

Ulster Bank Northern Ireland PMI[®]

Activity continues to rise sharply, but inflationary pressures mount

Northern Ireland Business Activity Index



Key findings

Marked, but slower increase in output

Input costs and output prices rise at faster rates

Confidence falls sharply

Companies in Northern Ireland continued to register marked increases in output and new orders during March, although growth rates eased from February. Meanwhile, near-record increases in input costs and output prices were recorded, with the impact of stronger inflation leading to a sharp drop in confidence.

The headline seasonally adjusted Business Activity Index dipped to 56.3 in March from 57.8 in February, signalling a further sharp rise in private sector output as firms responded to greater new orders. In both cases, however, rates of expansion softened over the month.

While manufacturing continued to lead growth of output, the services and retail sectors posted faster increases than in February. Construction saw activity decrease, following a slight rise in the previous month.

Rates of both input cost and output price inflation accelerated and were only just short of the respective records seen in the final quarter of last year. Reports of higher fuel and energy costs were widespread, with higher wages and material prices also mentioned.

Surging prices and the potential impact on client demand led to a sharp drop in business confidence at the end of the first quarter, with sentiment down to the lowest since January 2021.

Employment rose solidly in response to higher new orders, but there were some reports of difficulties filling vacancies.

Shortages of staff and materials meanwhile contributed to a further build-up in backlogs of work, and one that was only fractionally softer than last June's series record.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



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About the Northern Ireland PMI® report

The Ulster Bank Northern Ireland PMI® is compiled by S&P Global 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.

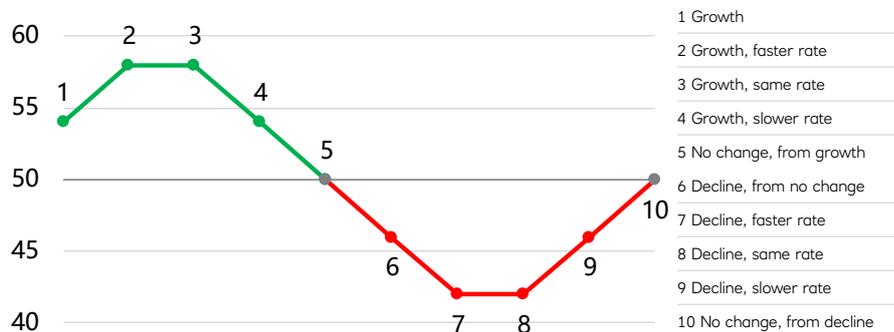
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It 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.

Index interpretation

50.0 = no change since previous month



Comment

Commenting on the latest survey findings, Richard Ramsey, Chief Economist Northern Ireland, Ulster Bank, said:

“The NI private sector continued to show signs of growth in output, employment and order books in March, but there is no disguising the impact that the Ukraine / Russian conflict has had on business conditions. This has manifested itself in three key areas – escalating inflation, a slowdown in incoming business, and a significant dent to business confidence.

“Looking at the performance of the various sectors in March, construction was the one area to experience a fall in output. Meanwhile retail and services activity accelerated, and the rate of manufacturing output growth eased back, but remains strong. However, it is in firms’ order books that the challenges of the current environment are evident. All sectors saw the pace of new orders growth slow or fall. In the case of construction, this was the ninth successive month of order book contraction.

“Unsurprisingly, the latest PMI shows very clearly the inflationary pressures facing Northern Ireland companies. We have heard so much about the cost of living crisis, but the cost of doing business crisis is also affecting local firms in spades. In the services sector, wage and energy cost pressures pushed input costs to record highs. In manufacturing, firms are raising their prices at a record rate

to cope with the cost pressures they are experiencing. And across the board in the private sector, inflationary pressures are moving back towards last year’s all-time highs.

“With these inflationary pressures, combined with supply chain disruption and ongoing skills shortages, private sector firms reported a big fall in confidence regarding the year ahead. They still anticipate that output will rise in the next 12 months on balance, however their expectations have been scaled back. Manufacturing is still the most optimistic sector, followed by services. But construction firms expect no growth over the next year and retailers anticipate a fall in output. With consumers’ finances now under so much pressure from, for instance, the doubling in the price of home heating oil in the space of two weeks, retailer sentiment has in effect done a 180 degree turn in the space of a month. It has gone from expecting strong growth to now expecting a marked decline.

“The key drivers of the falling confidence – inflationary pressures and supply chain disruption – are not going away. Indeed with tax rises coming into effect in April, pressures on businesses and their customers will intensify.”



PMI®

by  S&P Global

Demand and outlook

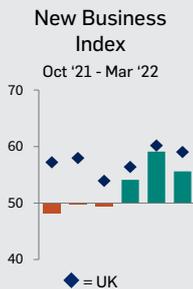
Third successive rise in new work

New business increased for the third consecutive month in the Northern Ireland private sector during March. The rate of growth softened from the previous month but was still marked. Increases in new orders were seen in the manufacturing, services and retail sectors, with the sharpest expansion at manufacturers. Meanwhile, construction firms posted a drop in new work.



Sharp fall in business confidence

Surging prices acted to depress sentiment among Northern Ireland firms in March, with respondents concerned that customers are likely to be increasingly deterred by higher costs. Confidence dropped sharply to the lowest since January 2021. That said, firms remained optimistic on balance that output will increase over the year ahead, with a lack of disruption from COVID-19 and higher new orders expected.



Business capacity

Staffing levels up solidly

Employment continued to increase in March, extending the current sequence of job creation to 13 months. Moreover, the latest expansion was solid and the sharpest in 2022 so far. Some respondents linked higher workforce numbers to rising new orders, while others indicated that they had taken the opportunity to hire staff in advance due to potential difficulties finding suitable candidates. Indeed, some firms reported having struggled to fill vacancies during the month.



Near-record rise in backlogs of work

Outstanding business increased substantially in March, and at the fastest pace since last June's survey record. Respondents linked rising backlogs to shortages of both materials and staff. The overall accumulation was led by the manufacturing sector, where work-in-hand rose at a record pace.



Exports

New business from abroad down further

As has been the case in each of the past 38 months, new export orders decreased during March. The rate of decline was solid and slightly sharper than seen in February. Some respondents indicated that new business from the Republic of Ireland had become harder to secure, while transportation issues in general hindered international trade.

New Export Business Index
 >50 = growth since previous month

46.5
 Mar '22



Demand conditions in key export markets improve

The Northern Ireland Export Climate Index (ECI) 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 ECI improved to 57.3 in March from 56.6 in February, thereby signalling a marked improvement in export demand conditions for Northern Ireland firms, and the strongest since last October.

Export Climate Index

sa, >50 = growth since previous month

57.3
 Mar '22

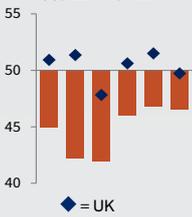


The Republic of Ireland, which is the largest single export market for Northern Irish firms, saw output growth quicken to the fastest in five months. Stronger expansions were also recorded in the US and Canada as COVID-19 disruption eased. On the other hand, softer increases in output were registered in Germany and the Netherlands as the invasion of Ukraine started to impact operations.

Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Mar'22
1	Republic of Ireland	38.6%	61.0
2	USA	12.5%	57.7
3	Canada	5.6%	56.4
4	Germany	4.3%	55.1
5	Netherlands	3.9%	54.5

New Export Business Index
 Oct '21 - Mar '22



Export Climate Index
 Oct '21 - Mar '22



Prices

Input cost inflation accelerates

The rate of input cost inflation accelerated sharply in March and was among the steepest on record, only slightly softer than the series peak from October last year. Higher costs for energy and fuel were widely reported, while companies also signalled rising wages and material prices. All four monitored sectors registered substantial increases in input costs, led by construction.

Input Prices Index

sa, >50 = inflation since previous month

88.9

Mar '22



Faster increase in charges

In line with the picture for input costs, the rate of output price inflation quickened in March. The latest rise was the fastest since last November's series record. In fact, the manufacturing sector did register an unprecedented rise in selling prices during the month. Around 57% of respondents posted an increase in output charges, which they mainly linked to a response to higher input costs.

Prices Charged Index

sa, >50 = inflation since previous month

75.3

Mar '22



Input Prices Index

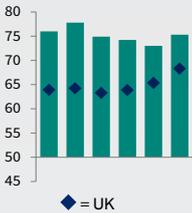
Oct '21 - Mar '22



◆ = UK

Prices Charged Index

Oct '21 - Mar '22



◆ = UK

Suppliers' Delivery Times

Delivery times lengthen sharply

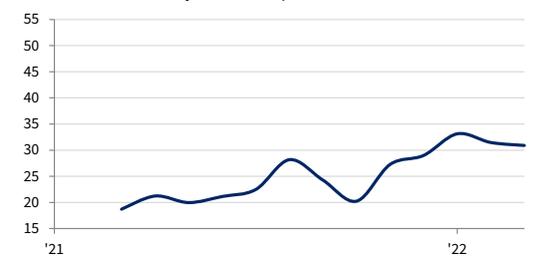
As has been the case throughout the 13 months of data collection so far, suppliers' delivery times lengthened in March. The rate of deterioration was slightly stronger than that seen in February. General pressures in supply chains, delays from the Far East, Brexit and the Russian invasion of Ukraine all contributed to longer lead times.

Suppliers' Delivery Times Index

sa, >50 = shorter delivery times since previous month

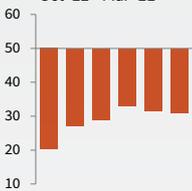
30.9

Mar '22



Suppliers' Delivery Times Index

Oct '21 - Mar '22



UK Sector PMI

Sector specialisation: Northern Ireland

Location quotients (LQs) are useful measures of regional economic specialisation and can 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. The UK Output Index for each sub-sector is also displayed.

Northern Ireland specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Mar '22 ⁺
1	Electrical & Optical	1.42	
2	Food & Drink	1.26	
3	Textiles & Clothing	1.19	
4	Other Manufacturing	1.09	
5	Basic Metals	0.98	
6	Timber & Paper	0.92	
7	Mechanical Engineering	0.88	
8	Chemicals & Plastics	0.78	
9	Transport	0.77	

Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Mar '22 ⁺
1	Hotels, Restaurants & Catering	1.34	
2	Personal & Community Services	1.23	
3	Transport & Communication	1.22	
4	Business-to-business Services	0.89	
5	Computing & IT Services	0.89	
6	Financial Intermediation	0.66	

UK sector focus

Hotels, Restaurants & Catering

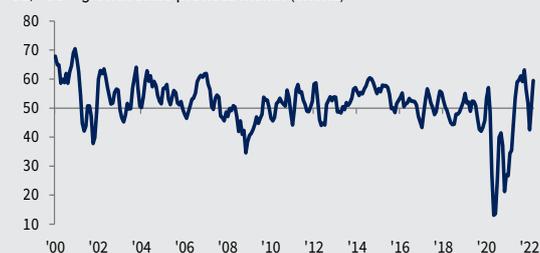
Business activity rose sharply across the Hotels, Restaurants & Catering sector in the three months to March, with the roll back of pandemic restrictions allowing consumers to satisfy pent-up demand. The performance was the best since the three months to October 2021.

The rate of employment growth across the sector also quickened, with businesses looking to rebuild workforce numbers and expecting a sustained upturn in activity over the coming year. Confidence was higher than in all other service sectors except Computing & IT Services.

Cost pressures intensified, however, reaching the highest seen in over 25 years of data collection. Alongside rising wage bills, surveyed firms commented on escalating energy, food and fuel prices. In response, businesses raised average prices charged at the quickest rate in over 11 years.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Nearly all UK regions saw a continued recovery in business activity in March, the only exception being the North East where output stagnated after rising in February. The South West and Yorkshire & Humber were the joint-best-performing areas for business activity growth, both registering near-record highs, followed closely by London. Against the general trend, Northern Ireland* and Wales both recorded slower rates of expansion.

Employment

All 12 monitored regions and nations recorded a rise in employment in March, the eleventh month in a row in which this has been the case. London once again posted the steepest overall growth, with the South West moving into second place having seen a rapid acceleration in job creation from the previous month. The North East saw the slowest rise in workforce numbers, and one that was only modest overall.

Future Activity

Businesses across the UK generally remained optimistic about the outlook for activity in the year ahead in March. However, in all cases, expectations eased from the previous month. The sharpest decline was in Northern Ireland, which also recorded the lowest overall level of confidence. Businesses in Yorkshire & Humber were the most upbeat, followed by those in the South East.

Business Activity Index
sa, >50 = growth since previous month, Mar '22



Employment Index
sa, >50 = growth since previous month, Mar '22



Future Activity Index
>50 = growth expected over next 12 months Mar '22



*Coverage in England, Wales, Scotland and Republic of Ireland only includes manufacturing and services. Northern Ireland also includes retail and construction.



Index summary

Northern Ireland

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	New Export Business	Export Climate	Input Prices	Prices Charged	Suppliers' Delivery Times
Oct '21	52.2	48.1	54.3	56.3	51.9	44.9	58.3	90.4	76.0	20.2
Nov '21	52.9	49.8	62.8	55.5	52.6	42.2	57.0	89.5	77.8	27.3
Dec '21	50.2	49.3	59.4	54.3	51.2	41.9	55.3	87.7	74.9	29.0
Jan '22	54.7	54.1	62.3	52.3	53.9	46.0	54.1	86.1	74.2	33.1
Feb '22	57.8	59.1	62.8	51.6	57.2	46.8	56.6	84.8	73.0	31.5
Mar '22	56.3	55.6	52.7	53.0	58.6	46.5	57.3	88.9	75.3	30.9

By Sector, March '22

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Manufacturing	60.7	61.7	58.5	55.5	67.1	88.7	84.0
Construction	47.5	43.6	50.0	55.4	47.7	89.6	78.5
Retail	56.6	52.8	47.6	47.2	54.5	86.6	83.7
Services	58.3	54.9	54.3	52.1	57.8	89.2	66.1

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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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