

Today sees the release of May data from the Ulster Bank Northern Ireland PMI[®]. The latest report – produced for Ulster Bank by Markit – signalled returns to growth in both output and new orders during May amid reports of improved market conditions. Firms continued to take on extra staff as a result. Meanwhile, the rate of cost inflation accelerated to the sharpest seen in 2015 so far.

Commenting on the latest survey findings, Richard Ramsey, Chief Economist Northern Ireland, Ulster Bank, said:

“The latest survey offers encouragement, after a disappointing start to the year, with firms now reporting a significant improvement in business conditions. Indeed, Northern Ireland’s private sector reported its fastest rate of growth in business activity and new orders during May in seven months. Furthermore, firms have continued to increase their staffing levels at a faster rate than the long-term average prior to the downturn.

“Despite these encouraging signs, it is noted that the pace of Northern Ireland’s recovery continues to lag behind the UK as a whole, and most of the UK regions, in all of these measures. The headline indicators also conceal significant variation in performance by sector, and indeed within certain markets. Northern Ireland’s recovery in new orders is linked to increased demand within the UK market, as the strength of sterling vis-à-vis the euro continues to present a challenge for those exporting into the Eurozone. Indeed, export orders fell for the fifth month in a row in May and have now been flat or falling since October 2014.

“The manufacturing sector is the brightest spot in the May survey, posting a fourth successive monthly rise, and the fastest in seven months. Services also performed relatively strongly, with its fastest rate of growth since the end of last year. The same cannot be said

for the construction and retail sectors though, with construction experiencing a third month of falling output, and retail posting the weakest reading of all sectors, and its ninth consecutive monthly decline.

“When it comes to more forward-looking indicators, new business activity gives some encouragement for the months ahead, with new orders rising at their quickest rate in seven months. Looking under the headline figure tells us that there is significant variation across the sectors. Manufacturing orders in particular are accelerating strongly – indeed well above their long-term pre-2008 average – whilst new orders in the services sector rebounded in May, with growth at a four-month high. Retail orders though contracted for the eighth month, and the construction sector posted a third successive month of declining new orders. Worryingly, this was the local construction sector’s weakest reading for new orders in over two years.

“Despite this, construction and retail both saw employment levels rising, whilst services employment grew for the 24th month, and manufacturing employment growth was at a seven month high, well above its long-term average rate.

“Overall, with the Northern Ireland economy experiencing a range of challenges, notably an unfavourable euro exchange rate and public spending cuts, as well as considerable uncertainty ahead, the latest Ulster Bank PMI provides some comfort in relation to the resilience of the local private sector. It remains to be seen what the full extent of public spending cuts on the private sector will be and how long growth can be sustained.”

The main findings of the May survey were as follows:

Solid growth of output

The headline seasonally adjusted Business Activity Index rose back above the 50.0 no-change mark in May, posting 52.7 following a reading of 49.1 in April. Moreover, the rate of expansion in activity signalled by the index was solid and the fastest since last October. The overall increase in output was driven by the manufacturing and service sectors. New business also rose solidly in May following a reduction in the previous month. In contrast, new business from abroad decreased, largely reflective of the strength of sterling against the euro.

Further rise in employment

With new orders returning to growth in May, companies continued to increase their staffing levels during the month. All four monitored sectors posted increases in staffing levels. This increase in operating capacity helped firms to keep on top of workloads despite a rise in new work. Backlogs fell in May, albeit at a marginal pace that was the slowest since last October.

Cost inflation picks up

The rate of input price inflation continued to quicken during May and was the sharpest seen in 2015 so far. The rise in input costs was also faster than the UK average. The sharpest increase in input costs was seen at service providers. Although input prices increased, Northern Ireland firms lowered their charges. However, the rate of decline in output prices was only marginal and the slowest since September 2014.

You can view and download the full report, along with audio clips with Richard Ramsey and a slide pack [here](#).

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