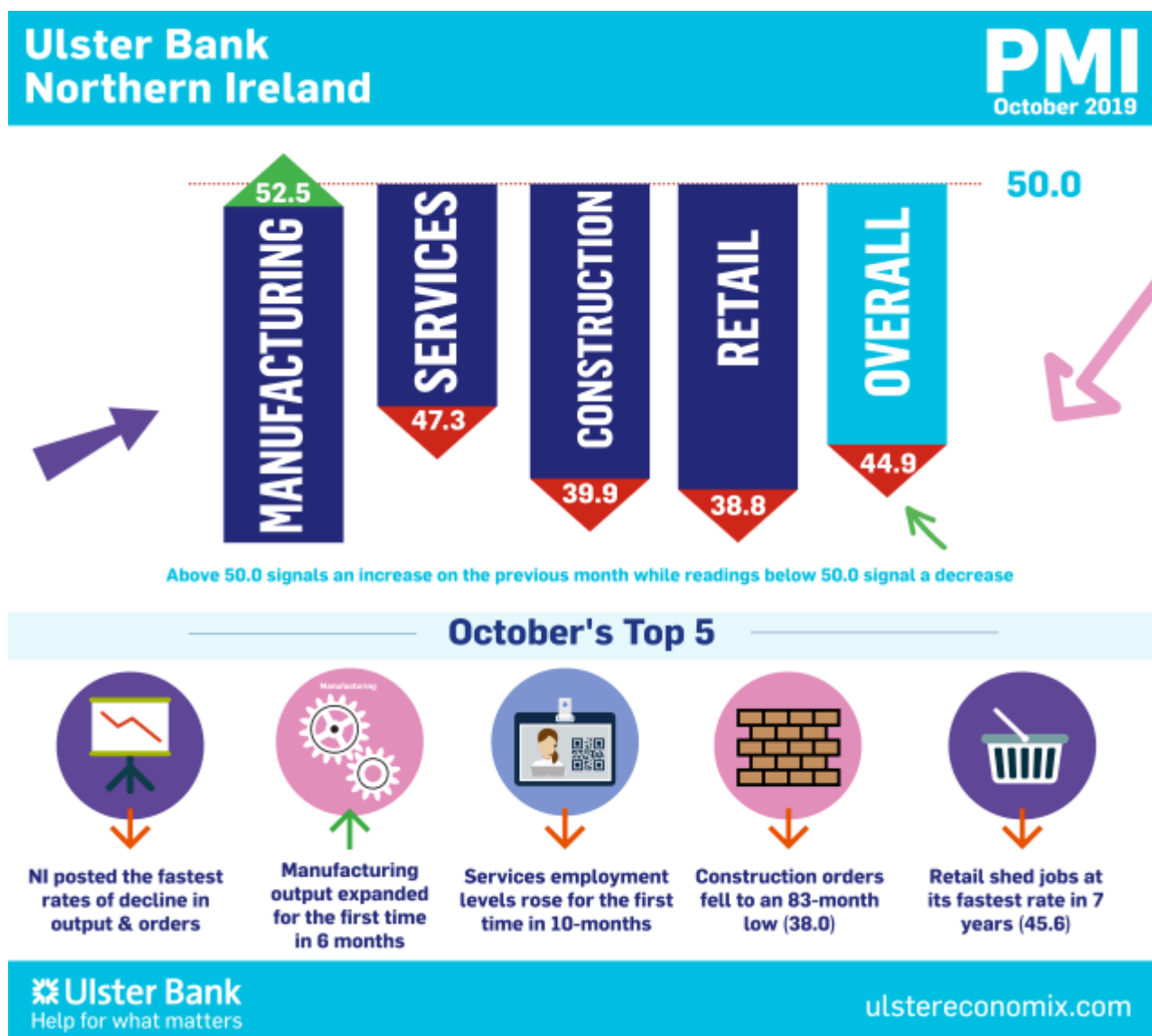


Today sees the release of October data from the Ulster Bank Northern Ireland PMI®. The latest report – produced for Ulster Bank by IHS Markit – indicated that the Northern Ireland private sector remained in contraction. Business activity, new orders and employment all decreased over the month, albeit at softer rates than in September. Meanwhile, inflationary pressures also moderated.



Northern Ireland's private sector has started the fourth quarter the way it ended the third, with business conditions deteriorating. However, the pace of decline in output, new orders, employment, exports and future output expectations all eased in October relative to September. Nevertheless, the picture painted by local businesses remains a rather gloomy one. Output, exports and employment have now been falling for eight, nine and 10 months respectively. Northern Ireland remains rooted to the bottom of the regional league table for output and orders. Furthermore, local firms continue to see their input costs rise at faster rates than anywhere else in the UK.

At a sector level, there was some modest improvement for manufacturing and services with a return to positive growth in some areas. For instance, manufacturing output expanded for the first time in six months and the rapid decline in orders appears to be levelling-off. Meanwhile services firms increased headcount, albeit marginally, for the first time in 10 months, with businesses more optimistic about output growth in a year's time.

Context is important here, as manufacturing's improvement is coming off the weakest quarter (Q3) in 10½-years. Similarly, the improvements cited by service sector firms follow multi-year lows. It remains to be seen whether these latest improvements are sustained.

The environment for construction and retail remains even more challenging. Both sectors saw the pace of contraction accelerate across a number of indicators, with retail reporting the fastest rates of decline amongst all sectors in terms of output/sales, orders and employment. Retailers have reported falling sales throughout 2019 with orders falling in October at their fastest pace in almost 8½-years. This is feeding through to employment with staffing levels falling at their fastest rate in seven years. These findings chime with incoming news on new car sales and demand for retail property. All of which point to subdued consumer confidence.

Looking ahead, Northern Ireland remains the only UK region where firms expect output to be lower in twelve months' time. However, firms are significantly less pessimistic than they were in September. Last month's Brexit deal has done little to reduce the high degree of uncertainty facing businesses. With election fever now gripping the country, political uncertainty and business uncertainty will loom large in 2020.

**The main findings of the October survey were as follows:**

The headline seasonally adjusted Business Activity Index posted 44.9 in October, up from 43.6 in September but still pointing to a marked monthly reduction in output across the private sector. Activity has now decreased in each of the past eight months, with Brexit uncertainty again the most widely mentioned factor leading to the latest decline.

New orders continued to fall at a sharp pace, with clients reportedly reluctant to commit to new projects amid ongoing Brexit uncertainty. Meanwhile, the rate of contraction in new export orders remained substantial, despite softening from the more than eight-year record posted in September.

As has been the case in each month of 2019 so far, staffing levels decreased in October. That said, the rate of job cuts was slight and the weakest since February. Input prices continued to rise sharply, due to currency weakness and higher staff costs, but the rate of inflation was at a five-month low. Output prices, meanwhile, rose at the softest pace since April. On balance, firms remained pessimistic regarding the 12-month outlook for output, the only UK region for which this was the case. That said, sentiment improved from the position in September, with service providers expecting business activity to rise over the coming year.

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