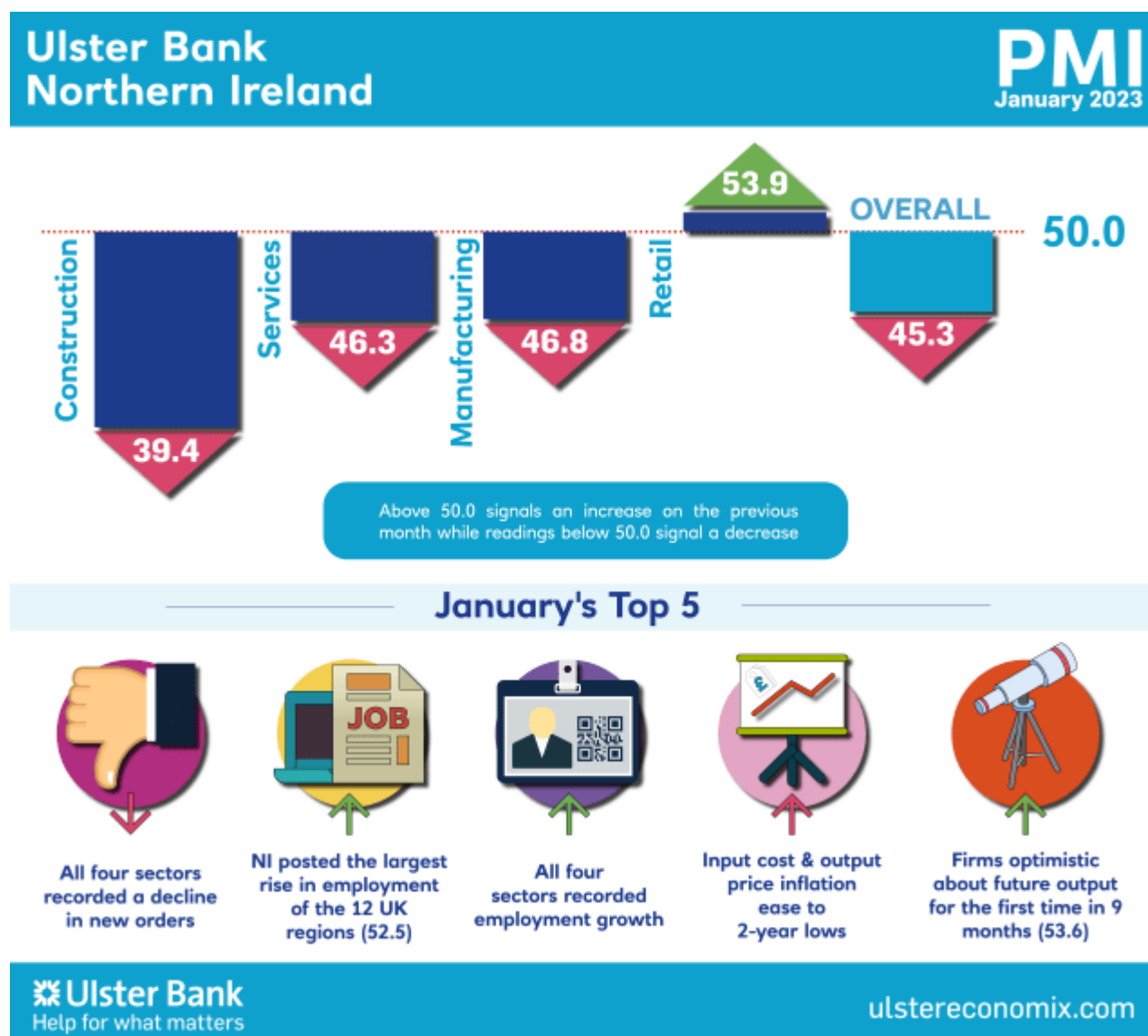


New orders continue to fall, but at softest pace in eight months | 1

Today sees the release of January data from the Ulster Bank Northern Ireland PMI®. The latest report – produced for Ulster Bank by S&P Global – signalled that although the private sector remained in contraction territory at the start of the year, there were signs of the downturn losing pace. Softer falls in output and new orders were recorded, while employment increased, and firms expressed optimism in the 12-month outlook. Rates of inflation remained elevated, but softened to two-year lows.



Northern Ireland's private sector largely started this year the way 2022 ended, with falling

levels of business activity and new orders, alongside an easing in inflationary pressures. Both business activity and incoming orders fell for their 9th successive month, although the rates of decline slowed in January. Falling demand, in terms of new orders, was evident across all four sectors.

However, there were also signs of improvement and pockets of optimism. Input cost and output price inflation eased to two-year lows but remain at elevated levels. Firms are still increasing their prices more than any other time prior to the pandemic.

Employment growth accelerated to a 6-month high with all four sectors increasing staffing levels in January. Indeed, NI firms posted the fastest rise in employment levels of all 12 UK regions. That was despite the fact local firms posted the sharpest decline in output within the UK in January.

This suggests that local firms are hoarding labour, given the difficulty in recruiting staff and widespread skills shortages. How sustainable this approach is will be tested in the months ahead. Retail was the star performer in January with an increase in sales and retail employment rising at its fastest pace since May 2018.

The extreme pessimism reported in 2022 appears to have lifted. Only construction firms are expecting further falls in output in 12 months' time. Manufacturing and retail are their most optimistic in 10 and 11 months respectively.

The rebound in retail sales and sentiment is perhaps surprising in the midst of a cost-of-living crisis. However, there are two key factors likely to be driving this. Unlike Northern Ireland and the UK, the Republic of Ireland is neither in nor flirting with recession and cross-border shopping is providing some valuable support. During the second half of January, the £600 energy grant also started arriving with households, and in some

instances, this subsidy seems, in part at least, to have found its way into the tills of local retailers.

The main findings of the January survey were as follows:

The headline seasonally adjusted Business Activity Index remained below the 50.0 no-change mark in January, but rose to 45.3 from 41.6 in December to signal a softer reduction in output at the start of 2023. That said, activity has now fallen in nine successive months, with the latest decline linked to the challenging demand and inflationary environment. These factors also led to a drop in new orders, with some firms pointing to housing market weakness. Overall new business declined markedly, but to the least extent since May 2022. With output and new orders falling at softer rates, firms expressed renewed optimism in the year-ahead outlook for business activity, the first instance of positive sentiment since April last year.

Firms also signalled a solid increase in employment, following no change in December. Backlogs of work subsequently declined again. Rates of input cost and output price inflation remained elevated, but continued to ease and were the softest in two years in both cases. Higher wage costs were mentioned by a number of respondents, but there were also some reports of raw material prices continuing to rise.

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