

Ulster Bank Northern Ireland PMI[®]

Export orders fall at their fastest pace in 69 months

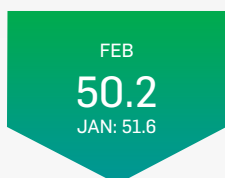
Key Findings

Activity rises fractionally amid decline in new business

Staffing levels fall for second month running

Business sentiment lowest in two-year series history

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Feb-19
Manufacturing	49.9
Construction	48.2
Retail (3mma)	44.7
Services	52.5

Business activity in Northern Ireland rose only fractionally in February, according to the latest Ulster Bank PMI[®] report. The near-stagnation in output reflected Brexit worries, with total new orders falling for the first time in 28 months, new export business down sharply and business sentiment turning negative. Meanwhile, companies lowered their staffing levels for the second month running.

The headline seasonally adjusted Business Activity Index dropped to 50.2 in February from 51.6 in January. The latest reading signalled only a fractional monthly increase in private sector output, and one that was the weakest in the current 29-month sequence of growth.

While some panellists saw output rise due to work on backlogs and as part of Brexit contingencies, others signalled that Brexit uncertainty had led to falls in activity. Services was the only sector to see activity rise. Manufacturing production stagnated, while declines were seen in construction and retail.

Demand

Brexit uncertainty also had a negative impact on new orders during the month, with some customers holding off committing to new projects. As a result, new business decreased for the first time since October 2016. New export orders, meanwhile, decreased sharply, ending a 31-month sequence of growth. The rate of contraction was the fastest since May 2013 amid Brexit uncertainty and a slowdown in economic growth across Europe.

Capacity

Declining new orders led to another monthly reduction in backlogs of work in February. Moreover, the rate of depletion was the sharpest in four years.

With new orders decreasing, companies lowered their staffing levels for the second successive month. That said, the rate of job cuts softened from January and was only marginal. The fall in employment in Northern Ireland was also softer than that seen across the UK economy as a whole.

Prices

The rate of input cost inflation eased to a 19-month low in February, but remained marked amid reports of currency weakness and supplier price increases. While input prices rose at softer rates across most of the four monitored sectors, retailers posted the fastest increase since November 2017.

Output prices also increased at a weaker pace midway through the first quarter. The latest rise in charges was the slowest since October 2016.

Outlook

Businesses were pessimistic regarding the 12-month outlook for output for the first time in the two-year series history. Negative sentiment generally reflected Brexit and associated uncertainty, which is expected to limit new order inflows.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



New Business Index

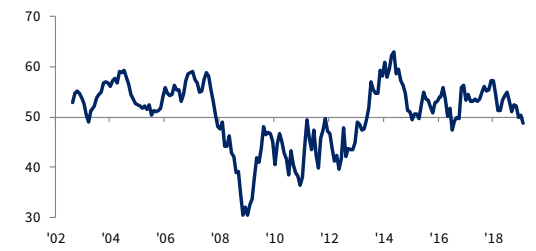


New orders fall for first time in 28 months

February data signalled a fall in new orders across the Northern Ireland private sector, the first decline since October 2016. According to panellists, Brexit was the key factor leading new business to decrease, while a recent softening of economic conditions across Europe also hit exports. New orders also decreased at the UK level, but to a lesser extent than in Northern Ireland. Declines were recorded in the construction and retail sectors, with modest growth registered in manufacturing and services.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-19	51.0	45.3	41.9	52.2

Outstanding Business Index

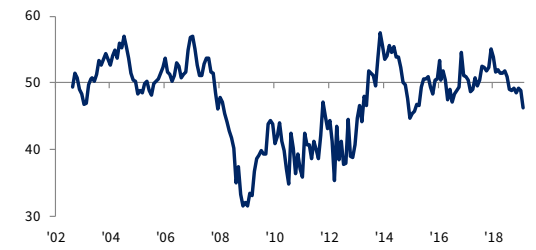


Marked reduction in backlogs of work

With new orders starting to fall in February, companies reduced their backlogs of work to a greater extent. In fact, the latest decline in outstanding business was the steepest in four years. Backlogs of work decreased across the services, construction and retail sectors, with only manufacturing firms recording an increase in work-in-hand over the month.

Outstanding Business Index

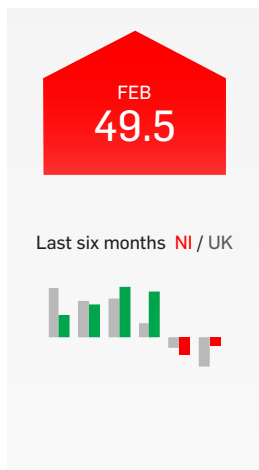
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-19	51.0	42.5	43.7	48.1

Employment Index



Employment falls for second month running

Northern Ireland companies reduced their staffing levels for the second month running in February. That said, the rate of job cuts was weaker than that seen in January and softer than the UK average. Where employment decreased, panellists often linked this to staff resignations. Data indicated that the overall reduction in employment was centred on the service sector as the other three sectors each posted modest increases in staffing levels.

Employment Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-19	50.8	51.9	50.6	48.4

Input Prices Index



Rate of cost inflation at 19-month low

Although input prices continued to increase at a sharp pace during February, the rate of inflation softened to the weakest since July 2017. Where input prices rose, respondents mentioned currency weakness and supplier price increases. Bucking the wider trend, retailers posted the sharpest pace of cost inflation for 15 months, seeing the steepest increase of the four monitored sectors.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-19	62.6	63.2	71.3	62.8

Prices Charged Index



Slower rise in output prices

In line with the picture for input costs, the rate at which Northern Ireland firms raised their selling prices softened in February. The rate of inflation was much weaker than seen at the start of the year, and the slowest since October 2016. The rise in Northern Ireland continued to outpace the UK average, however. Retailers signalled the fastest increase in selling prices, while service providers posted the slowest inflation since July 2017.

Prices Charged Index

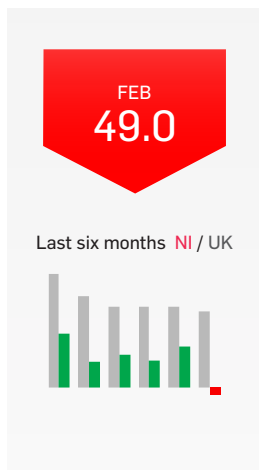
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-19	55.6	56.8	62.9	52.1

Future Output Index

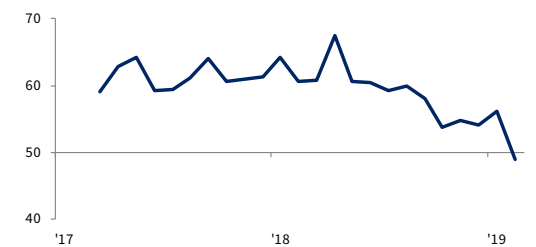


Northern Ireland firms pessimistic in February

The Future Output Index posted below 50.0 for the first time in the two-year series history in February, signalling pessimism among Northern Ireland companies regarding the 12-month outlook for business activity. Northern Ireland was the only UK region to signal a negative outlook. Brexit, and its effect on order inflows, was the key factor behind pessimism, with uncertainty about the future trading relationship with the EU and potential for a 'no-deal' scenario hitting sentiment. Falls in output were predicted in the services, construction and retail sectors, with only manufacturing displaying some optimism in the latest survey period.

Future Output Index

>50 = growth expected over next 12 months

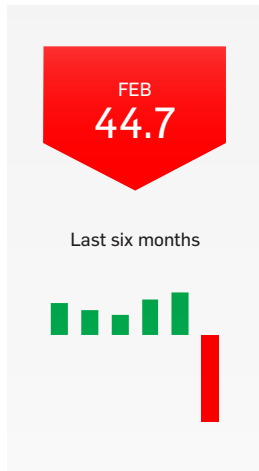


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-19	56.3	40.5	47.8	49.3

New Export Business Index

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



New export orders fall sharply

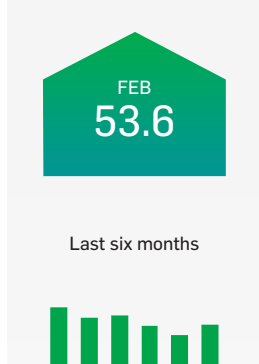
February data signalled a steep decline in new business from abroad at Northern Ireland companies. The fall in new export orders was the fastest since May 2013 amid Brexit uncertainty and a wider economic slowdown evident across Europe. Prior to February, new business from abroad had risen in 31 successive months.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



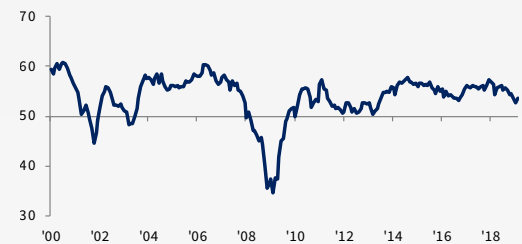
Stronger improvement in export climate amid faster growth in key markets

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 ticked up to a three-month high of 53.6 in February from 52.6 in January. The latest reading signalled a solid improvement in demand in the export markets of Northern Ireland companies, following a slowdown in the previous two months.

Improving trends were seen across the main export destinations for Northern Irish products. The Republic of Ireland saw output growth pick-up from January's 67-month low, while sharper expansions were also seen in the US, Canada and Germany. France, meanwhile, saw activity expand for the first time in three months.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Feb-19
1	Republic of Ireland	31.7%	55.4
2	USA	17.1%	55.5
3	Canada	5.6%	52.0
4	France	5.2%	50.4
5	Germany	4.7%	52.8

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

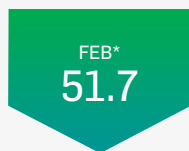
Rank	Sector	LQ	UK Output Index, Feb-19 (3mma)
1	Food & Drink	1.72	55
2	Machinery & Equipment	1.20	50
3	Other Manufacturing	1.16	55
4	Electrical & Electronic	1.08	50
5	Textiles & Clothing	0.92	50
6	Wood & Paper	0.89	50
7	Metals & Metal Products	0.78	48
8	Transport Equipment	0.74	45
9	Chemicals, Rubber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

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Feb-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: Machinery & Equipment

Output Index



Last six months*



*3mma

Brexit preparations continue across Machinery & Equipment sector

Latest data for the Machinery & Equipment sector showed businesses stepping up preparations for potential Brexit disruption.

The three months to February saw record stockpiling of both inputs and finished goods, with firms looking to avoid any disruption to production in the event of supply shortages and guarantee they can meet any future contractual obligations.

Despite Brexit preparations among clients also giving support to output and new order levels, the underlying growth trends remained on a downward trajectory. Production in the three months to February rose the least in two-and-a-half years, and new orders barely increased.

Employment growth meanwhile eased to a two-year low, though it remained solid and the quickest among all manufacturing sectors.

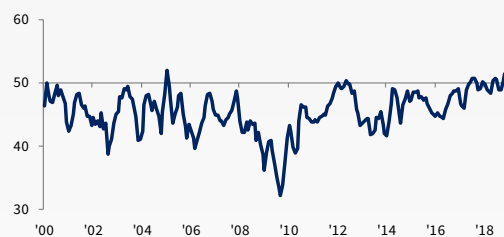
Output Index

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



Stocks of Finished Goods Index

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



UK Regional Rankings

Business Activity

Wales moved to the top of the rankings for business activity growth in February, recording a solid increase in output that was the strongest since last September. Faster growth was also seen in the East Midlands, North West, South East and South West, whilst the East of England and West Midlands moved back into expansion territory. Rates of growth in Yorkshire & Humber and Northern Ireland meanwhile eased to the weakest since 2016. The survey also showed sustained decreases in business activity across the North East, Scotland and London. Only the former, however, saw the rate of decline gather pace since January.

Employment

A rise in employment was recorded in only three out of the 12 monitored areas of the UK in February – the lowest number since September 2012. These were the North West, West Midlands and Scotland, though in each case the rate of job creation eased since January. The South West and Yorkshire & Humber saw renewed declines in staffing numbers, while the North East recorded the steepest overall rate of job losses.

Output Index by region

sa, >50 = growth since previous month, Feb-19 ■ (Jan-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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