

Industrial Production (April)

Thursday, 10 June 2010

The seasonally-adjusted volume of total industrial output for the three month period February to April 2010 was up an impressive 7.9% compared to the preceding three month period. Meanwhile, there was an even bigger rise of 8.5% in manufacturing over the same time span. However, on an annual basis, manufacturing output was down 2.7% in the year in April and total industrial production was 2.9% lower.

Manufacturing output for 2009 was 3.5% lower on average than in 2008, the second year running of a decline in output while total industrial production was down 3.9% on the previous year. In overall terms, the figures for 2009 weren't too bad all things considered, even though it was the 'multi-national' sector that was once again the main output driver. But, things appear to be improving, with manufacturing output in the first four months of 2010 up 5.8% on average on the same period last year, while total production was 4.9% higher. Given the positive start to 2010, there is every chance that we will see a healthy average increase in manufacturing output for the year as a whole.

The "Modern" sector, comprising a number of high-technology and chemical industries, showed a year-on-year fall in production for April of 2.6%, while the "Traditional" sector posted an annual decline of 3.4%. Quite clearly, indigenous industries are still suffering from the sluggish UK economy and weak sterling, but currency developments are now turning more favourable. We are still looking for the pound to appreciate to 0.80 (or possibly lower) by year-end, which would be a welcome development for Ireland's indigenous sector.

The recovery in external demand seems set to be complemented by the improving competitiveness of Irish manufacturers/exporters—the lowering of the cost base arising from the decline in wages and prices across the economy is expected to place Ireland in a very favourable position to benefit from the recovery in trade flows. However, the expected rebound in output/exports may be held back somewhat by sector-specific effects. For instance, the chemicals sector, which accounts for around half of overall Irish merchandise exports, is expected to face somewhat limited upside potential amid the recovery in world trade in view of the slightly acyclical nature of demand for its output.

That said, the omens for the overall manufacturing sector look good going forward, with the latest Purchasing Managers index for May showing a third successive positive reading above the 'neutral' 50 level. March was the first time in 28 months that the Manufacturing PMI pointed to growth in the sector.

Given the pick-up in global demand anticipated this year and the consequent positive outlook for exports, Irish manufacturing output is projected to increase by over 5% on average in volume terms in 2010. Encouragingly, the "Traditional" sector looks set to make a positive contribution as the year goes on, reaping the benefits of stronger sterling and the significant cost adjustments made over the past twelve months or so.

(Index 2005=100) S.A.	Total Manufacturing	% Change Month	% Change Year	All Industries S.A.	% Change Month	% Change Year
2009 April	103.6	-2.1	4.5	103.3	-1.6	3.5
2010 February	112.1	-1.7	10.5	110.7	-1.3	9.0
2010 March	114.3	2.0	8.3	112.6	1.7	7.5
2010 April	100.8	-11.8	-2.7	100.3	-10.9	-2.9

Alan McQuaid 10/6/10

Written by Alan McQuaid.

Direct Tel: +353 (0)1 611 9226

E-Mail: mcquaida@bloxham.ie

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