

Ulster Bank Northern Ireland PMI[®]

COVID-19 leads to record fall in business activity

Key Findings

Output and new orders decline at unprecedented rates

Sharpest job cuts since August 2010

Business confidence slumps

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Mar-20
Manufacturing	36.8
Construction	34.0
Retail (3mma)	38.9
Services	23.9

The global coronavirus disease 2019 (COVID-19) pandemic caused a steep contraction in the Northern Ireland private sector during March, with both output and new orders falling at the sharpest rates since the survey began in August 2002. Companies reduced staffing levels substantially, while business confidence slumped.

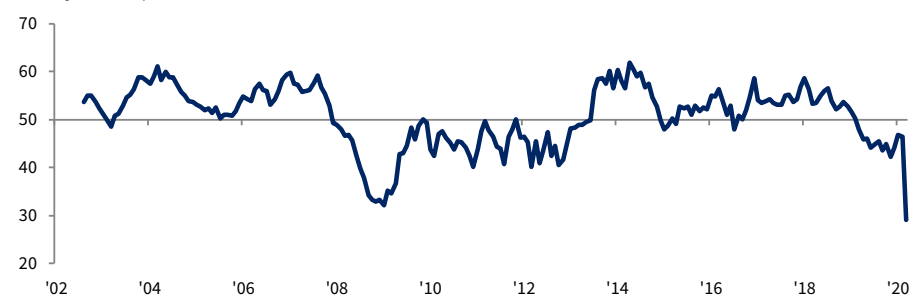
The headline seasonally adjusted Business Activity Index fell considerably in March, posting 29.1 from 46.5 in February. Moreover, the rate of contraction was the sharpest in the survey's history, surpassing the previous record signalled at the height of the global financial crisis in early-2009. Panellists mainly linked the reduction in activity to COVID-19, with demand down sharply and some companies forced to close. All four broad sectors saw output decrease, led by services.

All 12 UK regions saw steep contractions in business activity in March. Northern Ireland posted the sharpest fall, just ahead of that seen in Scotland.

Demand

A record contraction was also seen for new orders at the end of the first quarter, with company shutdowns and uncertainty caused by COVID-19 widely mentioned. The global nature of the pandemic meant that new export orders also decreased at a substantial pace. The decline in new business from abroad was the sharpest since December 2008.

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



Capacity

Companies often responded to a sharp reduction in activity by lowering staffing levels, ending a three-month sequence of job creation. Moreover, the rate of job cuts was steep and the fastest for almost a decade. The UK as a whole also posted a marked reduction in employment.

Despite declines in staffing levels, firms were still able to deplete backlogs of work during the month, and to the greatest extent since March 2009.

Prices

A further increase in input costs was recorded in March, but the rate of inflation softened to a 45-month low. Currency weakness and material shortages reportedly added to inflationary pressures, while some panellists indicated that fuel prices had decreased.

Efforts to try and attract customers led companies to lower their selling prices for the first time in three months, with the manufacturing and service sectors leading price cutting. That said, the fall in charges was only marginal and slower than the UK average.

Outlook

Sentiment among companies in Northern Ireland around the 12-month outlook for business activity fell sharply, and was by far the lowest in the 37-month series history. More than half of all respondents predicted a fall in output over the coming year, primarily due to COVID-19.

New Business Index

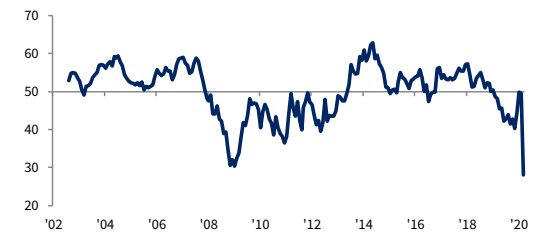


New orders fall at substantial pace in March

The COVID-19 pandemic had a severe impact on new orders in the Northern Ireland private sector during March, with panellists reporting company shutdowns and uncertainty caused by the virus. Moreover, the rate of decline was the sharpest since the survey began in August 2002, surpassing the previous record seen in during the global financial crisis. All regions of the UK saw new orders fall. Northern Ireland saw the strongest contraction, just ahead of that registered in Scotland. The service sector posted the sharpest reduction in new business, but steep declines were seen across all four broad sectors covered.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-20	37.0	32.9	41.1	24.2

Outstanding Business Index



Steeper reduction in backlogs of work

The marked reduction in new orders during March meant that companies in Northern Ireland were able to complete backlogs of work. Outstanding business decreased at a considerable pace, and one that was the sharpest since March 2009. As was the case with new business, the reduction in backlogs in Northern Ireland was the fastest of the 12 UK regions. On a sectoral basis, the steepest decline was recorded at manufacturers, closely followed by service providers.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-20	34.0	38.0	38.5	35.8

Employment Index



Workforce numbers scaled back

After having risen in each of the previous three months, employment decreased at Northern Ireland companies during March. Furthermore, the rate of job shedding was substantial and the fastest since August 2010. A number of panellists reported laying off staff in response to a drop off in activity. Employment also fell sharply across the UK as a whole. Job cuts were seen across the manufacturing, services and retail sectors, but a rise in staffing levels was registered in the construction sector.

Employment Index

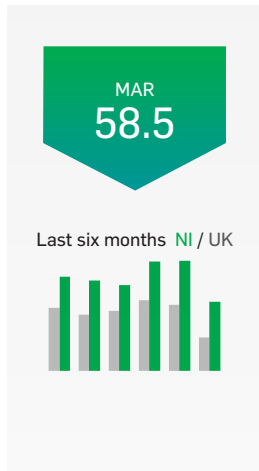
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-20	43.9	51.8	44.8	43.4

Input Prices Index



Softer rise in input prices

The rate of input cost inflation softened to a 45-month low during March and was slower than the series average. That said, the rise in input prices in Northern Ireland was the sharpest of the 12 UK regions covered by the survey. Where input prices increased, panellists linked this to currency weakness and the shortage of certain materials. On the other hand, a number of companies reported lower fuel prices. Construction posted the sharpest pace of cost inflation, with the lowest rise in the manufacturing sector.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-20	57.8	63.4	62.3	58.9

Prices Charged Index



Selling prices decrease

Northern Ireland companies reduced their selling prices for the first time in three months during March amid efforts to attract customers at a time of sharply falling demand. That said, the rate of decline was only marginal and weaker than the UK average. Sector data indicated that the overall reduction in charges was centred on the manufacturing and service categories. Meanwhile, retailers posted a slight rise in selling prices and construction charges increased sharply.

Prices Charged Index

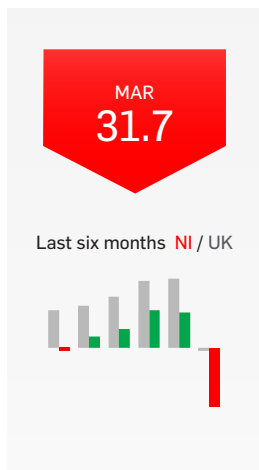
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-20	46.9	57.4	50.6	49.8

Future Output Index

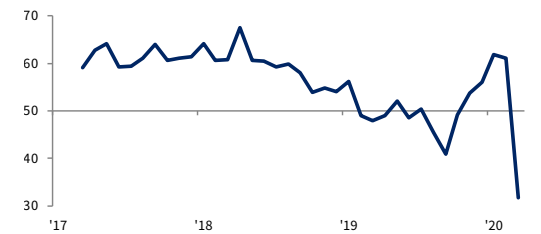


March sees slump in business confidence

Concerns around the COVID-19 outbreak led to a sharp decline in business sentiment regarding the 12-month outlook for output. Firms predicted a fall in activity, with sentiment by far the lowest since this question was added to the survey in March 2017. More than half of respondents expected activity to decline. As well as COVID-19, Brexit was also seen as a factor set to lead output to decrease over the coming year. Sentiment in Northern Ireland was the lowest seen across the UK, with negative predictions registered across each of the four broad sectors.

Future Output Index

>50 = growth expected over next 12 months

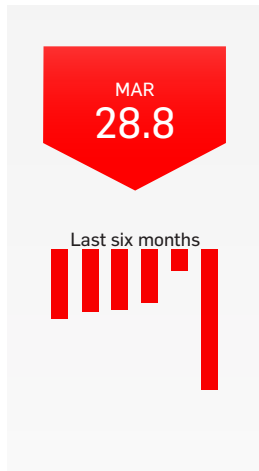


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Mar-20	35.9	36.8	43.8	32.8

New Export Business Index

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



Sharp contraction in new export orders

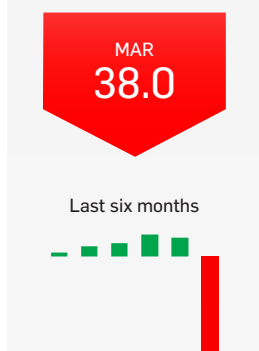
The global nature of the COVID-19 pandemic meant that new export business fell sharply during March. New business from abroad decreased for the fourteenth month running, and to the greatest extent since December 2008. Around 54% of respondents saw new export orders decline over the month, with just 10% posting an expansion.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



COVID-19 leads to drop in global demand

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 fell sharply to 38.0 in March, the first sub-50.0 reading in a decade and signalling the sharpest decline in demand conditions for exporters since the first half of 2009.

The global COVID-19 pandemic resulted in sharp declines in business activity across much of the world economy, including the key markets for exporters in Northern Ireland. Both the Republic of Ireland and the US saw demand conditions weaken to the greatest extent since the global financial crisis, while Germany and France posted the strongest contractions on record.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Mar-20
1	Republic of Ireland	36.2%	37.3
2	USA	12.2%	40.9
3	Canada	5.8%	41.2
4	Germany	5.1%	35.0
5	France	4.5%	28.9

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

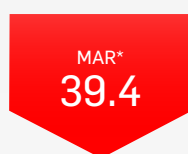
Rank	Sector	LQ	UK Output Index, Mar-20 (3mma)
1	Food & Drink	2.10	55
2	Electrical & Electronic	1.13	48
3	Machinery & Equipment	1.08	45
4	Textiles & Clothing	1.00	45
5	Other Manufacturing	0.94	52
6	Wood & Paper	0.75	48
7	Metals & Metal Products	0.75	45
8	Transport Equipment	0.60	40
9	Chemicals, Rubber & Plastics	0.56	52

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Mar-20 (3mma)
1	Hotels, Restaurants & Catering	1.29	48
2	Other personal/consumer Services	1.23	45
3	Transport & Communication Services	1.18	48
4	Business-to-business Services	0.89	48
5	Computing & IT Services	0.84	52
6	Financial Intermediation	0.81	48

UK Sector Focus: Personal & Community Services

Output Index



Last six months*



*3mma

UK consumer services see record fall in activity amid the COVID-19 outbreak

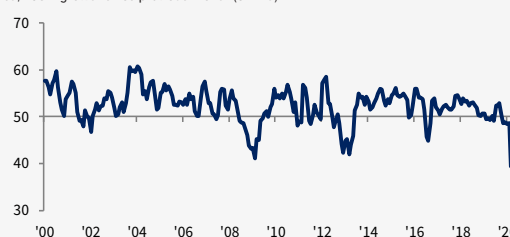
The COVID-19 outbreak and resulting containment measures have impacted large swathes of the UK economy, with the effects particularly stark in those sectors reliant on social contact, like Personal & Community Services. Here, latest PMI data showed business activity falling in the opening quarter of 2020 at the fastest rate in more than two decades of data collection.

Despite government support, firms in the sector have been swift to cut staffing numbers in line with falling workloads. Employment showed the steepest drop since the depths of the global financial crisis in the three months to March, the reduction extending a series-record sequence of decline stretching back to mid-2018.

Uncertainty towards the impact and lasting effects of the COVID-19 crisis weighed heavily on business confidence in the Personal & Community Services sector, which showed an unprecedented fall.

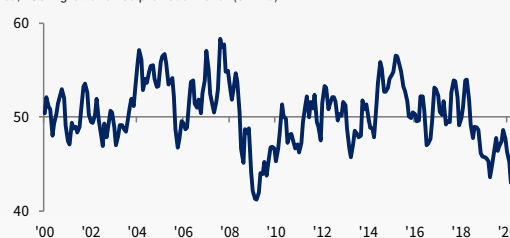
Output Index

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



Employment Index

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



UK Regional Rankings

Business Activity

The COVID-19 outbreak and associated public health measures to contain the disease severely disrupted business activity across all areas of the UK in March. The steepest declines in output of goods and services were seen in Northern Ireland, Scotland and London, with the capital registering the largest ever month-on-month drop in the Business Activity Index. Indeed, for these three regions and the South West, the decreases in output were all the steepest on record. The shallowest declines were registered in Yorkshire & Humber, the North West and East of England, though even here the rates of contraction were the fastest since at least February 2009.

Employment

March saw a broad-based decrease in employment across all UK regions. The declines were led by deep cuts to staff numbers in Scotland, the West Midlands, Northern Ireland and London. At the other end of the scale, the North West, North East and East of England saw relatively moderate job losses.

Output Index by region

sa, >50 = growth since previous month, Mar-20 (Feb-20)



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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.

ihsmarkit.com/products/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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