Electrical/Electronic	SIC	Pallet Timber	26	Corrugated Materials - 6th consecutive month	33
Electronic Components	29	Paper - 15th consecutive month	22	Ink	21
Hardware	20	Timber - 5th consecutive month	20, 36	Insurance - 3rd consecutive month	28
Memory	29	Wood Pallets	24	Plasterboard	20
				Raw Materials - 3rd consecutive month	21, 28
Chemicals	SIC	Food	SIC	Sheet Materials - 2nd consecutive month	20
Bitumen	26	Carrot	15	Transport - 3rd consecutive month	20, 21, 24, 28
Chemicals - 2nd consecutive month	36	Cheese (Cheddar)	15		
Lacquer	20	Milk Powder (Skimmed)	15		
Paracetamol	24	Whole Milk Powder	15		
Sodium Hydroxide - 5th consecutive month	24				
Titanium Dioxide - 2nd consecutive month	24				

Disclaimer

Investec Bank plc (Irish branch) ("Investec") has issued and is responsible for production of this publication. Investec Bank plc (Irish Branch) is authorised by the Prudential Regulation Authority in the United Kingdom and is regulated by the Central Bank of Ireland for conduct of business rules. Investec Bank plc is a member of the London Stock Exchange and the Irish Stock Exchange.

This publication should be regarded as being for information only and should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments, securities or any derivative instrument, or any other rights pertaining thereto (together, "investments"). Investec does not express any opinion as to the present or future value or price of any investments referred to in this publication. This publication may not be reproduced without the consent of Investec.

The information contained in this publication has been compiled from sources believed to be reliable, but, neither Investec, nor any of its directors, officers, or employees accepts liability for any loss arising from the use hereof or makes any representations as to its accuracy and completeness. The information contained in this publication is valid as at the date of this publication. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the matters discussed herein.

This publication does not constitute investment advice and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments or pursuing any investment strategies. Investec operates exclusively on an execution only basis.

An investment in any of the investments discussed in this publication may result in some or all of the money invested being lost. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any investments, the reader is warned that forecasts are not a reliable indicator of future performance. The value of any investments can fall as well as rise. Foreign currency denominated investments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such investments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

Investec (or its directors, officers or employees) may to the extent permitted by law, own or have a position in the investments (including derivative instruments or any other rights pertaining thereto) of any issuer or related company referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such investments or financial transactions.

Investec's conflicts of interest policy is available at <http://www.investec.ie/legal/uk/conflicts-of-interest.html>

The intellectual property rights to the Republic of Ireland Manufacturing PMI[®] provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Investec use the above marks under license. IHS Markit is a registered trade mark of IHS Markit Limited and/or its affiliates.

This document is not intended to be and must not be construed as an offer to buy or sell stocks or shares.

It may not be reproduced in whole or in part or passed to third parties without permission.