

Ulster Bank Northern Ireland PMI[®]

Output down for sixth month running in August

Key Findings

Brexit uncertainty leads to further reduction in activity

Steep decline in new business

Business sentiment drops sharply

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Aug-19
Manufacturing	44.0
Construction	42.3
Retail (3mma)	47.9
Services	47.0

Brexit and associated economic uncertainty led to ongoing declines in the Northern Ireland private sector during August, according to the latest Ulster Bank PMI[®] report. Marked reductions in output and new orders were recorded, while business confidence hit a new low and job shedding intensified.

The headline seasonally adjusted Business Activity Index ticked up to 45.4 in August from 45.0 in July. Although the reading signalled a slightly weaker fall in output, the rate of contraction remained marked. Business activity has now decreased in six consecutive months, with Northern Ireland again recording the sharpest reduction of the 12 monitored UK regions.

All four sectors recorded declines in business activity during August, with the sharpest reduction in the construction sector.

Demand

Uncertainty surrounding Brexit underpinned much of the weakness seen in the Northern Ireland private sector midway through the third quarter. A steep decline in new orders extended the current sequence of contraction in new work to seven months, with the fall in Northern Ireland much faster than the UK average. Only retail was able to generate an improvement in sales. Foreign customers were also reportedly reluctant to commit to new projects given Brexit uncertainty. As a result, new export orders decreased sharply again.

Capacity

Falling new orders led to another monthly drop in backlogs of work, with the rate of depletion remaining sharp. Companies responded to lower workloads by cutting staffing levels again during August. Employment has now decreased in eight successive months. Although the rate of job cuts remained modest, it intensified to the fastest since May.

Prices

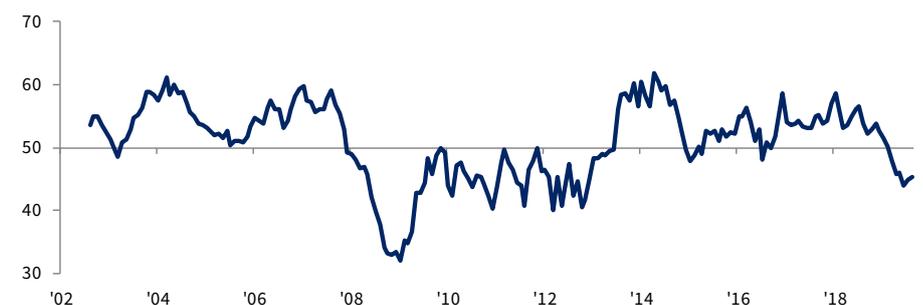
The rate of input cost inflation quickened to a seven-month high in August, and was the steepest of the 12 UK regions covered. Sterling weakness was the key factor leading input costs to rise, while supplier price increases and higher staff costs were also reported. Retailers registered the sharpest increase in input prices.

Output price inflation, meanwhile, was led by the manufacturing sector. Overall, selling prices increased at a solid pace, albeit one that was slightly weaker than in July.

Outlook

Confidence among Northern Ireland companies dropped sharply in August and was the lowest seen in the two-and-a-half year series history. The impact of Brexit on the Northern Ireland economy was behind expectations of a fall in output over the coming year. Pessimism was seen at manufacturing, construction and retail companies, with weak optimism at service providers.

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



New Business Index

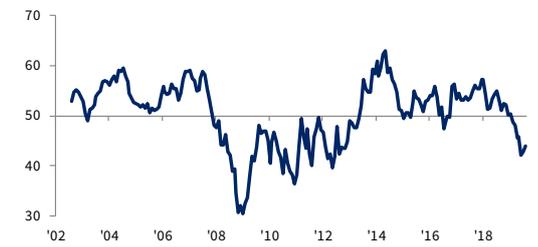


New orders decrease for seventh month running

As has been the case in each month since February, new orders fell at Northern Ireland companies during August. The rate of contraction was substantial, despite easing from that seen in July. New business also decreased across the UK as a whole, but at a much softer pace than in Northern Ireland. Brexit uncertainty was the main factor leading new orders to fall, but the lack of government at Stormont was also mentioned. New orders declined across all monitored sectors except retail, with the sharpest reduction at construction firms.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Aug-19	43.4	38.8	50.6	45.9

Outstanding Business Index



Firms continue to deplete backlogs of work

Companies in Northern Ireland worked through outstanding business again in August as new order inflows declined sharply. Backlogs of work have now decreased in each of the past 13 months. As was the case with new business, the drop in work-in-hand in Northern Ireland was much sharper than the UK average. Only the retail sector posted a rise in uncompleted orders, with marked reductions seen elsewhere.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Aug-19	38.2	37.2	51.8	45.2

Employment Index



Sharper fall in employment

Brexit uncertainty, cost reduction efforts and difficulties finding suitable staff were all mentioned as factors leading to a drop in employment in August. Although modest, the latest decline in staffing levels was the sharpest in three months and compared with no change in employment at the UK level. Manufacturing workforce numbers decreased to the greatest extent since June 2012, with services and retail also posting falling staffing levels. Jobs growth was recorded in the construction sector, but at a reduced pace.

Employment Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Aug-19	45.7	51.9	48.4	49.3

Input Prices Index



Rate of input cost inflation at seven-month high

August data pointed to a much faster increase in input costs in the Northern Ireland private sector, with the rate of inflation at a seven-month high. Sterling weakness was widely mentioned as having led to rising price pressures, with higher staff costs and supplier price increases also mentioned. The rate of input cost inflation in Northern Ireland was the fastest of the 12 UK regions monitored. All four broad sectors registered steeper increases in input prices than in July, with the sharpest inflation in the retail sector.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Aug-19	61.7	66.8	74.0	62.0

Prices Charged Index



Solid increase in output prices

Although the rate of output price inflation softened from that seen in July, charges continued to rise at a solid pace during August. In fact, across the 12 UK regions the increase in Northern Ireland was second only to the East Midlands. According to respondents, higher selling prices were mainly a reflection of sterling weakness pushing up input costs. Charges increased across all four monitored sectors, with the sharpest inflation at manufacturing firms.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Aug-19	55.2	51.0	52.6	53.6

Future Output Index

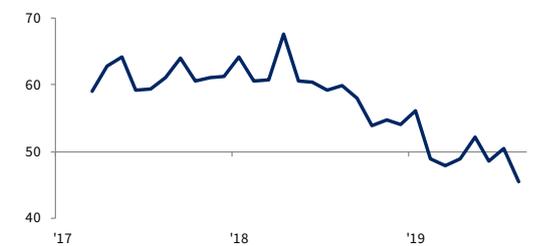


Companies pessimistic regarding 12-month outlook

Business sentiment dropped markedly during August, with companies predicting a fall in output over the coming year. Moreover, confidence was the weakest since the question on future output was added to the survey in March 2017. Pessimism reflected worries about the impact Brexit will have on the Northern Ireland economy and job security, particularly in the event of a 'no deal' scenario. Record low sentiment was seen in both the manufacturing and construction sectors, while retailers were also pessimistic. The only category to predict a rise in activity over the coming year was services, but even here optimism was weak.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Aug-19	45.5	36.0	42.5	50.8

New Export Business Index

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



Steep decline in new export orders

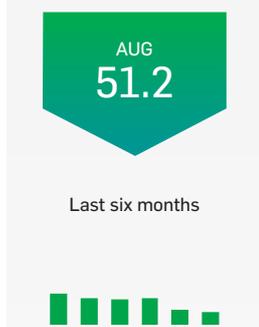
New business from abroad continued to decline at a substantial pace during August. This was despite a slight softening of the rate of contraction. New export orders have now fallen in seven successive months. Brexit uncertainty reportedly made customers in the Republic of Ireland and elsewhere in Europe wary of committing to new projects.

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 to least extent in almost six-and-a-half years

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 51.2 in August, down for the second month in a row and pointing to the weakest strengthening of conditions for exporters since April 2013.

Northern Ireland's largest export market - the Republic of Ireland - saw continued subdued demand conditions in August, with growth of activity unchanged from July's 74-month low. Elsewhere in Europe, Germany and France each posted modest pick-ups in rates of expansion.

In North America, the US posted a slowdown in growth of activity, while Canadian manufacturing output fell for the fifth month running.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Aug-19
1	Republic of Ireland	41.0%	51.8
2	USA	13.8%	50.7
3	Canada	6.6%	49.4
4	Germany	5.8%	51.7
5	France	5.1%	52.9

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

Services specialisation: Northern Ireland

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

UK Sector Focus: Textiles & Clothing

Output Index



Last six months*



Falling export demand weighs on UK's textiles & clothing sector

Latest data showed the UK's textile & clothing sector sinking deeper into contraction, led by a sharp reduction in inflows of new export orders.

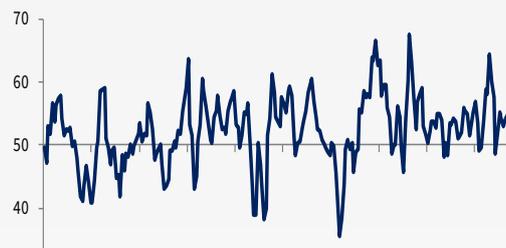
Production fell at the fastest rate in over seven years in the three months to August. Firms scaled back output amid falling demand from abroad which, since exhibiting near-record growth earlier in the year, has retreated sharply.

Textiles & clothing was UK manufacturing's best performer for job creation during the second quarter, but the loss of momentum in the sector saw employment fall (albeit only marginally) for only the second time in over two years in the three months to August. Buying levels have also been pared back, resulting in easing supply chain pressures.

Meanwhile, amid relatively subdued cost increases and growing competition for new work, output price inflation eased to a near four-year low.

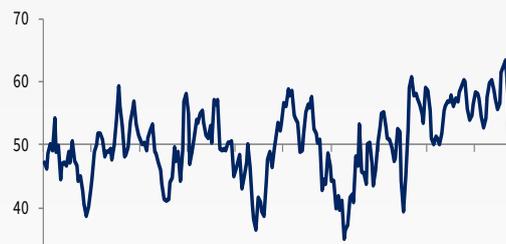
Output Index

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



New Export Orders Index

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



UK Regional Rankings

Business Activity

The East of England rose to the top of the regional rankings for business activity growth in August, recording its joint-fastest expansion in the past 11 months. Yorkshire & Humber was joint-second in the rankings (with London) and also saw a faster (albeit only modest) increase in output. Wales and London – July’s top performers – both lost momentum but nonetheless continued to expand, while Scotland again saw only fractional growth. Output was unchanged across both the South East and East Midlands, and fell in all remaining areas, decreasing most sharply in Northern Ireland and the North East.

Employment

Employment growth was led by Yorkshire & Humber for the third month in a row. London remained second in the rankings, the East of England third and the North West fourth, though job creation slowed in each case. Eight out of the 12 monitored areas saw workforce numbers fall, the highest number since February. The East Midlands recorded the sharpest decrease for the second month running, followed by Wales.

Output Index by region

sa, >50 = growth since previous month, Aug-19 ■ (Jul-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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