

# Ulster Bank Northern Ireland PMI<sup>®</sup>

## Output rises but confidence continues to slide

### Key Findings

Sharper rises in output and new orders

Output price inflation at four-month high

Sentiment drops markedly

### Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Oct-18
Manufacturing	55.2
Construction	47.4
Retail (3mma)	49.2
Services	53.4

The Ulster Bank Northern Ireland PMI pointed to a slight pick-up in growth in October, with both output and new orders rising more quickly than in September. Rates of expansion were still weaker than seen earlier in the year, however. The rate of job creation also ticked up, but business sentiment dropped to the weakest in the 20-month series history.

On the price front, both input costs and output prices increased at sharper rates amid higher costs for a range of inputs.

The headline seasonally adjusted Business Activity Index posted 52.8 in October, up from 52.1 in September and pointing to a solid monthly increase in private sector business activity in Northern Ireland. Output has now increased in each of the past 25 months, and the latest rise was faster than the series average.

Where activity increased, panellists linked this to higher new orders. The manufacturing and service sectors recorded increases in output during the month, led by manufacturing. In contrast, declines were seen in construction and retail activity.

### Demand

In line with the trend in output, new business increased at a slightly faster pace in October as companies were able to secure new customers amid some improvements in demand.

The rate of expansion in new export business eased again, meanwhile. The latest rise in new orders from abroad was slight, and the slowest

in the current 28-month sequence of growth.

### Capacity

Companies were able to work through outstanding business for the third month running, but to the least extent in this sequence.

Higher staffing levels contributed to the reduction in backlogs of work, with employment increasing for the forty-fifth successive month at the start of the fourth quarter. Panellists indicated that extra staff were hired in response to increasing new orders. All four monitored sectors posted rises in employment.

### Prices

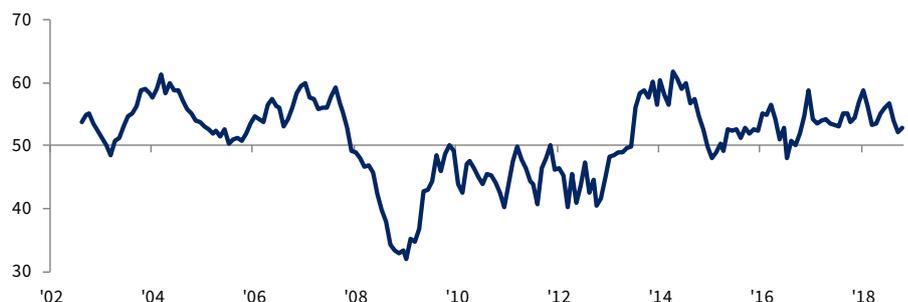
Input prices continued to rise sharply in October, with the rate of inflation ticking up from September. Panellists reported higher costs for transport, staff, electricity and fuel.

The passing on of higher input costs to customers resulted in a marked increase in output prices. The latest rise was the sharpest in four months and much faster than the UK average. At the sector level, manufacturers posted the steepest increase in selling prices.

### Outlook

Confidence regarding the 12-month outlook for activity waned in October and was the lowest since the series began in March 2017. Political uncertainty and Brexit were the main factors leading optimism to weaken. Sentiment was down across all four monitored sectors.

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



## New Business Index



### Solid increase in new orders

The rate of growth in new business at Northern Ireland companies quickened in October, after having slowed to a 23-month low in the previous month. New orders rose at a solid pace, and one that was faster than the UK average. Where new business increased, panellists reported improving demand and the securing of new customers. Three of the four monitored sectors posted higher new orders, the exception being construction where a decline was seen for the second month running. Manufacturing recorded the strongest new order growth.

### New Business Index

sa, >50 = growth since previous month



### By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-18	53.5	46.1	50.4	53.0

## Outstanding Business Index



### Further reduction in outstanding business

October data pointed to a third consecutive monthly reduction in backlogs of work in the Northern Ireland private sector. That said, the pace of depletion was marginal and the weakest in the current sequence of falling outstanding business. Close to 14% of panellists registered a reduction in work-in-hand, compared with 11% that posted an increase.

### Outstanding Business Index

sa, >50 = growth since previous month



### By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-18	51.4	51.2	45.4	48.8

## Employment Index



### Employment rises modestly

Companies continued to increase their staffing levels at the start of the fourth quarter of the year in response to higher new orders. Employment has now risen in each of the past 45 months. The rate of job creation was modest, but quickened from that seen in September. The rise in staffing levels in Northern Ireland was broadly in line with the UK average. Employment increased across all four monitored sectors, led by construction.

### Employment Index

sa, >50 = growth since previous month



### By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-18	50.9	53.5	52.0	52.4

## Input Prices Index



### Input prices continue to rise sharply

The rate of input cost inflation remained elevated in October, ticking up from the previous month and posting above the series average. A number of respondents reported higher transport costs, while increases in prices for electricity and fuel alongside rising staff costs were mentioned. Retail posted the fastest increase in input prices, with all four sectors seeing a pick-up in inflation from September.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-18	64.8	68.3	72.2	63.9

## Prices Charged Index



### Sharpest charge inflation for four months

As has been the case on a monthly basis throughout the past three years, Northern Ireland companies increased their output prices during October. The rate of inflation quickened to a four-month high and was much steeper than seen across the UK economy as a whole. Anecdotal evidence suggested that the passing on of higher input costs to customers was the main factor leading to increasing selling prices.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-18	61.0	58.5	58.9	56.9

## Future Output Index

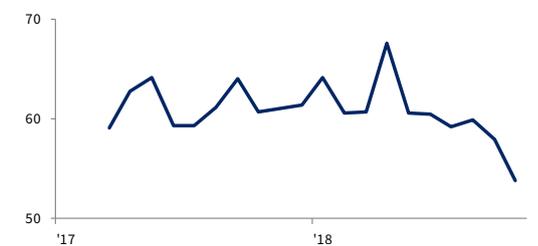


### Optimism drops sharply in October

October data pointed to a marked reduction in confidence among Northern Ireland companies. Sentiment was the lowest since the series began in March 2017, with firms in Northern Ireland by far the least optimistic of all the UK regions covered. Those companies that predicted a rise in output over the next 12 months linked this to new business opportunities. On the other hand, political uncertainty and Brexit were the key factors leading sentiment to weaken. Confidence dipped in the manufacturing, services and retail sectors, while construction firms were pessimistic regarding the outlook.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-18	59.1	42.0	57.6	56.7

## New Export Business Index

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



### New export orders rise slightly

The rate of growth in new business from abroad eased for the fifth successive month in October, slowing to the weakest in the current 28-month sequence of expansion. Where new export orders increased, this was generally linked to higher new business from customers in the Republic of Ireland. That said, there were some reports that market uncertainty had hampered export sales.

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



## Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



### Weakest improvement in export climate since March

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 registered at 54.2 in October, down from 55.1 in September and pointing to the least favourable climate for exporters in seven months.

Northern Ireland's main export market – the Republic of Ireland – saw growth of activity ease to a seven-month low in October. Canada also saw the rate of expansion ease at the start of the fourth quarter, while there were signs of demand weakness in a number of eurozone economies. On the other hand, output in the US increased at a slightly faster pace.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Oct-18
1	Republic of Ireland	31.7%	56.1
2	USA	17.1%	54.9
3	Canada	5.6%	53.0
4	France	5.2%	54.1
5	Germany	4.7%	53.4

## 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, Oct-18 (3mma)
1	Food & Drink	1.72	55
2	Electrical & Electronic	1.26	52
3	Machinery & Equipment	1.02	55
4	Wood & Paper	0.88	48
5	Chemicals, Rubber & Plastics	0.87	52
6	Metals & Metal Products	0.78	48
7	Other Manufacturing	0.72	55
8	Textiles & Clothing	0.72	52
9	Transport Equipment	0.72	45

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Oct-18 (3mma)
1	Hotels, Restaurants & Catering	1.38	50
2	Other personal/consumer Services	1.30	48
3	Transport & Communication Services	1.18	52
4	Computing & IT Services	0.87	55
5	Business-to-business Services	0.85	50
6	Financial Intermediation	0.70	55

## UK Sector Focus: Metals & Metal Products

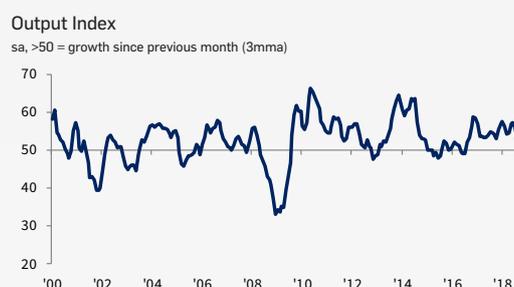


### Falling exports weigh on basic metals sector growth

Growth at the UK's basic metals producers remained subdued heading into the fourth quarter, marking a turnaround from the relatively solid pace of expansion observed during the first half of the year.

One of the main drags on the metals sector's performance remained weakness in export sales, which have shown a downward trend for the past three months. Anecdotal evidence from the PMI surveys has pointed to slowing demand from the automotive sector, as well as Brexit uncertainty causing some customers to source inputs outside the UK.

More positively, however, employment continued to grow at a relatively healthy rate in the three months to October, albeit with the pace of job creation down on the highs seen around the turn of the year.



## UK Regional Rankings

### Business Activity

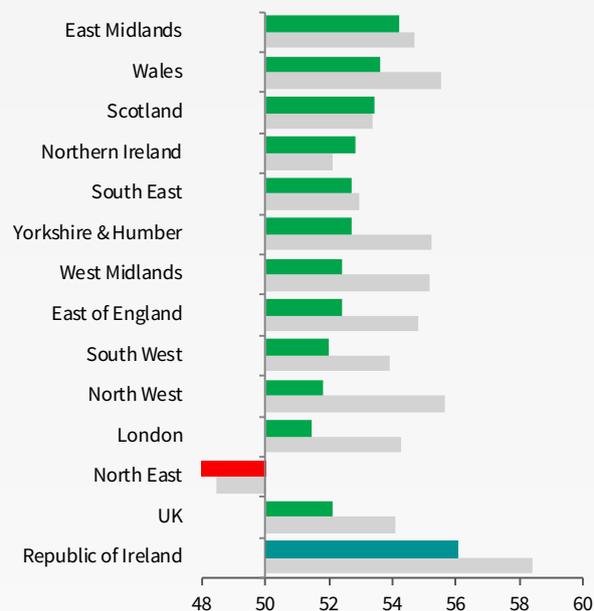
The East Midlands recorded the strongest business activity growth in October, ahead of Wales. Both, however, saw the rate of expansion moderate compared with September, in line with the trend seen across most regions. Scotland, ranked third overall, was an exception, maintaining its rate of growth from the month before. Only Northern Ireland saw a faster increase in business activity, as the rate of expansion here rebounded from a 23-month low at the end of the third quarter. Growth slowed particularly sharply in both London and the North West, while business activity in the North East fell at the fastest rate since July 2016 – the month after the EU referendum.

### Employment

Employment growth at the UK regional level was led by the East of England, where the pace of job creation was at an eight-month high. Solid gains in workforce numbers were also recorded across Yorkshire & Humber, the West Midlands and Wales. The North East saw the only decrease in employment, with the rate of decline in the region accelerating to the joint-quickest in over six years.

Output Index by region

sa, >50 = growth since previous month, Oct-18 (Sep-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](mailto: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](http://ihsmarkit.com/products/pmi.html).

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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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