

Ulster Bank Northern Ireland PMI[®]

Business activity declines for tenth month running at end of 2019

Key Findings

Further reductions in output and new orders, albeit at softer rates

First increase in employment for a year

Output prices lowered for first time in over four years

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Dec-19
Manufacturing	45.5
Construction	41.1
Retail (3mma)	30.7
Services	48.7

The Northern Ireland private sector saw further reductions in output and new orders at the end of 2019, but rates of decline softened. Meanwhile, companies increased their staffing levels for the first time in a year and confidence regarding the 12-month outlook for activity improved amid reduced uncertainty around Brexit. On the price front, the rate of input cost inflation softened again and companies lowered their output prices for the first time in over four years.

The headline seasonally adjusted Business Activity Index rose to 44.2 in December from 42.3 in November. Although signalling a softer pace of decline than in the previous month, the latest reading indicated that output still fell markedly at the end of 2019.

A reluctance among customers to spend and uncertainty around Brexit continued to impact negatively on business activity. The fall in output in Northern Ireland remained much sharper than the UK average. Sector data pointed to widespread declines in activity, with the steepest contraction seen in retail.

Demand

New orders also fell again at Northern Ireland companies in December amid market uncertainty. That said, the rate of decline was the softest since last May amid a much weaker reduction in new business at service providers. Meanwhile, new export orders decreased at a sharp pace, and one that was little-changed from the previous month.

Capacity

Further reductions in new orders meant that companies were again able to deplete backlogs of work in December. The reduction in outstanding business was also helped by a marginal increase in employment.

The rise in staffing levels was the first in 12 months, and often attributed to the hiring of additional sales staff. The pace of job creation in Northern Ireland was only slightly softer than the UK average.

Prices

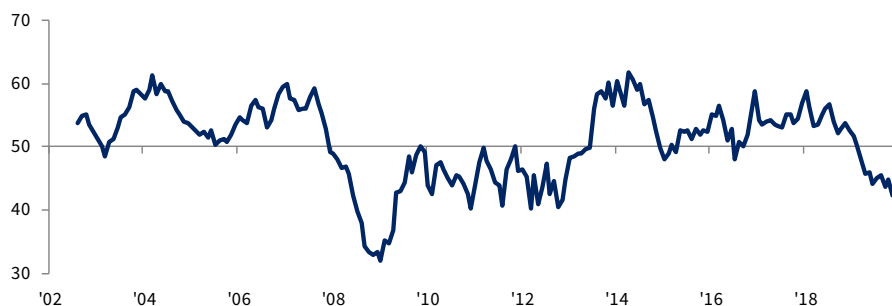
The rate of input cost inflation softened for the fourth successive month and was the weakest for three-and-a-half years. That said, the rise was still marked amid reports of higher staff costs.

Meanwhile, companies in Northern Ireland lowered their selling prices for the first time since October 2015. According to respondents, the modest reduction in charges reflected competitive pressures and efforts to increase market share. Selling prices fell in both the manufacturing and construction sectors.

Outlook

Reduced Brexit uncertainty following the General Election and predictions of rises in new orders led to greater confidence among companies that output will increase over the course of 2020. Optimism was the strongest since January 2019.

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



New Business Index



Softer reduction in new orders

Northern Ireland companies saw a further fall in new business during December, extending the current sequence of contraction to 11 months. The pace of reduction was marked, but slowed to the weakest since last May. Where new business decreased, panellists again linked this to market uncertainty. The reduction in new orders in Northern Ireland was the sharpest of the 12 UK regions covered by the survey. Data pointed to declines in new business across each of the four monitored sectors, although the fall in services was relatively mild and the softest since March 2019.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Dec-19	44.4	40.3	32.4	47.9

Outstanding Business Index



Marked decline in backlogs of work

Backlogs of work continued to fall in December, with declining new business meaning that companies in Northern Ireland had sufficient capacity to deal with new work and deplete outstanding business. Work-in-hand decreased for the seventeenth successive month, and at a marked pace, albeit one that was the slowest since last March. As was the case with new orders, the softest reduction in backlogs was recorded in the service sector.

Outstanding Business Index

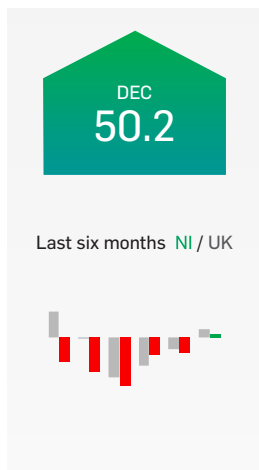
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Dec-19	45.6	34.9	29.8	47.9

Employment Index



Staffing levels rise marginally

December data pointed to the first monthly increase in employment in the Northern Ireland private sector for a year. The rate of job creation was marginal, but only slightly softer than the UK average. A number of respondents mentioned having taken on new sales staff over the month. Construction employment increased for the first time in three months, while only marginal declines in staffing levels were seen in manufacturing and services. Retail continued to record a solid decline in employment.

Employment Index

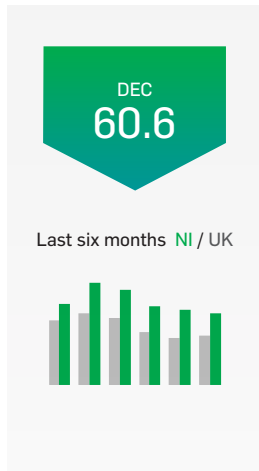
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Dec-19	49.5	51.2	47.7	49.4

Input Prices Index



Rate of cost inflation continues to ease

Although input prices continued to rise sharply during December, the rate of inflation softened for the fourth consecutive month and was the weakest for three-and-a-half years. Where input prices rose, respondents often linked this to higher staff costs. On the other hand, there were some mentions of an improving exchange rate helping to reduce the cost of imported items. Service providers posted the sharpest rise in input costs, followed by construction. The slowest increase was in the manufacturing sector, where the rate of inflation was the joint-weakest since March 2016.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Dec-19	57.7	62.4	60.7	64.7

Prices Charged Index



First reduction in selling prices since October 2015

Northern Ireland companies lowered their output prices in December, the first reduction in just over four years. The North East was the only other UK region to see charges decrease at the end of 2019. Panellists reported that competitive pressures and efforts to increase market share had led them to reduce charges. Selling prices decreased in both the manufacturing and construction sectors, with manufacturers posting the sharpest decline in just under four years. Services output charges rose slightly, while retailers increased selling prices at a marked, but softer pace.

Prices Charged Index

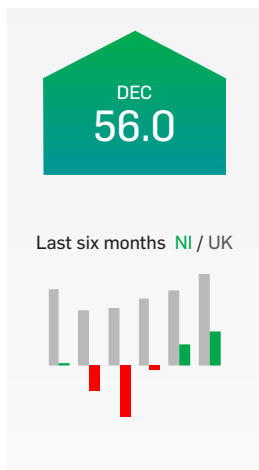
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Dec-19	45.6	49.1	56.1	51.1

Future Output Index

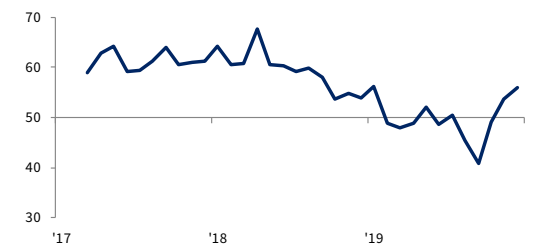


Business confidence strengthens

Confidence among companies in Northern Ireland continued to improve at the end of 2019 and was the strongest since last January. Sentiment in Northern Ireland was still the lowest of the 12 monitored regions, however. Greater clarity around Brexit was often mentioned by those respondents that predict output to rise over the coming year, with forecasts of new order growth also cited. On the other hand, Brexit remained a concern for a number of firms. Manufacturers posted the strongest confidence, with sentiment also improving in services and construction. Retailers, however, remained pessimistic regarding the 12-month outlook.

Future Output Index

>50 = growth expected over next 12 months

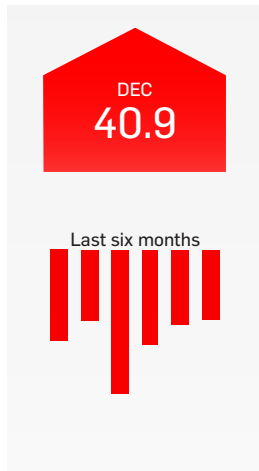


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Dec-19	60.9	54.5	48.5	56.6

New Export Business Index

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



New export orders continue to fall sharply

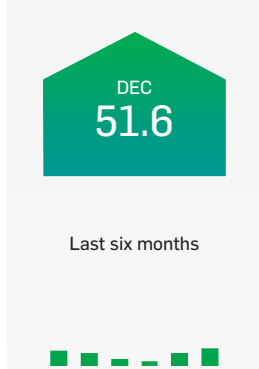
December data pointed to another sharp reduction in new export orders, extending the current period of decline to 11 months. The rate of contraction was only slightly weaker than that seen in November. General uncertainty in Europe, and about Brexit in particular, was the key factor leading new business from abroad to decrease, according to respondents.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



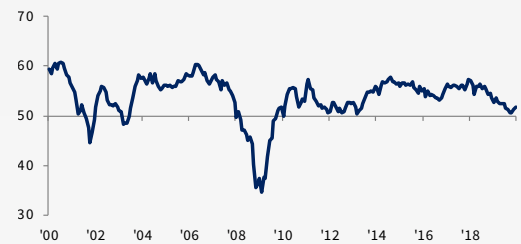
Export Climate at six-month high in December

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 51.6 in December, up from 51.2 in November and signalling the strongest improvement in demand conditions in export markets for six months.

Central to the more marked strengthening of conditions were sharper rises in output in key export markets such as Ireland and the US. The rate of expansion in Ireland quickened to a six-month high, while activity in the US rose at the fastest pace since last April. Germany saw output return to growth for the first time in four months at the end of the year, with France continuing to record modest improvements in activity.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Dec-19
1	Republic of Ireland	36.2%	53.0
2	USA	12.2%	52.7
3	Canada	5.8%	50.2
4	Germany	5.1%	50.2
5	France	4.5%	52.0

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, Dec-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	

35 40 45 50 55

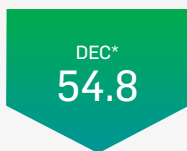
Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Dec-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

UK Sector Focus: Food & Drink

Output Index



Last six months*



*3mma

Food & Drink defies broader manufacturing downturn in fourth quarter

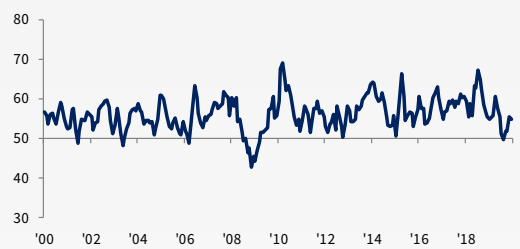
The UK's Food & Drink sector had a strong finish to 2019, with solid growth in the fourth quarter contrasting with a downturn across the manufacturing sector as a whole.

Food & Drink was UK manufacturing's best-performing category in 2019. After a brief soft patch during the summer, output growth regained momentum and was solid in the three months to December, supported by rising inflows of new work. The domestic market was the principal source of new business, with export sales stagnating.

However, rising costs (Food & Drink saw by far the steepest increase in purchase prices of all broad manufacturing categories) meant that firms in the sector sought to improve efficiency, with the fourth quarter of 2019 seeing the deepest cuts to staff numbers for more than ten years. This was despite businesses reporting optimism towards the year-ahead outlook for output.

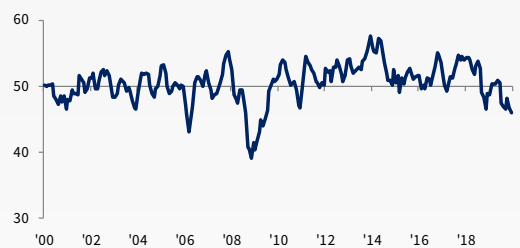
Output Index

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



Employment Index

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



UK Regional Rankings

Business Activity

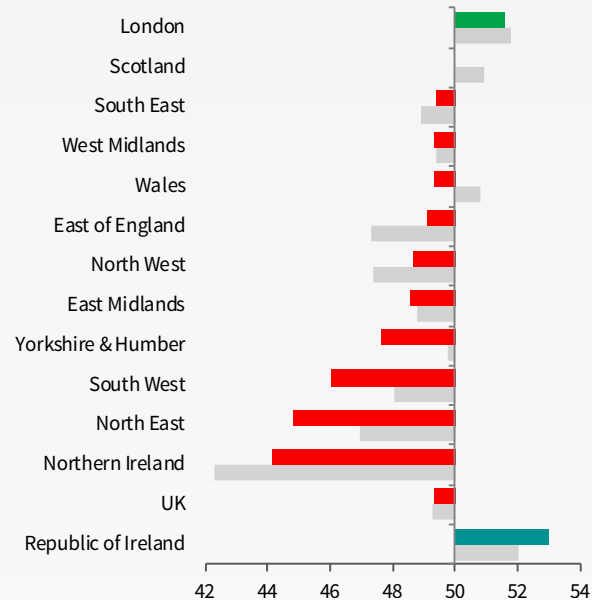
Among the 12 regions monitored by the survey, only London saw a rise in business activity in December. Output was unchanged in Scotland and fell across all remaining areas. For the ninth month in a row, Northern Ireland saw the steepest decrease in business activity, albeit with the rate of decline easing from that seen in November. There were faster decreases in output in the North East, South West, Yorkshire & Humber and East Midlands. The North West, East of England, Wales, West Midlands and South East all saw modest drops in business activity.

Employment

London led employment growth for the second month running in December, recording its strongest rise in headcounts since last July. There were further modest increases in workforce numbers in the South West and East of England, while both the North West and Northern Ireland saw employment return to growth. Scotland and the West Midlands each saw no change in staffing levels, while the remaining areas all recorded declines. The North East registered the fastest rate of job losses, followed by the East Midlands.

Output Index by region

sa, >50 = growth since previous month, Dec-19 ■ (Nov-19 ■)



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

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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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