

Today sees the release of December data from the Ulster Bank Northern Ireland PMI®. The latest report – produced for Ulster Bank by IHS Markit – signalled faster rises in output and new orders at the end of 2017. The marked expansion in new orders resulted in a build-up of backlogs of work and stronger job creation. Rates of both input cost and output price inflation remained elevated, despite easing from November.



Northern Ireland's private sector ended 2017 on a high. That's according to Ulster Bank's latest PMI survey for December. Private sector output and export orders both recorded their fastest rates of growth in a year. Meanwhile order books as a whole – i.e. UK demand alongside exports – expanded at their fastest rate in forty months. The latter bodes well for further growth in business activity and employment opportunities in 2018. Local firms, most notably manufacturers, are benefiting from a pick-up in the global economy and the enhanced price-competitiveness resulting from sterling's weakness. Retailers have also been benefiting from the exchange rate via increased cross-border trade. Despite robust

demand though, it is interesting to note that retail was the only sector not to report increased staffing levels in the latest survey. Arguably this reflects a degree of nervousness with regard to the expected squeeze on consumer spending. Construction, on the other hand, reported the fastest rates of job creation and business activity accelerated to a 22-month high. Meanwhile, services saw new orders rise at the fastest rate in 21-months, though the rate of job creation in the sector eased slightly.

Looking at last year's business performance as a whole – output, orders and employment growth increased in 2017 at their fastest rate in three years. Export orders matched 2016's growth rate which was a 12-year high. Inflationary pressures continued to pose a challenge for firms with input cost inflation hitting a six-year high in 2017. As a result, firms raised the prices of their goods and services at a record rate last year. In terms of the sectoral performance, firms in the construction, services and manufacturing sectors reported their fastest rate of growth in output in three years in 2017. Retailers reported the fastest rate of growth in 2017 since the survey began.

Whilst the PMI shows the Northern Ireland private sector moving into 2018 on a relatively strong footing, the same cannot be said for the public and third sectors, with government cuts impacting significantly on both. Furthermore, the private sector faces a number of challenges in 2018 at both a local and global level. With regard to the former, the cost of living squeeze, alongside what happens with Brexit, will be to the forefront of many business owners' minds. At a global level, the fact that politics remain unpredictable, including in the US, the Middle East and North Korea, could act to dampen the strong economic growth that we have seen.

The main findings of the December survey were as follows:

The headline seasonally adjusted Business Activity Index ended 2017 with its highest

reading of the year, posting 56.9 in December from 54.3 in November. The sharp expansion in output was faster than the UK average. There were some reports that promotional activity had helped companies to secure new work, thereby boosting activity. The rate of expansion in new orders accelerated to a 40-month high in December, with new business up substantially. New export orders also rose at a faster pace as sterling weakness helped firms to secure new business from the Republic of Ireland. The increase in new business from abroad was the strongest recorded in 2017.

New order growth led to another monthly rise in outstanding business, the sixth in as many months. Moreover, the rate of accumulation was the strongest since May 2014. Rising workloads encouraged companies to increase their staffing levels, and at a faster pace.

Input prices continued to increase sharply, albeit at a slower rate than in November. Currency weakness remained a key factor leading input prices to rise, while higher costs for staff and raw materials were also mentioned. Output price inflation was recorded again at the end of the year as companies reacted to higher cost burdens. Optimism among companies in Northern Ireland strengthened to a three-month high as close to 35% of respondents predicted an increase in output over the coming year.

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