

Ulster Bank Northern Ireland PMI[®]

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Growth of business activity remains solid, but inflationary pressures intensify

Today sees the release of January data from the Ulster Bank Northern Ireland PMI[®]. The latest report – produced for Ulster Bank by Markit – pointed to a positive start to 2017, with further increases in output, new orders and employment recorded. That said, rates of expansion eased from the end of last year. Meanwhile, price pressures continued to intensify, with rates of inflation for both input costs and output prices among the sharpest in the survey's history.

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

“The Northern Ireland private sector started the year with strong momentum, as growth remained solid, albeit having eased from December's 29-month high. Employment, new business, and export orders also eased back, but the latter remains very strong, suggesting that the favourable exchange rate continues to be a significant factor in the local economy. Whilst activity eased, inflationary pressures are accelerating - another indication of the impact a weak sterling is having on local businesses through the increased cost of imports. Indeed input cost inflation increased at its fastest rate since May 2011, with higher wage pressures also cited as a significant factor. This is impacting on the prices charged to customers, with output cost inflation at its highest level since 2008. Manufacturers are experiencing the largest rise in their cost-base due to a dependence on imported materials, with a huge surge in January, the most intense inflationary pressure on record. Manufacturers are also raising the prices of their goods at a record rate, but it appears that they are trying to absorb some of the increased costs themselves to maintain competitiveness, which will inevitably impact on profitability. Retailers on the other hand appear to be passing on their increased costs entirely to the consumer, and it will be interesting to see to what extent this impacts on consumer confidence and spending in the months ahead – particularly as retail has been the fastest growing sector since mid-2016.

“Looking at construction and services, there are a number of positives. Construction activity was broadly flat in January, following a sustained period of contraction, and with employment picking up for the second month in a row, it appears that the fortunes of the sector are improving. However, anecdotally, it would appear that this improvement is almost entirely driven by Belfast, where the crane count is at its highest level since 2008. Services output growth remains solid and there was a modest acceleration in employment growth in the sector.

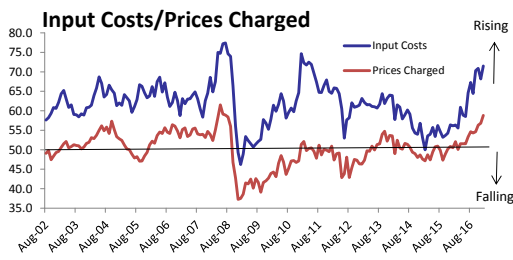
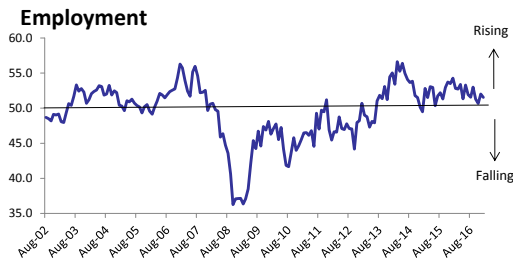
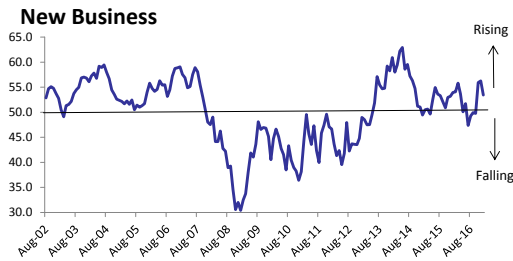
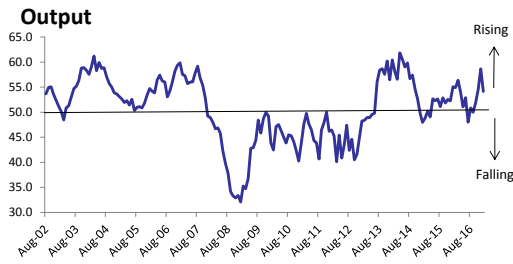
“Overall, the positives of the weak sterling, which have been prominent for a number of months, continue to be evident, but the negatives of the exchange rate are also starting to feature more and more prominently. This will be a major feature of the year ahead as inflationary pressures continue to intensify and indeed accelerate. Slower growth and higher inflation look set to be the order of the day.”

The main findings of the January survey were as follows:

The headline seasonally adjusted Business Activity Index posted 54.2 in January, above the 50.0 no-change mark for the fourth month running and signalling a solid rise in output. That said, the reading was below the 58.7 seen in December and registered a slower rate of growth than the UK average. New business rose for the third month running, albeit at the weakest pace in this sequence. Sterling weakness continued to provide support to new business from abroad in January, with firms mentioning new work from the Republic of Ireland in particular.

Backlogs of work rose again in January amid ongoing new order growth, thereby extending the current sequence of increase to three months. Employment also increased modestly during the month.

Meanwhile, input price inflation quickened to the fastest since May 2011. Sterling weakness was the primary factor leading input prices to rise, while higher costs for staff and fuel were also mentioned. Manufacturing input prices increased at the fastest pace seen in over 14 years of data collection. The passing on of higher input costs to clients resulted in the sharpest rise in charges in eight-and-a-half years. Both the manufacturing and retail sectors saw record increases in selling prices.



Summary of data

50 = no change on previous month

		2015	2016	Nov '16	Dec	Jan '17
Output/Activity	N.Ire	51.2	53.2	54.5	58.7	54.2
	UK	56.4	53.3	55.1	56.5	55.2
New Business	N.Ire	52.0	52.3	55.9	56.3	53.5
	UK	56.7	53.3	54.8	57.9	55.9
Backlogs	N.Ire	48.7	50.1	54.6	51.1	50.9
	UK	50.5	49.3	50.8	51.2	49.8
Employment	N.Ire	52.1	52.4	50.7	52.0	51.5
	UK	55.3	51.9	52.6	52.8	51.6
Input Costs	N.Ire	54.0	62.7	70.9	68.2	71.5
	UK	52.8	58.8	66.8	66.8	69.1
Prices Charged	N.Ire	49.1	53.1	56.3	56.8	58.8
	UK	50.5	52.2	53.9	54.7	55.3

Full historical data may be obtained from IHS Markit.
Contact economics@ihsmarkit.com.

Notes on data

The survey data are presented as index numbers, which are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

Reasons given by survey respondents for any changes are analysed to provide insight into the causes of movements in the indices and are also used to adjust for expected seasonal variations. The indexes are seasonally adjusted to take into consideration expected variations for the time of year, such as summer holiday shutdowns and national holidays such as Christmas.

Sector data published in the Ulster Bank Northern Ireland PMI[®] report are intended to give an indication of underlying trends in the manufacturing, services and construction industries within the Northern Ireland private sector economy. Data at the sector level are more volatile than the headline total private sector economy figures, and month-on-month movements in the sector data should therefore be treated with a degree of caution.

Press information

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