

NI manufacturing experiences recovery in demand. But manufacturing a fall in energy costs is really needed.

Contact: Richard Ramsey
Chief Economist, Northern Ireland
02890 276354 or 07881 930955

Richard.ramsey@ulsterbankcm.com
www.ulsterbank.com/economics
Twitter @UB_Economics

Appears in Belfast Telegraph Business Month published 3rd March 2014

Over the past month, I've had the opportunity to travel around Northern Ireland to meet with local companies at Ulster Bank's Ahead for Business events. This has shed new light on the depth and breadth of Northern Ireland's manufacturing sector, alerting me to some smaller, but very innovative companies that I don't know even existed. This coincided with a particularly positive reading for the Northern Ireland manufacturing sector from the latest Ulster Bank PMI, with Northern Ireland reporting the fastest rate of output growth in manufacturing of all the Markit PMIs. So, I thought it was worth looking at the sector in more detail.

Firstly, the background. Prior to the downturn - even during the 'good times' - manufacturing employment levels in Northern Ireland were following a downward trajectory. In the spring of 1998, there were close to 105,000 employees within the manufacturing sector. The bursting of the dot.com bubble and the events surrounding 9/11 hit the local engineering sector hard and pushed manufacturing employment below the 100,000 mark in 2001. Whilst output recovered from 2003, and continued to increase until the global recession struck in 2008, the job losses continued before levelling out around the 84,000 mark from 2005 to early 2008. Both output and employment were to plunge following the fastest collapse in global trade since World War II in the second half of 2008.

Manufacturing output was to fall by one fifth from its pre-downturn peak. Meanwhile Northern Ireland was to lose more than 1 in 8 (over 11,000) of all manufacturing jobs and hitting a low of 73,000 jobs in 2010 in the process.

Fast forward a few years and both the performance and outlook of the local manufacturing sector are much brighter. As of Q3 2013, the manufacturing sector had recouped over 40% of the output lost during the recession and close to one third of the jobs lost (+3,400). Encouragingly, over 90% of the jobs created in manufacturing have been full-time as opposed to part-time employment. The more timely PMI surveys suggest even more lost output and employment has been recouped by Northern Ireland's manufacturing firms in recent months. And robust order books suggest further growth in output and employment can be expected in the months ahead.

Looking at the broad aggregate performance of the sector conceals vastly differing performance at a sub-sector level. Indeed, two sub-sectors posted record highs in output in Q3 2013. The Chemical & Pharmaceutical Products sector, which includes firms such as Norbrook, Almac and Randox, has been one of a few sectors that have completely avoided the downturn. Output within the Chemicals & Pharmaceutical Products sector in Q3 2013 increased by 14% y/y and output was some 19% higher than it was four years ago.

Meanwhile, the star performer within the wider engineering sector has been Transport Equipment. This includes Bombardier, Schrader Electronics, SDC Trailers and Wrightbus. It has seen output surge by almost 83% since the low of Q3 2009. More recently, the construction recoveries in the RoI and GB are feeding through into NI's manufacturing sector - that is those sub-sectors involved in the manufacture of construction-related materials. For example, during the last two quarters (to Q3 2013), output within the Basic Metals & Fabricated Metal Products sector have increased by 28%.

Meanwhile Rubber & Plastics, which includes firms such as Brett Martin and the Michelin tyre plant, have seen output increase by almost 14% over the same time period.

Another aspect of manufacturing that Northern Ireland excels at concerns quarrying machinery. Tyrone is the hotbed for quarrying and mining equipment within the wider Machinery & Equipment sector. As Prime Minister David Cameron said at the Invest NI-organised investment conference in the Autumn, Northern Ireland produces 40 per cent of the world's mobile quarrying equipment. Key firms within this sector include CDE Engineering and Terex. The wider Machinery & Equipment sector saw its output plummet by 50% following the onset of the global recession. However, following an extremely difficult couple of years, the sector has recouped 40% of its output lost during the recession.

Whilst demand for Northern Ireland's manufacturing products has improved within the last few years a number of challenges remain. Demand within the Eurozone, which accounts for 15% of all of Northern Ireland's manufacturing sales (£2.2bn), remains subdued. Sterling's recent strength on the currency markets, particularly against the euro, will make Northern Ireland's food and drink sales less price competitive than they have been over the last few years. A stronger currency does though reduce the price of imports such as raw materials.

A key concern amongst local manufacturers remains Northern Ireland's high energy costs. Falling fuel costs in the US, stemming from the fracking of oil and gas, has provided a significant boost to the US manufacturing industry by lowering its cost base. Industrial electricity costs in the EU are now double that of the US and 20% higher than China. Meanwhile Northern Ireland's manufacturers pay the second highest electricity costs in the EU. This is a major cost disadvantage for local manufacturers and poses the threat that some of our flagship exporters may need to relocate outside of Northern Ireland to retain competitiveness.

Fortunately NI's manufacturing sector has reversed the trend of falling demand, and a meaningful, broad-based recovery is underway. So, demand is no longer the issue, cost is. If this isn't addressed, some firms may contemplate taking their business elsewhere.

*Richard Ramsey,
24th February 2014*

This document is issued for information purposes only for clients of Ulster Bank Group who are eligible counterparties or professional customers, and does not constitute an offer or invitation to purchase or sell any instrument or to provide any service in any jurisdiction where the required authorisation is not held. Ulster Bank and/or its associates and/or its employees may have a position or engage in transactions in any of the instruments mentioned.

The information including any opinions expressed and the pricing given, is indicative, and constitute our judgement at time of publication and are subject to change without notice. The information contained herein should not be construed as advice, and is not intended to be construed as such. This publication provides only a brief review of the complex issues discussed and readers should not rely on information contained here without seeking specific advice on matters that concern them. Ulster Bank make no representations or warranties with respect to the information and disclaim all liability for use the recipient or their advisors make of the information. Over-the-counter (OTC) derivatives can involve a number of significant and complex risks which are dependent on the terms of the particular transaction and your circumstances. In the event the market has moved against the transaction you have undertaken, you may incur substantial costs if you wish to close out your position.

Ulster Bank Limited Registered Number: R733 Northern Ireland. Registered Office: 11-16 Donegall Square East, Belfast BT1 5UB. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Member of The Royal Bank of Scotland Group.

Ulster Bank Ireland Limited . A private company limited by shares , trading as Ulster Bank , Ulster Bank Group and Bank Uladh. Registered in Republic of Ireland. Registered No. 25766. Registered Office: Ulster Bank Group Centre, George's Quay, Dublin 2. Member of the Royal Bank of Scotland Group. Ulster Bank Ireland Limited is regulated by the Central Bank of Ireland.

Calls may be recorded.