

Ulster Bank Northern Ireland PMI[®]

Northern Ireland private sector remains in deep downturn in May

Key Findings

Rates of decline in output and new orders ease, but remain steep

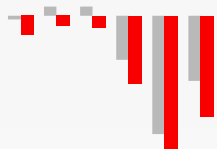
Softer fall in staffing levels

Sharpest reduction in output prices since September 2015

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	May-20
Manufacturing	24.3
Construction	16.3
Retail (3mma)	22.4
Services	16.2

PMI data for May signalled further steep declines in business activity and new orders in the Northern Ireland private sector as the coronavirus disease 2019 (COVID-19) crisis continued. Rates of contraction were softer than the records posted in April as lockdowns began to ease, but were still sharper than any seen prior to the current crisis. Meanwhile, the rate of job cuts eased, but remained marked.

On the price front, input costs ticked up but output prices were reduced to the greatest extent since September 2015 amid efforts to secure sales.

The headline seasonally adjusted Business Activity Index posted 18.9 in May, up from 8.3 in April but still the second-lowest since the survey began in August 2002. The reading pointed to another substantial contraction in output across the private sector due to the impact of the COVID-19 pandemic. Northern Ireland posted the sharpest decline of the 12 monitored UK regions.

Severe reductions in output were recorded across each of the four broad sectors covered by the survey, with manufacturing posting the softest decline. Around 63% of manufacturing firms signalled a drop in activity, rising to 73% in the service sector.

Demand

In line with the picture for business activity, new orders continued to decline at a severe pace in May, albeit one that was slower than in the

previous month as some businesses started to reopen. Substantial contractions were seen in both total new orders and new export business.

Capacity

With new orders down sharply, firms continued to use spare resources to work on outstanding business. As a result, backlogs decreased at a considerable pace again in May.

Companies in Northern Ireland lowered their staffing levels for the third month in a row. That said, the rate of job cuts softened and was the third-slowest of all the UK regions.

Prices

Input costs increased slightly in May, after having decreased for the first time since the global financial crisis in April. Higher costs for freight and PPE were mentioned by respondents. That said, the rate of inflation remained well below the series average amid lower fuel and staff costs.

Companies lowered their selling prices at a sharper pace, with the rate of decline the fastest since September 2015. Three of the four monitored sectors recorded a drop in charges, the exception being retail.

Outlook

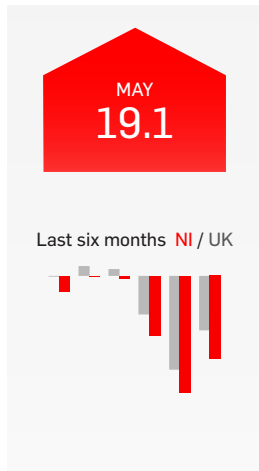
Companies remained pessimistic regarding the year-ahead outlook for output, with Northern Ireland the only region of the UK to predict a decline.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



New Business Index

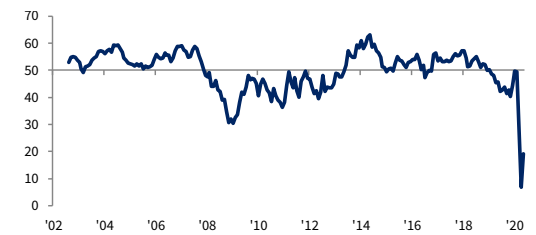


Further severe reduction in new orders

The COVID-19 pandemic continued to have a strong negative impact on new business at Northern Ireland companies in May. Although the rate of decline softened from the record pace seen in April as some businesses and customers started to reopen, the latest reduction was still greater than any seen prior to the current crisis. Northern Ireland posted the steepest contraction of the 12 monitored UK regions. All four sectors posted falls in new orders. The slowest decrease was at manufacturing firms.

New Business Index

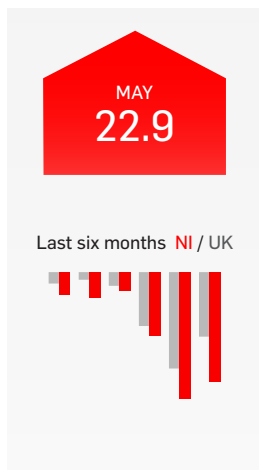
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-20	27.7	13.8	19.7	15.8

Outstanding Business Index



Near-record reduction in backlogs of work

The substantial reduction in new orders meant that companies focused efforts on completing outstanding business during May. As a result, backlogs of work decreased at a considerable pace that was only slightly softer than the survey record posted in the previous month. Approximately two-thirds of respondents signalled a drop in backlogs midway through the second quarter of the year.

Outstanding Business Index

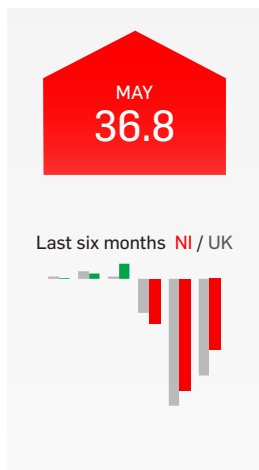
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-20	31.9	35.5	13.9	17.7

Employment Index



Rate of job shedding softens

Northern Ireland companies continued to scale back their staffing levels during May as a result of the COVID-19 crisis. The rate of job cuts was sharp, but eased from the unprecedented pace seen in April and was on a par with those seen during the worst of the global financial crisis. The fall in employment in Northern Ireland was the third-slowest of the UK regions. Rates of job shedding were broadly consistent across the four sectors covered by the survey.

Employment Index

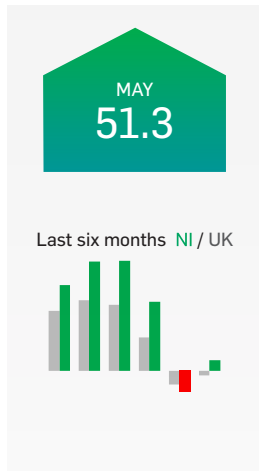
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-20	35.3	38.2	32.8	38.6

Input Prices Index



Slight rise in input costs

Input prices increased marginally in the Northern Ireland private sector during May, following a first reduction in 11 years in April. That said, the rate of inflation was well below the series average. Among the factors leading input prices to rise were higher freight and PPE costs. On the other hand, lower fuel prices and a reduction in staff costs due to the furloughing of workers were mentioned by some companies. Input prices rose in three of the four monitored sectors, the exception being services where input costs decreased for the second month running.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-20	54.0	51.0	55.5	48.9

Prices Charged Index



Output prices fall at faster pace in May

May data pointed to a third successive monthly decrease in selling prices. Moreover, the rate of decline continued to quicken, accelerating to a solid pace that was the fastest since September 2015. That said, the fall in charges in Northern Ireland was slower than the UK average. Where output prices decreased, respondents indicated that this was due to efforts to stimulate sales. The manufacturing, construction and service sectors all recorded reductions in charges, but selling prices rose at retailers.

Prices Charged Index

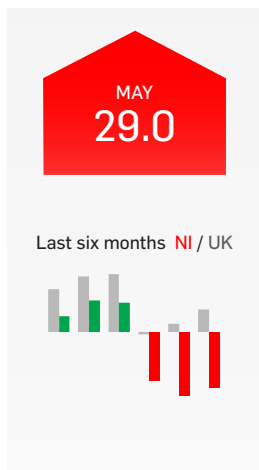
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-20	48.9	45.4	55.4	45.2

Future Output Index

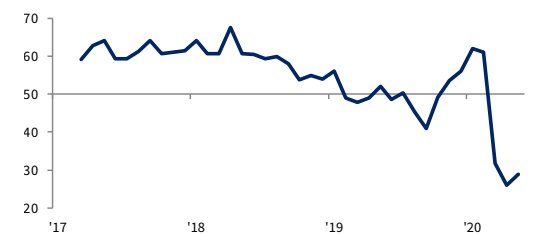


Continued strong pessimism signalled

Northern Ireland companies continued to predict a decline in output over the coming year in May. Business sentiment remained well inside negative territory, improving only marginally from the position in April. Northern Ireland was the only monitored region to provide a pessimistic outlook. Negative sentiment reflected the COVID-19 pandemic and worries that any return to normal is still some way off. Retailers posted the lowest sentiment of the four broad sectors covered, while manufacturers were the least pessimistic.

Future Output Index

>50 = growth expected over next 12 months

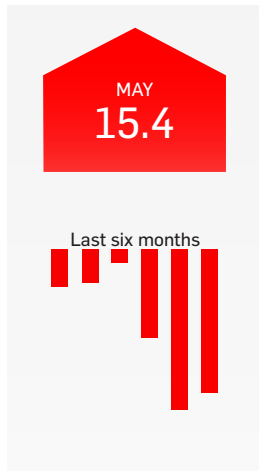


By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-20	41.3	25.0	16.7	26.5

New Export Business Index

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



Deep contraction in new export orders

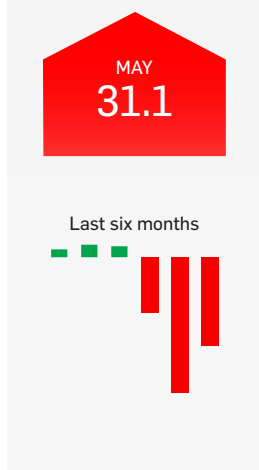
The COVID-19 pandemic and lockdowns in place around the world continued to have a severe impact on new export orders at Northern Ireland companies in May. New business from abroad decreased at a pace that was only slightly slower than the record seen in April, and one that was unprecedented for the series prior to the current crisis. Around three-quarters of panellists recorded a drop in new export orders.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



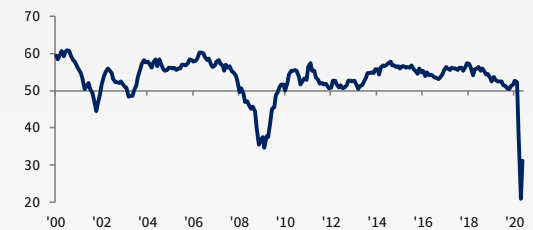
Further decline in export conditions in May

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 signalled a further sharp deterioration in demand conditions for exporters in May, despite rising from April's record low of 20.9 to 31.1. The reading was the second-lowest since the series began in January 2000.

PMI surveys around the world signalled that rates of contraction in new orders softened from the unprecedented rates seen in April, but remained substantial. This was the case in each of the five largest export destinations for Northern Ireland exporters.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, May-20
1	Republic of Ireland	36.2%	25.7
2	USA	12.2%	36.4*
3	Canada	5.8%	33.0
4	Germany	5.1%	32.3
5	France	4.5%	32.1

* based on flash data

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.

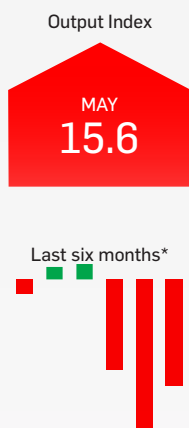
Manufacturing specialisation: Northern Ireland

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

Services specialisation: Northern Ireland

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

UK Sector Focus: Hotels, Restaurants & Catering

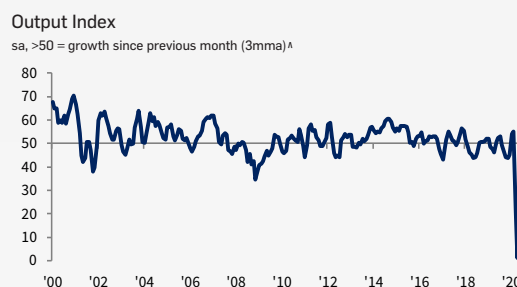


Hotels & Restaurants set for slow recovery after near total collapse in activity

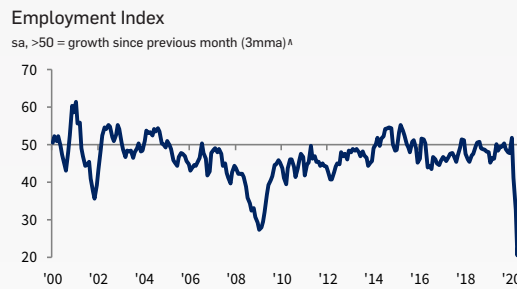
The accommodation and food services sector has been the hardest-hit by the COVID-19 pandemic and subsequent virus containment measures. At the peak of the lockdown in April, PMI data showed a near total collapse of business activity, with the downturn easing only slightly in May.

Official statistics indicated that hotels and restaurants saw the largest proportion of staff placed on furlough of all sectors. Alongside this, PMI data have revealed record job losses across the industry since the start of the crisis, with the rate of decline in employment in May continuing to run at a pace in excess of that seen even at the depths of the global financial crisis of 2008/9.

Job cuts in May partly reflected a negative outlook for activity, linked in part to concerns about the impact of travel restrictions and social distancing. It was the only monitored sector, in fact, where firms remained pessimistic about future activity.



^A Data shown for January-May 2020 are unsmoothed.



^A Data shown for January-May 2020 are unsmoothed.

UK Regional Rankings

Business Activity

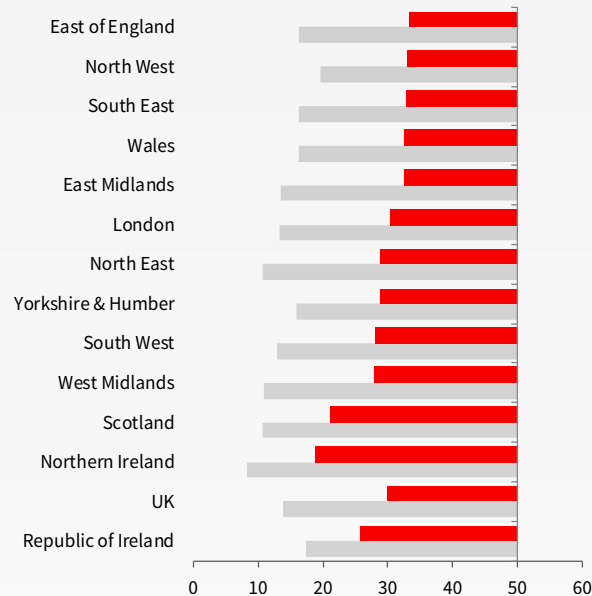
For the third straight month, all 12 UK areas monitored by the survey saw a decline in business activity. Rates of contraction remained severe but eased in all cases, following record decreases across the board in April. Northern Ireland* and Scotland recorded the steepest falls in output of goods and services in May. The East of England saw the slowest drop in activity, followed closely by the North West and South East.

Employment

While the overall picture for employment was also of a broad-based decline, the rates of staff cuts by region were markedly different to those of output. On the jobs front, Scotland and Northern Ireland saw the second- and third-slowest falls respectively, behind the North West. Yorkshire & Humber and the West Midlands fared worst overall, with the North East and Wales also seeing particularly steep declines in workforce numbers during May.

Output Index by region

sa, >50 = growth since previous month, May-20 (Apr-20)



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.

ihsmarkit.com/products/pmi.

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 (NYSE: 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 © 2020 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.