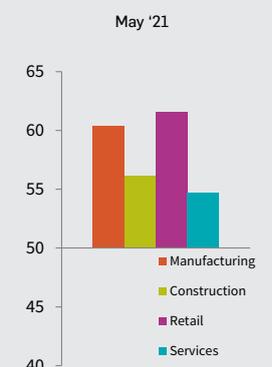
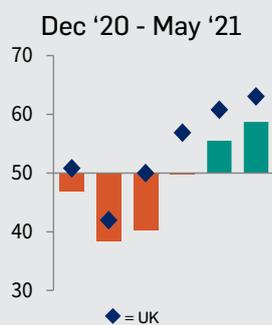


# Ulster Bank Northern Ireland PMI<sup>®</sup>

## Activity ramps up amid lockdown easing

### Northern Ireland Business Activity Index



### Key findings

Sharpest increase in new orders since January 2018

Joint-record rise in employment

Input cost inflation continues to accelerate

The loosening of COVID-19 restrictions in Northern Ireland led to marked improvements in new orders and output during May. The extent of the increase in workloads meant that firms expanded their staffing levels at a pace unsurpassed in almost 19 years of data collection. That said, inflationary pressures remained elevated, with the pace of increase in input costs accelerating again.

The headline seasonally adjusted Business Activity Index rose to 58.7 in May from 55.5 in April. The reading signalled a second successive increase in output in the private sector, and one that was the joint-strongest for almost seven years. The reopening of some businesses and the release of pent-up demand following the loosening of COVID-19 restrictions were central to the latest rise in activity. All four monitored sectors saw activity

rise, led by retail and manufacturing.

New order growth also quickened and was the fastest since January 2018. New export business continued to fall, however. Increases in total new orders contributed to a solid rise in backlogs of work.

Higher workloads led firms to take on extra staff at a rapid rate, with the pace of job creation the joint-fastest since the survey began in August 2002. Manufacturers posted the sharpest pace of job creation.

Inflationary pressures were also at record highs, however. The rate of input cost inflation quickened for the eighth month running and was by far the sharpest in the survey's history. Panellists reported higher prices for raw materials, transportation and staff, while often linking increased cost burdens to Brexit. The rate of charge inflation was unchanged from April's 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 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.

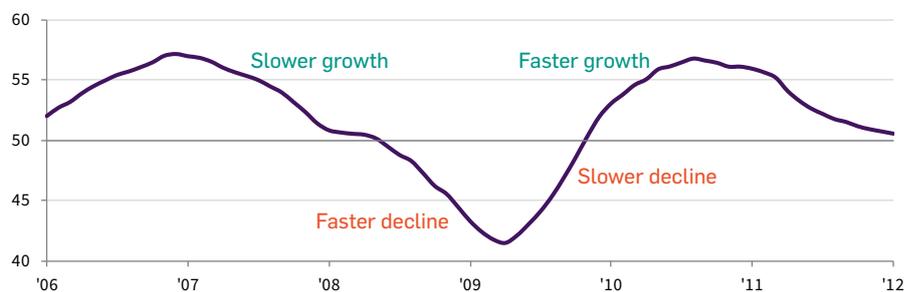
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It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

### 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:

*“PMI surveys around the world hit record highs in May. These included the UK and Republic of Ireland – the two most important economies for driving Northern Ireland’s recovery. With the further loosening of lockdown restrictions, business conditions improved significantly in Northern Ireland too. While falling short of record highs, local firms did report the fastest rates of expansion in business activity and new orders in 40 months. The last time local businesses posted faster rates of output growth was back in the summer of 2014.*

*“All four sectors saw output growth for the first time since January 2019 with retail and manufacturing recording the fastest rates of expansion with PMI readings in the sixties. Northern Ireland’s services firms finally posted a pick-up in new orders for the first time since the pandemic took hold. Construction was the only sector not to see a pick-up in new orders with incoming demand falling significantly and marking the sixth successive month of decline. This contrasted starkly with UK construction firms which saw new orders hit the fastest growth rates to date.*

*“The rest of the local PMI survey was littered with highs. Strong growth in domestic demand has led to a pick-up in hiring with local firms increasing their headcount at the joint-fastest rate on*

*record. Manufacturing led the way with staffing levels rising at the fastest pace in the survey’s history.*

*“But record highs of the negative variety were also on show with input cost inflation once again rising at a record rate. Manufacturers, retailers and construction firms also raised the prices of their goods and services at the fastest pace in the survey’s nineteen-year history. Across the UK, Northern Ireland firms continue to experience the most severe rates of inflation with firms invariably linking the increased costs and lengthening delivery times to Brexit paperwork.*

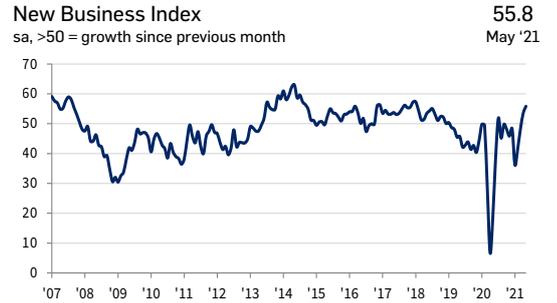
*“The outlook is certainly improving with local firms the most optimistic about output in 12 months’ time in over three years and sentiment in manufacturing hitting a new survey high. Northern Ireland could well see a new high in output growth in the next month or two. Nevertheless, significant challenges remain. Global supply chain disruption and inflationary pressures, though expected to be transitory, will act as a headwind to the rapid recovery. Meanwhile as we saw last week, the continuing saga that is Brexit and the Northern Ireland Protocol, will be a source of political and economic turbulence for the foreseeable future.”*



## Demand and outlook

### Growth of new orders accelerates

The loosening of COVID-19 restrictions helped support a second successive monthly increase in new orders during May. Moreover, the rate of expansion was marked, and quickened to the fastest since January 2018. The expansion in Northern Ireland was the softest of the 12 UK regions covered, however. Marked improvements in new orders were seen across the manufacturing, services and retail sectors, but construction posted a modest decline.



### Confidence strengthens further

Firms were at their most optimistic in just over three years during May as the prospect of further reductions in COVID-19 related restrictions boosted confidence. Around 44% of respondents expressed a positive outlook, with just 12% pessimistic. Optimism was recorded across all four broad sectors, with manufacturers the most positive.



## Business capacity

### Joint-sharpest rise in employment on record

The rate of job creation accelerated further in May, reaching the joint-fastest since the survey began in August 2002, equal with that seen in March 2014. Respondents indicated that employment had increased in line with higher workloads. Jobs growth surged to a new record high in the manufacturing sector, while a further sharp rise in employment was seen at service providers. Retail staffing levels increased modestly, while construction workforce numbers stabilised following nine months of decline.



### Solid increase in backlogs of work

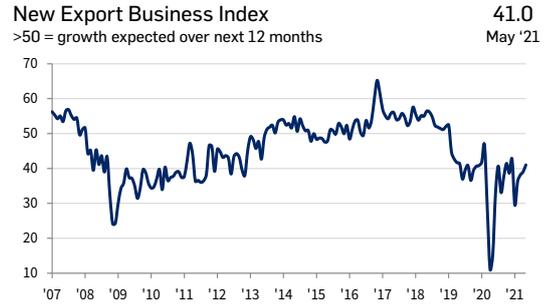
Strong growth of new orders tested capacity at firms in Northern Ireland during May. As a result, backlogs of work rose for the second month running, and at a solid pace that was the fastest since December 2017. The overall accumulation of outstanding business was led by a record expansion in the manufacturing sector.



## Exports

### Further decline in new export orders

New export orders declined sharply again during May, extending the current sequence of contraction to 28 months. That said, the rate of reduction softened for the fourth successive month and was the weakest in the year-to-date. The drop in new business from abroad in Northern Ireland contrasted with an expansion across the UK as a whole. The COVID-19 pandemic and Brexit were mentioned as factors leading new export orders to fall.



### Record improvement in export climate

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 hit a new record high in May, surpassing the previous best mark set in July 2000. The index posted at 61.0, up from 57.5 in the previous month.

Both of the two largest export markets for Northern Ireland firms - the Republic of Ireland and the US - saw record expansions in business activity during May. Elsewhere, marked increases in output were recorded in Canada and Germany, while the Netherlands posted the strongest pace of expansion in manufacturing production in more than 21 years of data collection.



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, May'21
1	Republic of Ireland	38.6%	63.5
2	USA	12.5%	68.7
3	Canada	5.6%	54.3
4	Germany	4.3%	56.2
5	Netherlands	3.9%	68.3



## Prices

### Record rise in input costs

The rate of input cost inflation continued to accelerate during May, hitting a new record high for the third successive month. Close to 70% of respondents signalled a rise in input prices during the month, with the remainder seeing no change. Higher costs for raw materials, transportation and staff were reported, with a number of firms linking increased cost burdens to Brexit. All four monitored sectors saw inflation accelerate, with retail posting the fastest rise.

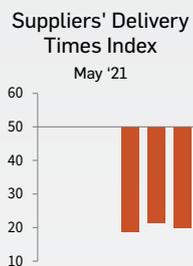
Input Prices Index 84.8  
sa, >50 = inflation since previous month May '21



### Output price inflation remains elevated

The rate of output price inflation was unchanged at the record posted in April during the latest survey period. Rising selling prices generally reflected the passing on of higher input costs to customers. The rate of inflation in Northern Ireland continued to outpace all other UK regions. Manufacturing posted the fastest increase in charges, just ahead of retail.

Prices Charged Index 69.6  
sa, >50 = inflation since previous month May '21



## Suppliers' Delivery Times

### Further steep lengthening of delivery times

Suppliers' lead times continued to lengthen substantially in May. Brexit paperwork was cited by a number of respondents as being behind delivery delays, with shipping issues and material shortages also mentioned. The rate of deterioration was slightly greater than that seen in April.



## 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, May '21
1	Food & Drink	2.10	
2	Electrical & Electronic	1.13	
3	Machinery & Equipment	1.08	
4	Textiles & Clothing	1.00	
5	Other Manufacturing	0.94	
6	Wood & Paper	0.75	
7	Metals & Metal Products	0.75	
8	Transport Equipment	0.60	
9	Chemicals, Rubber & Plastics	0.56	

#### Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '21
1	Hotels, Restaurants & Catering	1.29	
2	Other Services	1.23	
3	Transport & Communication	1.18	
4	Business-to-business Services	0.89	
5	Computing & IT Services	0.84	
6	Financial Intermediation	0.81	

### UK sector focus

#### Transport & Communication

The UK's Transport & Communication Services sector saw robust growth in activity in the three months to May, helped by a pick-up in travel as domestic COVID-19 restrictions were eased. The increase was the strongest for four years, although it followed a sharp downturn in the opening quarter of the year and inflows of new business improved only modestly.

After more than a year of continuous job cuts, employment was unchanged on average over the latest three-month period. This compared with net increases in workforce numbers in four of the five other services sub-sectors.

The cost pressures faced by Transport & Communications firms were above average for the service sector, with input price inflation at a decade high and exceeded only by that faced by Hotels, Restaurants & Catering businesses.

#### Output Index

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



## UK Regional PMI overview

### Business Activity

All monitored regions and nations of the UK saw further recoveries in business activity in May. Growth was led by the North West, narrowly ahead of the West Midlands and Wales in joint-second place. Rates of expansion even accelerated in nine out of the 12 areas. Northern Ireland was at the bottom of the rankings but nevertheless saw output growth reach a 40-month high.

### Employment

May saw a broad-based rise in employment across the UK, the first time this has been the case since March 2018. Job creation was jointly led by the West Midlands and Yorkshire & Humber. Wales and the North East recorded only modest increases in workforce numbers, though in the case of the former it marked the first rise since February 2020.

### Future Activity

Expectations towards future activity were strongly positive across all parts of the UK in May. Firms in the South East were the most upbeat, followed by those in the North West. Optimism did, however, wane in five of the 12 monitored regions. Northern Ireland closed the gap with the rest of the areas, recording the highest business confidence for over three years.

**Business Activity Index**

sa, >50 = growth since previous month, May '21



**Employment Index**

sa, >50 = growth since previous month, May '21



**Future Activity Index**

>50 = growth expected over next 12 months May '21



\*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
Dec '20	46.8	48.2	52.8	47.1	45.7	42.7	53.1	66.7	56.5	
Jan '21	38.3	36.2	50.4	46.3	39.8	29.6	47.6	69.9	58.2	
Feb '21	40.2	41.5	55.1	46.0	43.7	36.3	48.7	75.2	62.5	
Mar '21	49.7	48.2	57.8	51.7	46.5	38.2	55.2	78.1	65.9	18.7
Apr '21	55.5	53.5	61.0	54.2	52.9	39.1	57.5	79.3	69.6	21.2
May '21	58.7	55.8	66.0	56.6	54.0	41.0	61.0	84.8	69.6	20.0

### By Sector, May '21

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	60.4	57.8	71.6	62.0	64.8	88.4	78.6
Construction	56.1	42.4	57.9	50.1	52.0	93.1	72.7
Retail	61.6	57.7	60.5	51.9	52.2	97.4	77.7
Services	54.7	56.5	69.2	57.7	46.4	72.1	56.8

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