

Ulster Bank Northern Ireland PMI®

Fastest rise in output since January

Key Findings

Sharper increases in both output and new orders

Slowest rise in employment for a year

Confidence dips for third month running

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Jul-18
Manufacturing	53.9
Construction	57.0
Retail (3mma)	59.6
Services	55.8

Northern Ireland companies continued to record marked increases in both output and new orders during July amid an unusually long spell of warm weather. That said, employment increased only slightly and business confidence eased. The rate of input cost inflation remained sharp, leading output prices to rise at a pace only slightly weaker than June's ten-year high.

The headline seasonally adjusted Business Activity Index rose for the fourth month running to 56.6 in July, from 56.0 in June. The reading signalled the fastest rise in output in Northern Ireland since January, with the expansion much stronger than the UK average. A number of respondents mentioned that the unusually long period of good weather supported output growth. All four broad sectors saw activity rise, led by retail and construction.

Demand

New orders also increased at a sharp and accelerated pace during July, extending the current sequence of expansion to 21 months. As with output, the rate of growth was the fastest since January. The service sector posted the sharpest expansion in new business.

New business from abroad also continued to rise, with sales to customers in the Republic of Ireland widely mentioned. That said, the rate of expansion eased to a five-month low.

Capacity

Backlogs of work increased for a thirteenth successive month in July amid rising new

business. That said, the rate of accumulation was only slight, and the weakest since July 2017.

The rate of job creation also eased and was the slowest for a year. The latest rise in employment extended the current sequence of increasing workforce numbers to three-and-a-half years, however. Three of the four monitored sectors saw employment rise, the exception being manufacturing. The strongest jobs growth was at construction companies.

Prices

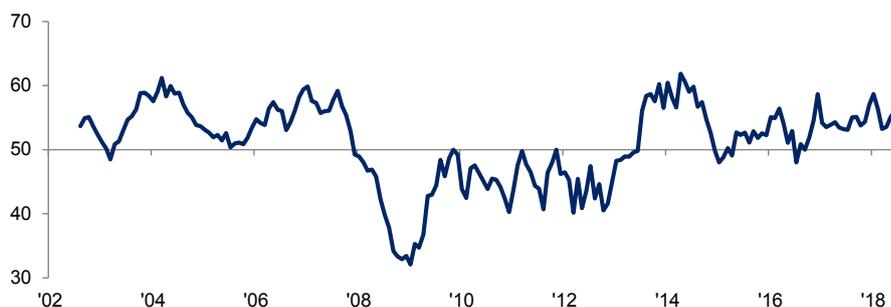
Although the rate of input cost inflation eased in July, it remained substantial and much faster than the UK average. Sterling weakness was again a factor leading input prices to rise, according to respondents, while higher costs for fuel and staff were also mentioned. All four monitored sectors saw input prices increase sharply.

Companies responded to higher input costs by raising their selling prices. The rate of inflation in Northern Ireland was again the sharpest of all 12 UK regions, with charges increasing at a pace only slightly weaker than June's ten-year high.

Outlook

Business confidence dipped for the third month running in July, with optimism the second-lowest since the series began in March 2017. Although sentiment was boosted by expectations of new order growth, political uncertainty was the main contributor to the drop in confidence.

Northern Ireland Business Activity Index
sa, >50 = growth since previous month



New Business Index



New order growth quickens to six-month high

July data pointed to a sharp monthly rise in new business at companies in Northern Ireland. The rate of growth quickened for the fourth consecutive month and was the sharpest since January. The rate of expansion in Northern Ireland was faster than the UK average. New orders have now increased in each of the past 21 months, with the latest rise partly linked by panellists to unusually warm weather. The service sector posted the fastest rise in activity, while retail also posted an accelerated rate of growth. Increases in output were seen in the manufacturing and construction sectors, although the rates of expansion eased.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-18	52.0	54.5	55.2	57.2

Outstanding Business Index



Further rise in backlogs of work

Rising new work volumes led to another monthly increase in outstanding business during July. Backlogs of work have now risen in each of the past 13 months. That said, the latest accumulation was slight and the weakest since July 2017. Three of the four monitored sectors saw outstanding business increase in July, the exception being construction where a fall was recorded for the first time in three months.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-18	51.6	48.0	51.2	51.2

Employment Index



Modest increase in staffing levels

As has been the case throughout the past three-and-a-half years, employment increased in the Northern Ireland private sector during July. That said, the rate of job creation eased for the second month running and was the weakest for a year. Where staffing levels rose, panellists linked this to new order growth. On the other hand, some respondents reported difficulties in recruiting suitable staff. Construction companies posted the fastest rise in employment, while job creation was also registered in the services and retail sectors. Manufacturing workforce numbers declined for the third time in the past four months.

Employment Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-18	49.1	56.7	54.9	51.4

Input Prices Index



Input cost inflation remains sharp during July

Companies in Northern Ireland continued to record sharp increases in input prices during July. The rate of inflation was well above the series average, despite easing to a three-month low. The increase in input costs at Northern Ireland firms was also faster than the UK average. A number of respondents linked higher input costs to sterling weakness, while rising costs for fuel and staff were also mentioned. Steep increases in input prices were noted across all four broad sectors, led by construction.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-18	69.0	69.1	67.5	66.1

Prices Charged Index



Further steep rise in output prices

The Northern Ireland private sector continued to post the sharpest output price inflation of all 12 UK regions during July. Charges increased at a substantial pace again, with the latest rise only slightly weaker than June's ten-year high. Panellists reported that selling prices had been increased in response to rising input costs. Manufacturers registered the strongest rate of output price inflation, closely followed by construction. Marked rises were also recorded in the services and retail sectors.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-18	59.8	59.0	56.5	56.9

Future Output Index

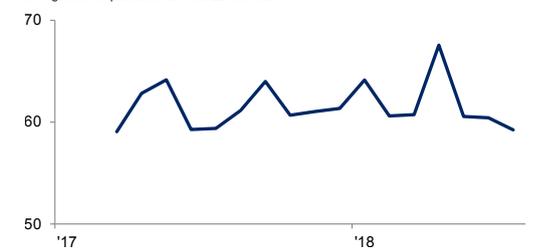


Business sentiment continues to moderate

Optimism waned again in the Northern Ireland private sector during July. Sentiment was the second-lowest since the series began in March 2017, above only the first month of data collection. Firms in Northern Ireland were the least optimistic of the 12 monitored UK regions. While companies expect new order growth to support rises in output, political uncertainty weighed on sentiment in July. Service providers were the most optimistic of the four monitored sectors, while construction firms predict no change in activity over the coming year.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-18	58.8	50.0	57.9	63.0

New Export Business Index

Note: Export business is defined as from outside the UK.



New business from abroad increases at marked pace

New export orders rose at a marked pace again during July amid further reports of new business from clients in the Republic of Ireland. New business from abroad has now increased in each of the past 25 months, but the rate of growth eased for the second month in a row in July to the weakest since February.

New Export Business Index
sa, >50 = growth since previous month



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



Export climate continues to strengthen

The Northern Ireland Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of Northern Ireland. This produces an indicator for the economic health of the country's export markets.

The Northern Ireland Export Climate Index continued to signal improving conditions for Northern Ireland exporters during July, posting 55.3. That said, the latest reading was down from 56.2 in June and signalled the weakest improvement in the climate since March.

Northern Ireland's two main export markets – Ireland and the US – saw sharp, but slower increases in business activity during July. The picture of weakening growth was seen across much of Europe, while Canada posted the strongest increase in manufacturing production since March 2017.

Export Climate Index
sa, >50 = improving export climate since previous month



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jul-18
1	Republic of Ireland	31.7%	56.9
2	USA	17.1%	55.7
3	Canada	5.6%	56.4
4	France	5.2%	53.9
5	Germany	4.7%	54.7

Northern Ireland Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater

than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for Northern Ireland, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: Northern Ireland

Rank	Sector	LQ	UK Output Index, Jul-18 (3mma)
1	Food & Drink	1.72	
2	Electrical & Electronic	1.26	
3	Machinery & Equipment	1.02	
4	Wood & Paper	0.88	
5	Chemicals, Rubber & Plastics	0.87	
6	Metals & Metal Products	0.78	
7	Other Manufacturing	0.72	
8	Textiles & Clothing	0.72	
9	Transport Equipment	0.72	

40 45 50 55 60 65 70

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Jul-18 (3mma)
1	Hotels, Restaurants & Catering	1.38	
2	Other personal/consumer Services	1.30	
3	Transport & Communication Services	1.18	
4	Computing & IT Services	0.87	
5	Business-to-business Services	0.85	
6	Financial Intermediation	0.70	

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UK Sector Focus: Financial Intermediation

Output Index



Last six months*



*3mma

Financial intermediation leads UK service sector growth in the three months to July

One of the main bright spots in the UK economy in the three months to July was the financial intermediation sector, where strong underlying demand drove both an upturn in business activity and a robust pace of job creation.

The extent of the increase in business activity in the latest three-month period was the greatest seen since the final quarter of 2017, with the pace of growth twice the average since the 2008-9 global financial crisis.

The sector meanwhile continued to see a far quicker rate of employment growth than anywhere else in the services economy, despite the pace of hiring moderating from the highs seen around the turn of the year.

Less positively, expectations towards future activity were the lowest for almost two years.

Output Index

sa, >50 = growth since previous month (3mma)



Employment Index

sa, >50 = growth since previous month (3mma)



UK Regional Rankings

Business Activity

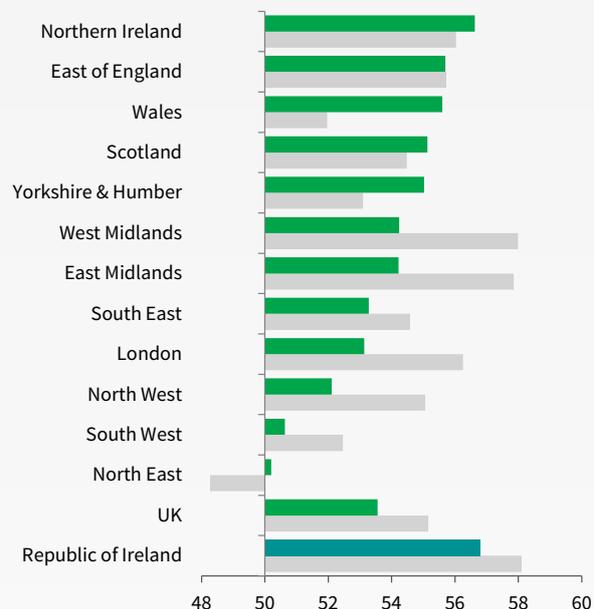
Northern Ireland led business activity growth in July, having seen the rate of expansion in output accelerate for the fourth time in as many months to the highest since January. The East of England and Wales were also among the strongest performers, with the latter regaining momentum after recording its weakest growth in almost two years during June. All areas in fact registered a rise in business activity, though in the case of the North East – the weakest performing region – the increase was only fractional.

Employment

On the employment front, the East Midlands recorded the joint-quickest rate of job creation in July alongside Yorkshire & Humber. Even in these two regions, however, the pace of hiring was relatively subdued. Elsewhere, last month's top performer, Scotland, saw workforce growth slow sharply to a four-month low. The North East recorded the only notable drop in employment, with the South East seeing a negligible decrease.

Output Index by region

sa, >50 = growth since previous month, Jul-18 ■ (Jun-18 ■)



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Methodology

The Ulster Bank Northern Ireland PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 200 private sector companies in Northern Ireland, operating in the manufacturing, construction, retail and services sectors. The panel has been carefully selected in order to accurately reflect the true structure of the economy and therefore provide an accurate picture of business conditions.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Northern Ireland PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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Ulster Bank is a member of The Royal Bank of Scotland Group. Ulster Bank acts as a full service institution to its customer base, providing an extensive range of retail banking, business banking, investment banking and capital markets services to corporate, personal and institutional clients.

Our focus is firmly centred on our customers. Every business customer benefits from access to a dedicated, professional and highly trained relationship manager. Their role is to gain a genuine understanding of our customers' business needs and provide dedicated financial information and assistance.

We work together to achieve business success, no matter how simple or complex our customers' requirements. A combination of size, financial strength and wide ranging capability means we can deliver for our customers, whatever their business may be.

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