

Ulster Bank Northern Ireland PMI[®]

Employment falls for first time in four years

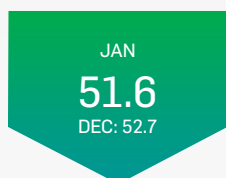
Key Findings

Output growth at 28-month low

Employment falls for first time in four years

Business sentiment remains muted

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Jan-19
Manufacturing	53.4
Construction	52.2
Retail (3mma)	46.2
Services	51.5

Business conditions in Northern Ireland were subdued at the start of 2019 amid Brexit uncertainty, according to the latest Ulster Bank PMI[®] report. Business activity rose at the weakest pace in 28 months, while new orders increased only marginally. As a result, companies lowered staffing levels for the first time in four years.

The headline seasonally adjusted Business Activity Index dropped to 51.6 in January, down from 52.7 in December and signalling a slowdown in the rate of output growth for the second month running. In fact, the latest rise in activity was the weakest in the current 28-month sequence of expansion. Subdued growth was also recorded across the UK as a whole, with the increase softer than that seen in Northern Ireland.

Output growth was registered in the manufacturing, services and construction sectors, while retail activity decreased.

Demand

Brexit uncertainty reportedly limited the pace of output growth, while also restricting new order inflows. Some firms were able to secure new business, however, and new orders rose marginally following no change in December. New business fell at the UK-level. On a more positive note, growth of new export orders quickened for the second month running.

Capacity

Subdued demand conditions led to a first

reduction in staffing levels in Northern Ireland in four years. Employment fell slightly during January, with a number of panellists reporting staff resignations. Workforce numbers decreased in the manufacturing and services sectors, but increases were recorded in construction and retail.

Despite a reduction in operating capacity, backlogs of work continued to fall, extending the current sequence of depletion to six months. Panellists reported working through outstanding business amid a lack of new orders.

Prices

Input prices rose at a faster pace in January, with the rate of inflation at a five-month high. Sterling weakness contributed to increased material prices, while staff costs were also reportedly higher at the start of 2019.

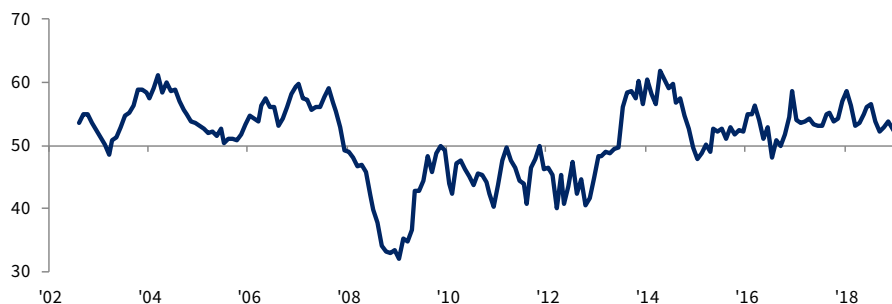
Respondents indicated that higher input costs were behind a further increase in output prices. Charges were up sharply, and to the greatest extent in three months.

Outlook

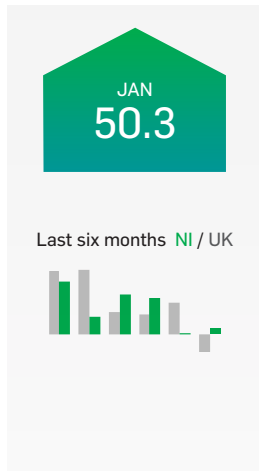
Although sentiment around the 12-month outlook for business activity improved to a four-month high in January, confidence remained muted amid continued Brexit uncertainty. Those panellists expecting output to rise often linked this to marketing plans and new product launches. Sentiment in Northern Ireland was the second-lowest of all 12 UK regions (above only the North East).

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



New Business Index



Marginal increase in new business

New orders returned to growth in January, following stagnation at the end of 2018. That said, the rate of expansion was only marginal. Although a number of firms were able to secure greater new order volumes, others signalled a fall in new business amid ongoing Brexit uncertainty. Meanwhile, new orders decreased across the UK as a whole. Both the construction and retail sectors saw new business decline, while services recorded a return to growth. The manufacturing sector remained the best performer at the start of the year.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-19	53.5	47.6	46.7	50.6

Outstanding Business Index

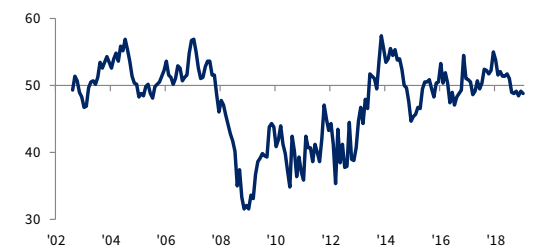


Further reduction in backlogs of work

As has been the case in each of the past six months, outstanding business decreased in the Northern Ireland private sector during January. The rate of depletion was modest, but slightly stronger than seen in December. Panellists reported having worked on existing projects as a result of a lack of new business. The manufacturing sector was the only one to see a rise in backlogs at the start of 2019.

Outstanding Business Index

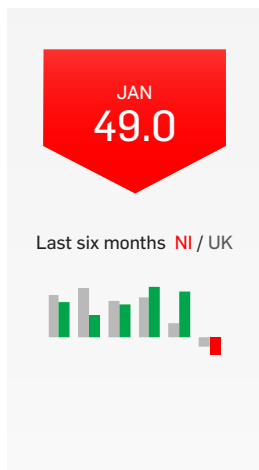
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-19	50.4	46.9	48.2	48.4

Employment Index



Northern Ireland firms reduce employment

Staffing levels decreased in Northern Ireland during January, thereby ending a 47-month sequence of job creation. A number of panellists reported staff resignations. Employment also fell across the UK economy as a whole. Manufacturing staffing levels decreased for the first time in six months, while a drop in services employment ended a 28-month run of growth. However, companies in the construction and retail sectors continued to increase workforce numbers.

Employment Index

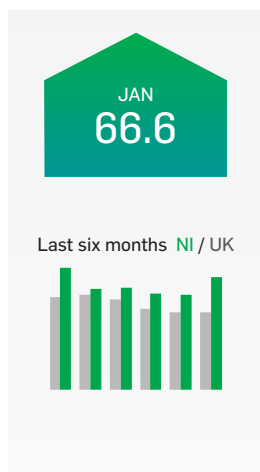
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-19	49.7	54.2	50.6	48.4

Input Prices Index



Rate of cost inflation at five-month high

After having eased towards the end of 2018, the rate of input cost inflation accelerated in January. Input prices rose sharply, and to the greatest extent since last August. The rate of inflation in Northern Ireland was much faster than the UK average. Some panellists reported higher material prices, exacerbated by sterling weakness. Meanwhile, other respondents mentioned rising staff costs.

Input Prices Index

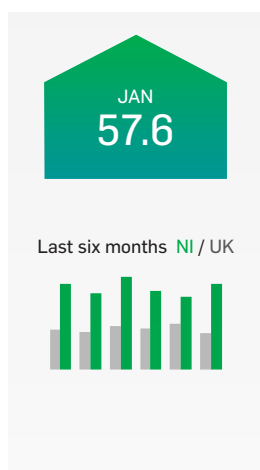
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-19	66.5	69.7	67.9	65.5

Prices Charged Index



Output prices rise markedly again in January

In line with the picture for input costs in January, output prices increased at a sharp pace during the month. In fact, panellists directly linked rises in selling prices to input cost increases. The latest round of charge inflation was the fastest in three months and much stronger than the series average. Marked rises were seen across all four monitored sectors, led by construction.

Prices Charged Index

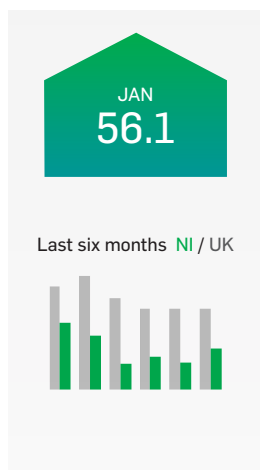
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-19	57.7	61.8	58.0	55.4

Future Output Index

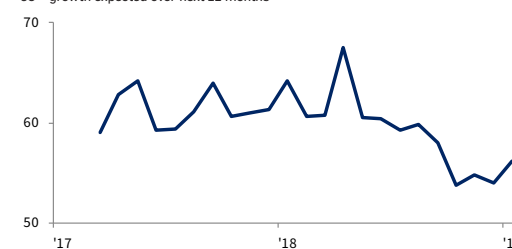


Business confidence remains muted

Sentiment among companies in Northern Ireland picked up slightly at the start of 2019 and was at a four-month high. That said, optimism remained muted relative to the two-year series history. A number of respondents expect marketing activity to help drive growth of activity, with the launch of new products also set to lead output to rise. Brexit uncertainty restricted the level of optimism, however. Manufacturing and services companies were more confident than their counterparts in construction and retail.

Future Output Index

>50 = growth expected over next 12 months

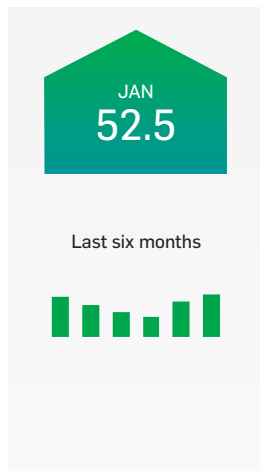


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-19	60.8	43.8	51.2	60.1

New Export Business Index

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



Solid increase in new business from abroad

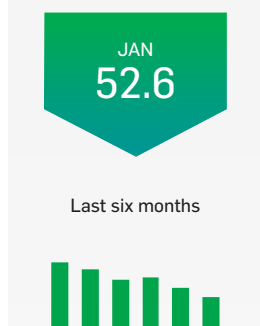
Northern Ireland companies recorded an increase in new export orders during January, extending the current sequence of growth to 31 months. The rate of expansion was solid, having quickened for the second month running to the fastest since July last year. Some respondents indicated that sterling weakness had helped them to secure new business from customers in the Republic of Ireland.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



Export climate improves at weaker pace as Irish growth softens

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 posted 52.6 in January, down from 53.5 in the previous month and signalling a further easing in the rate of improvement in the climate facing Northern Ireland exporters. The latest reading was the lowest since June 2013.

The Republic of Ireland is Northern Ireland's principal export market and recent months have seen a slowdown in the rate of output growth. The latest rise was the weakest in just over five-and-a-half years. The US, meanwhile, maintained a solid pace of expansion at the start of the year, with output rising at the same pace as in December.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jan-19
1	Republic of Ireland	31.7%	53.3
2	USA	17.1%	54.4
3	Canada	5.6%	51.9
4	France	5.2%	48.2
5	Germany	4.7%	52.1

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.

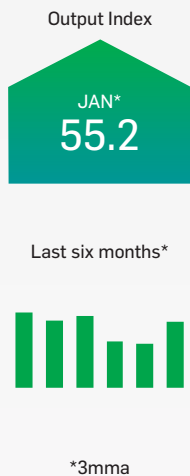
Manufacturing specialisation: Northern Ireland

Rank	Sector	LQ	UK Output Index, Jan-19 (3mma)
1	Food & Drink	1.72	55
2	Machinery & Equipment	1.20	50
3	Other Manufacturing	1.16	55
4	Electrical & Electronic	1.08	50
5	Textiles & Clothing	0.92	55
6	Wood & Paper	0.89	50
7	Metals & Metal Products	0.78	48
8	Transport Equipment	0.74	45
9	Chemicals, Rubber & Plastics	0.68	50

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Jan-19 (3mma)
1	Hotels, Restaurants & Catering	1.31	55
2	Other personal/consumer Services	1.23	50
3	Transport & Communication Services	1.20	45
4	Business-to-business Services	0.85	50
5	Financial Intermediation	0.84	50
6	Computing & IT Services	0.84	55

UK Sector Focus: Computer & IT Services

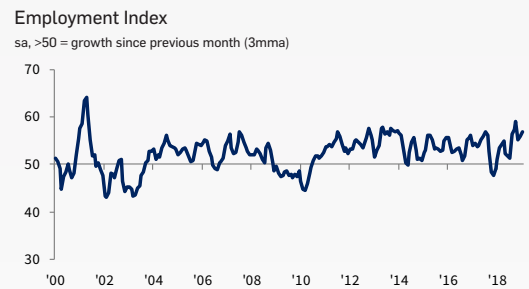
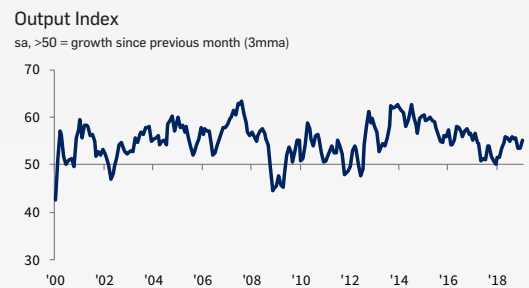


Strong growth in UK tech services defies broader economic slowdown

As the UK private sector saw growth ease to near-stagnation at the start of the year, one area that continued to exhibit a robust rate of expansion was computing & IT services.

The increase in output during the three months to January was the steepest among all the broad service sectors monitored by the survey. And it was supported by strong underlying demand, with computing & IT firms recording the sharpest rise in inflows of new work since mid-2018.

Encouraged by growing workloads and a positive outlook for activity in the year ahead, firms in the sector continued to add to their staffing numbers. Moreover, the rate of job creation gathered pace and was one of the quickest seen over the past five years. This increased demand for staff was in turn reflected in sustained strong wage pressures across sector.



UK Regional Rankings

Business Activity

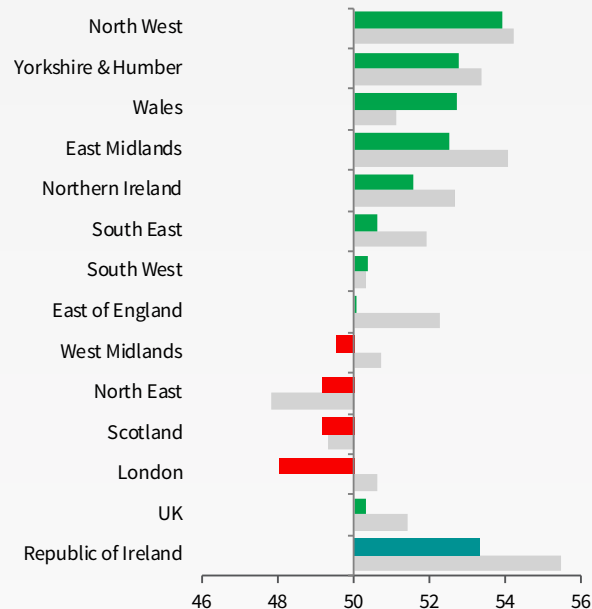
The North West saw the strongest business activity growth for the second month running in January, followed by Yorkshire & Humber and Wales. The latter was the only area of the UK where growth improved significantly from December, with performances deteriorating in most other parts. Notably, London and Scotland saw business activity drop to the greatest extent since July 2016 and August 2016 respectively. The West Midlands and North East also recorded contractions in output, while business activity in the East of England stagnated, to end a six-year spell of growth in the region.

Employment

The North West and Yorkshire & Humber jointly-led the regional rankings for employment growth in January, albeit at a rate that was only modest overall. A fall in employment was recorded in seven of the 12 monitored regions, the highest number since November 2012. The steepest decrease was seen in the North East, where a decline has been recorded in each of the past seven months.

Output Index by region

sa, >50 = growth since previous month, Jan-19 (Dec-18)



Contact

Ulster Bank

Richard Ramsey
Chief Economist, Northern Ireland
T +44 (0)28 9027 6354
M +44 (0)7881 930955
richard.ramsey@ulsterbankcm.com
Web: www.ulstereconomix.com
Twitter: @UB_Economics

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.

About Ulster Bank

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.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and entered on the Financial Services Register (Registration Number 122315).

Ulster Bank Limited. Registered in Northern Ireland. Registration Number R733. Registered Office: 11-16 Donegall Square East, Belfast BT1 5UB.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

Disclaimer

The Ulster Bank Northern Ireland PMI® is issued exclusively for the general information of clients, contacts and staff of Ulster Bank. The contents are not a substitute for specific advice and should not be relied upon as such. Accordingly, whilst every care has been taken in the preparation of this publication, no representation or warranty is made or given in respect of its contents and no responsibility is accepted for the consequences of any reliance placed on it by any person.

The intellectual property rights to the Ulster Bank Northern Ireland PMI® provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Ulster Bank uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.