

Ulster Bank Northern Ireland PMI[®]

Activity declines for first time since July 2016

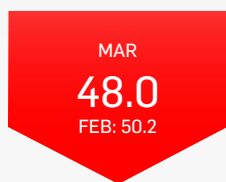
Key Findings

Brexit uncertainty leads to falls in output and new orders

Sharpest reduction in employment since April 2013

Business sentiment remains negative

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Mar-19
Manufacturing	51.2
Construction	46.0
Retail (3mma)	43.6
Services	48.9

Brexit uncertainty pushed the Northern Ireland private sector into decline in March, according to the latest Ulster Bank PMI[®] report. Business activity decreased for the first time since July 2016, while the rate of decline in new orders gathered pace. This was also the case with regards to employment, which decreased to the greatest extent in almost six years.

The headline seasonally adjusted Business Activity Index fell below the 50.0 no-change mark in March to signal a monthly reduction in output in the Northern Ireland private sector. The reading of 48.0 was down from 50.2 in February and brought an end to a 29-month sequence of expansion. The UK as a whole, meanwhile, saw no change in output at the end of the third quarter. Brexit uncertainty and an associated drop in new orders was reportedly behind the decline.

Reductions in activity were seen in the service, construction and retail sectors, with only manufacturing seeing an improvement in output over the month.

Demand

New orders fell for the second month running in March. Although modest, the rate of contraction quickened from that seen in February. As was the case with output, manufacturing was the only sector to see a rise in new orders, and even that was only marginal. Meanwhile, new export business decreased at a substantial pace that was the fastest since May 2013.

Capacity

With new orders declining again, companies were able to work through outstanding business. Backlogs have now decreased in each of the past eight months, with the latest fall the sharpest in just over four years.

Signs of spare capacity fed through to a scaling back of workforce numbers, as has been the case throughout 2019 so far. Furthermore, the rate of job cuts was solid, having quickened to the steepest since April 2013. Service providers, manufacturers and construction firms all lowered employment in March.

Prices

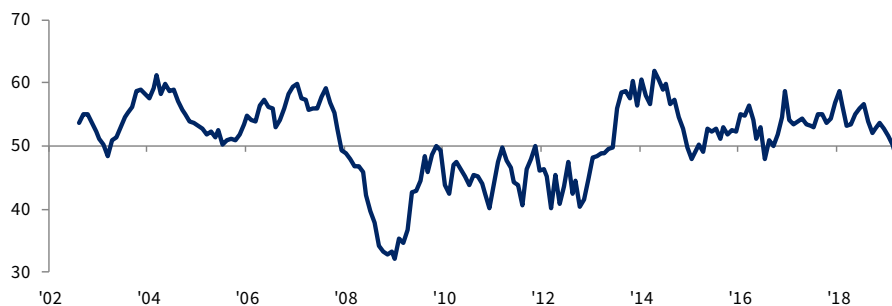
Northern Ireland companies continued to see input prices rise more quickly than the UK average in March. The rate of inflation quickened slightly from the previous month, with higher staff costs widely mentioned.

In contrast, the rate of output price inflation softened to a 32-month low as some firms lowered charges as part of efforts to attract new business.

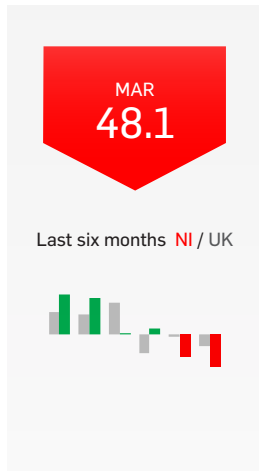
Outlook

Business confidence sank further in March, with companies pessimistic regarding the 12-month outlook for activity for the second successive month. Brexit uncertainty and the possibility of a 'no-deal' scenario were behind pessimism. Falling activity was predicted across the service, construction and retail sectors.

Northern Ireland Business Activity Index
sa, >50 = growth since previous month



New Business Index



Further decline in new orders during March

New business decreased for the second month running at the end of the first quarter of 2019, with panellists linking the latest fall to Brexit uncertainty. The rate of contraction was modest, but quickened to the fastest since July 2016 and was sharper than that seen across the UK as a whole. Lower new orders were recorded across the service, construction and retail sectors. Only manufacturing posted a rise in new work in March, but even there the rate of expansion was marginal and the slowest in almost two-and-a-half years.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-19	50.4	45.1	43.5	49.5

Outstanding Business Index

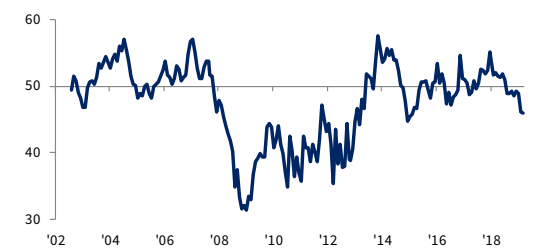


Backlogs of work fall at solid pace

A further decline in new business resulted in a fall in backlogs of work again in March. Outstanding business has now decreased in each of the past eight months, with the latest reduction the most marked in just over four years. Northern Ireland companies worked through backlogs at a faster pace than their counterparts across the UK as a whole. Each of the four broad sectors saw outstanding business decline.

Outstanding Business Index

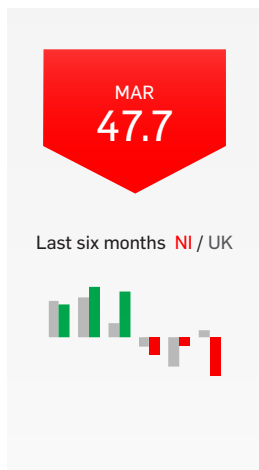
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-19	48.9	43.4	44.7	45.2

Employment Index



Job shedding gathers pace

As has been the case throughout 2019 so far, employment decreased in the Northern Ireland private sector in March. Furthermore, the rate of job cuts was solid, having accelerated to the steepest since April 2013. Some panellists responded to lower order books by reducing their workforce numbers, while others reported staff resignations. Services employment fell at the fastest pace in almost six-and-a-half years, while declines were also registered in manufacturing and construction. Bucking the overall trend, retailers increased staffing levels marginally.

Employment Index

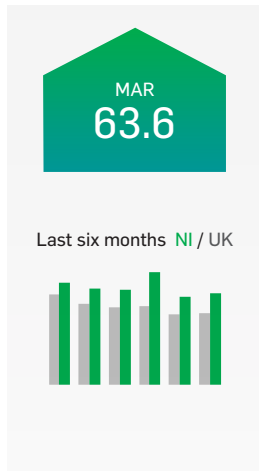
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-19	48.5	49.9	50.6	47.1

Input Prices Index



Marked increase in input prices

The rate of input cost inflation in the Northern Ireland private sector ticked up in March and was sharp overall. Firms in Northern Ireland continued to record a faster rise in input prices than their counterparts across the UK. Higher staff costs were widely mentioned by panellists, while there were some reports of suppliers having raised prices. Retail again recorded the sharpest pace of cost inflation of the four monitored sectors.

Input Prices Index

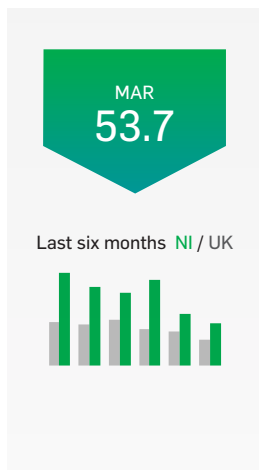
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-19	61.4	60.8	70.8	63.9

Prices Charged Index



Weakest rise in output prices for 32 months

While the rate of input cost inflation remained marked at the end of the first quarter of the year, the pace at which companies raised their own selling prices continued to soften. The rate of charge inflation eased for the second month running and was the weakest since July 2016. While some panellists reported having raised selling prices in line with higher cost burdens, others offered discounts in an effort to generate greater new order volumes.

Prices Charged Index

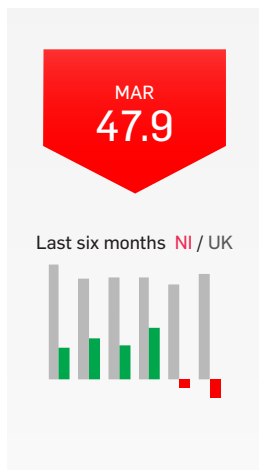
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-19	53.4	56.5	57.5	52.9

Future Output Index

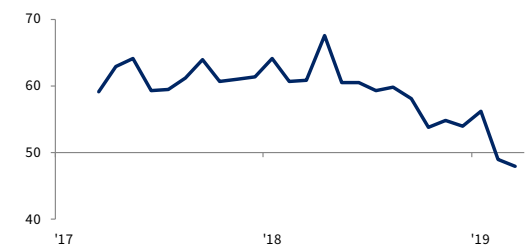


Business sentiment hits new low in March

For the second successive month, Northern Ireland was the only one of the 12 UK regions to forecast a fall in business activity over the coming year. Sentiment dropped again in March and was the lowest since the series began in March 2017. Uncertainty surrounding Brexit and the potential for a 'no-deal' outcome led firms to be pessimistic. On a more positive note, investment in new products was seen as a factor likely to boost output. The service, construction and retail sectors all predicted a fall in activity over the next 12 months, with only manufacturers forecasting an improvement.

Future Output Index

>50 = growth expected over next 12 months

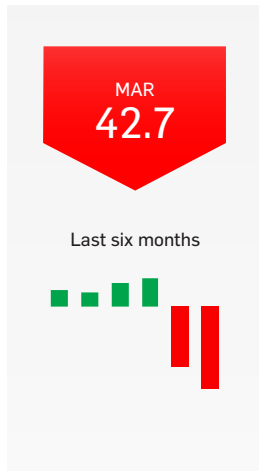


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-19	58.3	41.7	47.8	46.1

New Export Business Index

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



Substantial fall in new business from abroad

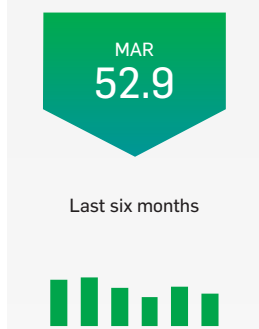
March data pointed to a sharp contraction in new export orders at companies in Northern Ireland, with the rate of decline the fastest since May 2013. The fall was the second in as many months, and linked by panellists to market uncertainty.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



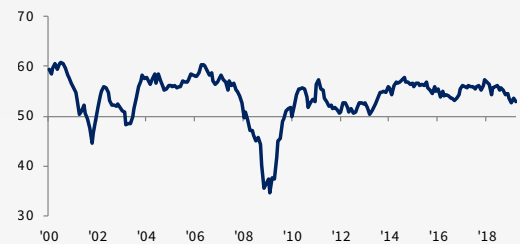
Demand in export markets continues to rise solidly

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.

While new export orders decreased sharply, the Northern Ireland Export Climate Index reinforced the survey's anecdotal evidence in suggesting that this was largely due to Brexit uncertainty rather than falling underlying demand in export markets. The Export Climate Index posted 52.9 in March, down from 53.6 in February but still signalling an improving demand environment for exporters.

Business activity in the Republic of Ireland continued to rise, albeit at a slower pace in March. Meanwhile, weaker growth was also seen in other key export markets such as the US, Canada and Germany.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Mar-19
1	Republic of Ireland	31.7%	54.1
2	USA	17.1%	54.3*
3	Canada	5.6%	50.6
4	France	5.2%	48.9
5	Germany	4.7%	51.4

* 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, Mar-19 (3mma)
1	Food & Drink	1.72	
2	Machinery & Equipment	1.20	
3	Other Manufacturing	1.16	
4	Electrical & Electronic	1.08	
5	Textiles & Clothing	0.92	
6	Wood & Paper	0.89	
7	Metals & Metal Products	0.78	
8	Transport Equipment	0.74	
9	Chemicals, Rubber & Plastics	0.68	

40 45 50 55 60

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Mar-19 (3mma)
1	Hotels, Restaurants & Catering	1.31	
2	Other personal/consumer Services	1.23	
3	Transport & Communication Services	1.20	
4	Business-to-business Services	0.85	
5	Financial Intermediation	0.84	
6	Computing & IT Services	0.84	

45 50 55 60

UK Sector Focus: Hotels, Restaurants & Catering

Output Index



Last six months*



*3mma

Hotels, restaurants & catering sector sees fall in output and sharp squeeze on margins in first quarter

The UK's hotels, restaurants & catering sector struggled during the opening quarter of the year, as Brexit uncertainty weighed on demand and operating costs rose sharply.

Following a brief period of growth around the turn of the year, activity in the sector fell back into contraction in the three months to March, in turn leading to further job losses. Firms' appetite for new hires was further suppressed by a gloomy outlook for activity, with future expectations running at close to the lowest in almost a decade.

Meanwhile, hotels, restaurants & catering saw the sharpest rise in costs of all services sub-sectors monitored by PMI data, linked in part to wage pressures and increases in energy and food prices. However, output charges barely rose as firms struggled to pass higher costs onto customers, pointing to a sharp squeeze on operating margins.

Output Index

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



Future Business Activity Index

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



UK Regional Rankings

Business Activity

The North West was the UK's fastest-growing area for business activity in March, followed by Wales. However, both recorded slower rates of expansion, as was the case in the East and West Midlands – ranked fourth and fifth respectively. Yorkshire & Humber was ranked third overall, but registered a modest rate of growth that was unchanged since February. Output stagnated in the South East and fell in all remaining areas. London recorded the steepest overall decline – its most marked since July 2016.

Employment

Employment growth in March was jointly led by the North West and West Midlands, ahead of Yorkshire & Humber and the South East. Of the remaining areas, only Wales and Scotland record an increase in workforce numbers during the month. London, the South West, East of England, East Midlands, Northern Ireland and North East all saw reductions in employment, with the latter seeing a decline for the ninth month in a row.

Output Index by region

sa, >50 = growth since previous month, Mar-19 (Feb-19)



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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

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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Ulster Bank is a member of The Royal Bank of Scotland Group. Ulster Bank acts as a full service institution to its customer base, providing an extensive range of retail banking, business banking, investment banking and capital markets services to corporate, personal and institutional clients.

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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