

Ulster Bank Northern Ireland PMI[®]

Output growth quickens to four-month high

Key Findings

Sharp rise in output amid faster new order growth

Rate of cost inflation accelerates

Business confidence at 11-month low

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Jun-18
Manufacturing	56.6
Construction	56.5
Retail (3mma)	56.6
Services	54.1

The Northern Ireland private sector ended the second quarter of 2018 on a positive note, with sharper rises in output and new orders recorded. There were further signs of increasing inflationary pressures, however. Meanwhile, business confidence dipped and was the lowest for almost a year.

The headline seasonally adjusted Business Activity Index rose to 56.0 in June, up from 55.1 in May and posting its highest reading since February. The data signalled a sharp and accelerated monthly increase in output, with growth in Northern Ireland outpacing the UK average. Marked increases in activity were recorded across all four broad sectors covered by the survey.

Demand

Good weather and stronger market conditions were reportedly behind the latest rise in output. These factors also supported new order growth in June. New business increased for the twentieth successive month, and at the fastest pace since February. New orders increased across all four monitored sectors, with growth led by construction.

New export orders, meanwhile, rose sharply, with panellists highlighting the impact of new business from the Republic of Ireland.

Capacity

Outstanding business increased for the twelfth successive month in June as new order growth imparted pressure on companies' capacity.

Backlogs rose modestly, but at the fastest pace in three months.

Although employment continued to increase during June, the rate of job creation eased from that seen in May. Construction firms posted the fastest rise in staffing levels, while manufacturers increased employment for the first time in three months.

Prices

June data pointed to building inflationary pressures in the Northern Ireland private sector, with rates of increase in both input costs and output prices quickening from May. In both cases, Northern Ireland recorded the sharpest inflation of all 12 UK regions.

Input costs rose at the fastest pace in 16 months at the end of the second quarter. Panellists reported higher staff costs, as well as rising prices for fuel. Sterling weakness was also mentioned as a factor leading to higher cost burdens.

The passing on of increased input prices to customers resulted in a sharp monthly rise in charges during June. Moreover, the rate of inflation quickened to the fastest since July 2008.

Outlook

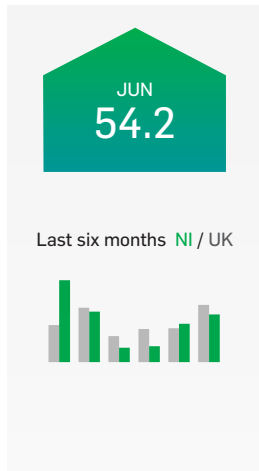
Northern Ireland companies remained confident that output will increase over the coming year. That said, sentiment dipped from May to the lowest since July 2017.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



New Business Index



Solid increase in new business

The rate of expansion in new business among Northern Ireland companies quickened for the third successive month in June and was the fastest since February. New orders have now increased in each of the past 20 months. Improved market conditions and recent good weather were mentioned as factors supporting new order growth. That said, the rate of expansion in Northern Ireland was weaker than the UK average. All four monitored sectors saw new business increase, with construction recording the fastest expansion. In fact, construction new orders rose at the quickest pace since February 2016.

New Business Index

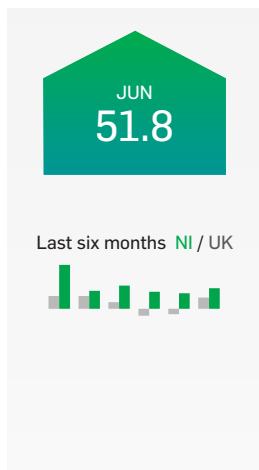
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-18	54.0	55.1	52.5	53.3

Outstanding Business Index

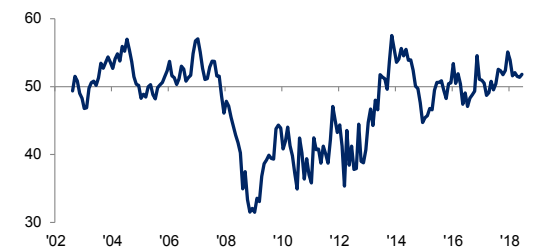


Outstanding business continues to increase

As has been the case on a monthly basis throughout the past year, backlogs of work increased during June. The rate of accumulation was modest, but ticked up to a three-month high and was faster than that seen across the UK economy as a whole. Anecdotal evidence suggested that new order growth had imparted capacity pressures on companies. Sector data showed that the overall increase in backlogs was reflective of rises in the manufacturing and construction categories. Services outstanding business was unchanged in June.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-18	53.5	54.7	49.2	50.0

Employment Index



Rate of job creation eases

Northern Ireland companies continued to increase their staffing levels during June, with panellists linking the latest rise to improving demand and business growth. The rate of job creation was solid, but eased from that seen in May. Northern Ireland firms registered a slightly stronger increase in staffing levels than the UK average. As was the case with new orders, the construction sector posted the sharpest rise in employment of the four monitored sectors. Meanwhile, manufacturing staffing levels increased for the first time in three months.

Employment Index

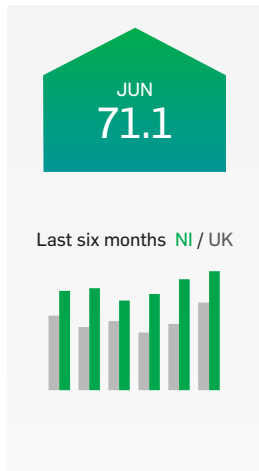
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-18	50.6	56.4	54.1	52.6

Input Prices Index



Input cost inflation hits 16-month high

The pace at which input prices increased accelerated for the third consecutive month in June and was the sharpest since February 2017. The substantial rise in input costs in Northern Ireland was the fastest of all 12 monitored UK regions. Higher staff costs were mentioned by a number of respondents, while increases in fuel prices and sterling weakness were also factors behind the latest rise. The manufacturing sector posted the sharpest increase in input costs as the rate of inflation reached the strongest since April 2017.

Input Prices Index

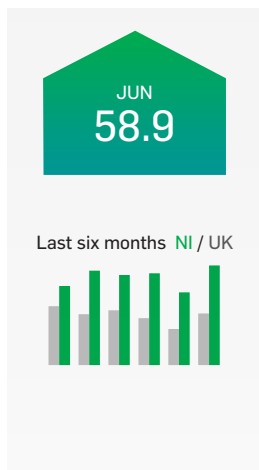
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-18	75.0	68.8	66.9	69.1

Prices Charged Index



Sharper rise in output prices during June

Companies responded to higher input costs by raising their output prices during June. Furthermore, the rate of inflation quickened to the fastest in almost a decade. As was the case with input costs, the increase in charges in Northern Ireland was the steepest of all UK regions. Close to 22% of respondents noted a rise in output prices, compared with 3% that posted a fall. Charges increased most quickly in the manufacturing sector, closely followed by retail. Meanwhile, service providers raised output prices at the sharpest pace since August 2008.

Prices Charged Index

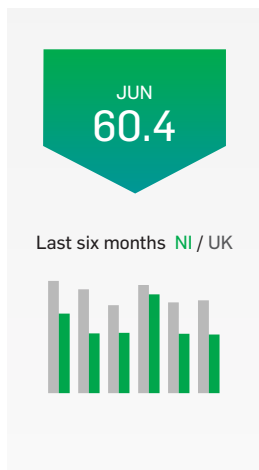
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-18	61.0	58.7	59.7	56.6

Future Output Index

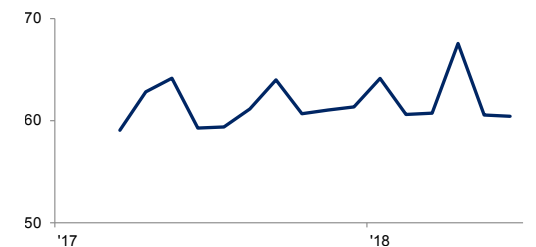


Companies maintain confidence around future output growth

Firms in Northern Ireland continued to predict growth of business activity over the coming year, with sentiment in June only fractionally lower than that seen in May. That said, this meant that optimism was the weakest since July 2017, with Northern Ireland companies the least confident of all UK regions covered. Predictions of increases in output generally reflected confidence regarding new order volumes. On the other hand, a number of respondents expressed concerns around political uncertainty – both related to Brexit and the lack of government in Northern Ireland.

Future Output Index

>50 = growth expected over next 12 months

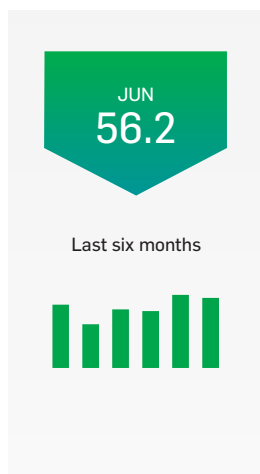


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-18	58.9	55.3	60.9	62.0

New Export Business Index

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



Further sharp increase in new export orders

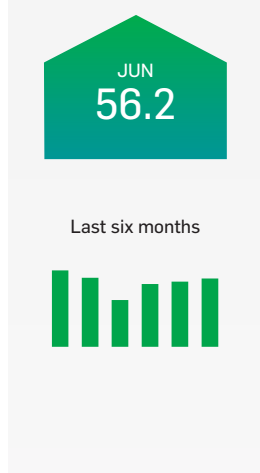
The rate of expansion in new business from abroad remained strong in June, dipping only marginally from May's five-month high. Respondents indicated that new orders from customers in the Republic of Ireland had been the main driver of new export order growth. New business from abroad has now increased on a monthly basis throughout the past two years.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



Strong improvement in the export climate

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 increased for the third month running in June, posting 56.2 from 55.9 in May. This signalled a substantial monthly improvement in the export climate, and the greatest since February.

Growth of output in Ireland quickened to a five-month high in June. Northern Ireland's second-largest export market – the US – saw a slightly slower rise in activity in June, albeit one that was still marked. Elsewhere, growth quickened in France and Germany, while Canadian manufacturing output increased at the fastest pace since January.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jun-18
1	Republic of Ireland	31.7%	58.1
2	USA	17.1%	56.0*
3	Canada	5.6%	56.1
4	France	5.2%	54.7
5	Germany	4.7%	54.7

* based on 'flash' data

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, Jun-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	

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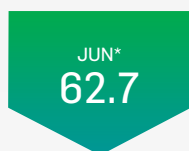
Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Jun-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: Food & Drink

Output Index



Last six months*



*3mma

Food & drink is UK's fastest-growing sector in second quarter

The pace of growth of the UK's food & drink industry shifted up a gear in the second quarter. Output growth in the three months to June was among the fastest seen over the past eight years and quicker than in any other sector.

The survey data showed that the upturn was driven by robust underlying demand, with inflows of new orders up sharply partly thanks to increased export sales. Encouraged by this, makers of good & drink products upped the rate of job creation in June.

Less positively, cost pressures in the sector remained elevated. The rate of input price inflation was close to the fastest for over a year, with businesses commenting on increases in the cost of dairy and meat products, rising oil prices and the weak pound.

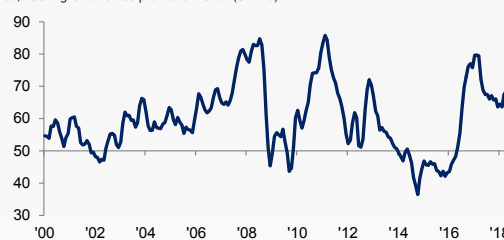
Output Index

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



Input Prices Index

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



UK Regional Rankings

Business Activity

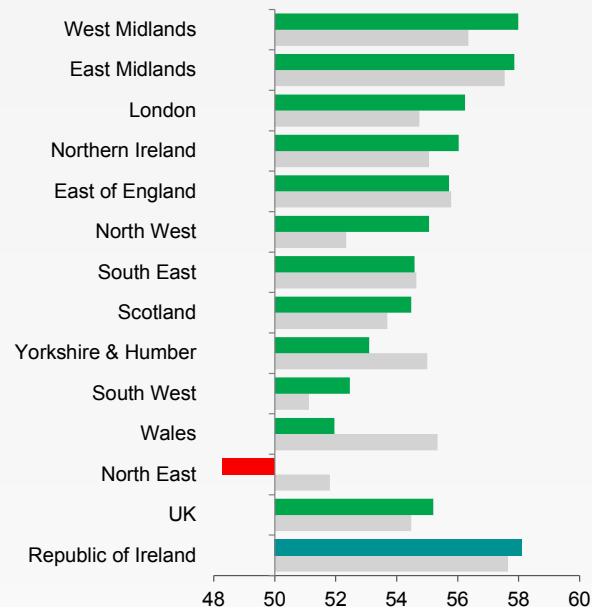
The West Midlands recorded the strongest growth in business activity of all UK regions in June, pushing neighbouring East Midlands into second position in the rankings. London was one of the biggest climbers, with the rate of business activity growth in the capital accelerating to the fastest in 14 months. The only decrease in output was recorded in the North East, where activity fell back into decline after two months of growth. Wales also lost momentum at the end of the second quarter, recording the weakest rise in output for almost two years.

Employment

Scotland was the best performer in terms of employment growth, with the rate of job creation north of the border reaching its highest for over four years in June. Other areas where rates of hiring picked up included the North West (ranked second overall) and London (ranked third). Wales saw the only decrease in staffing levels, the first in the country since February 2016.

Output Index by region

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

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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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