

Ulster Bank Northern Ireland PMI[®]

Sharpest fall in output since November 2012

Key Findings

Steep decline in new orders

Rate of job shedding intensifies

Business sentiment falls to new record low

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Sep-19
Manufacturing	45.8
Construction	42.7
Retail (3mma)	46.0
Services	44.0

The Northern Ireland private sector moved deeper into contraction during September, according to the latest Ulster Bank PMI[®] report, as Brexit uncertainty impacted negatively on firms' operations. Output, new orders and employment all fell at sharper rates, while business sentiment dropped to a new record low.

The headline seasonally adjusted Business Activity Index posted 43.6 in September, down from 45.4 in August and the lowest since November 2012. Output has now fallen in seven successive months, with the latest reduction in Northern Ireland the strongest of the 12 UK regions covered by the survey. Panellists mainly linked falling activity to Brexit uncertainty, with customers reportedly reluctant to commit to new projects at present.

Lower output was recorded across all four monitored sectors, led by construction. Services activity decreased to the greatest extent since the end of 2012.

Demand

New orders decreased for the eighth successive month, and at a substantial pace that was the fastest since May 2012. Consistent with the picture for business activity, falls in new orders were broad-based across the four monitored sectors. As well as affecting domestic demand, Brexit uncertainty also impacted negatively on new export orders. New business from abroad declined to the greatest extent in just over eight years.

Capacity

Given the drop off in new orders, companies in Northern Ireland were able to work through backlogs of work again in September. Outstanding business has now decreased in each of the past 14 months, with the rate of depletion remaining sharp at the end of the third quarter.

Meanwhile, companies continued to scale back employment levels given declining workloads. Panellists reported that workforce numbers had been lowered through the non-replacement of leavers. The rate of job cuts was solid, and the fastest since April.

Prices

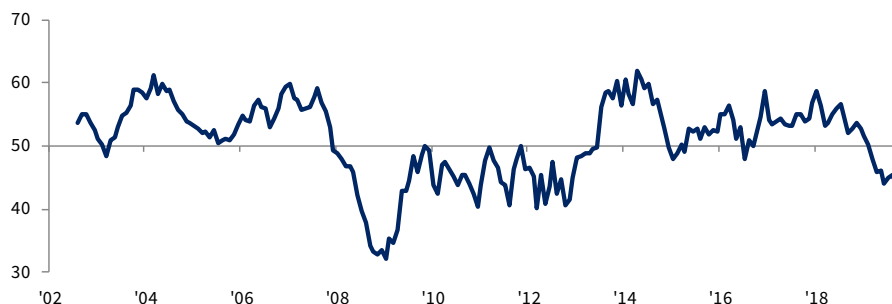
Sterling weakness and higher staff costs were the main factors leading input prices to rise in September. The rate of inflation eased from that seen in August, but remained marked.

The pace at which firms in Northern Ireland raised their own selling prices was unchanged in September. Output prices increased at a solid pace, with inflation seen across all four broad sectors.

Outlook

Business confidence slumped to the lowest since data on sentiment were added to the survey in March 2017. Brexit was the main factor pulling down confidence, with Northern Ireland again the only area of the UK to predict a fall in output over the coming year.

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



New Business Index



Substantial decline in new orders

New business decreased for the eighth successive month in September. Moreover, the rate of contraction was sharp and the fastest since May 2012. The fall in new orders in Northern Ireland was the fastest of the 12 UK regions covered by the survey. Respondents indicated that Brexit uncertainty was the key factor leading new business to fall. All four broad sectors posted declines in new orders, led by construction. Services new business decreased to the greatest extent since December 2012.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Sep-19	42.0	37.5	46.6	42.6

Outstanding Business Index



Ongoing reductions in backlogs of work

The fall in new orders as a result of Brexit uncertainty fed through to another reduction in backlogs of work at the end of the third quarter. The rate of depletion was marked, despite easing fractionally to the weakest since March. Approximately one-quarter of respondents noted a fall in outstanding business, against 9% that posted a rise. In line with the picture for new orders, all four monitored sectors reduced backlogs of work.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Sep-19	40.6	38.4	45.7	45.2

Employment Index



Sharpest fall in employment for five months

September data pointed to another monthly reduction in employment at companies in Northern Ireland, extending the current period of job cuts to nine months. Furthermore, the pace at which employment fell was solid and the fastest since April. The decline in Northern Ireland was slightly sharper than the UK average. The non-replacement of leavers was widely reported amid reduced workloads.

Employment Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Sep-19	44.4	52.3	46.4	47.2

Input Prices Index



Input costs continue to rise sharply

Although the rate of input cost inflation softened slightly in September, input prices continued to rise at a marked pace during the month, and one that was faster than the series average. Around 31% of panellists reported a rise in input costs, which they mainly linked to sterling weakness and higher wages and salaries. Retail posted the fastest increase in input costs of the four broad sectors covered by the survey.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Sep-19	60.9	65.2	74.2	62.6

Prices Charged Index



Solid increase in output prices

Northern Ireland companies increased their selling prices at a solid pace again in September, with the pace of inflation unchanged from that seen in the previous survey period. The rise in output prices in Northern Ireland was much stronger than that seen across the UK economy as a whole. All four monitored sectors posted increases in charges, with the fastest rates of inflation in services and retail.

Prices Charged Index

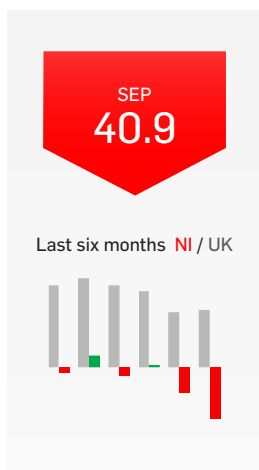
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Sep-19	53.6	52.8	54.5	54.5

Future Output Index

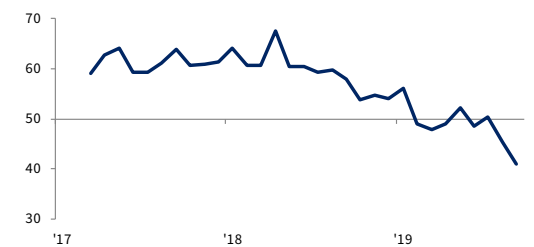


Confidence sinks further in September

Business sentiment in the Northern Ireland private sector dropped further into negative territory in September, with confidence the lowest since the series began in March 2017. Northern Ireland was again the only one of the 12 UK regions covered to forecast a decline in output over the coming year. Respondents overwhelmingly cited Brexit as the key factor behind the pessimistic outlook. All four sectors signalled negativity, with sentiment in services falling sharply to a record low.

Future Output Index

>50 = growth expected over next 12 months

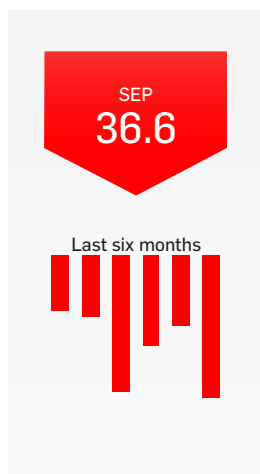


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Sep-19	47.8	40.9	40.7	41.4

New Export Business Index

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



Sharpest fall in new export orders since August 2011

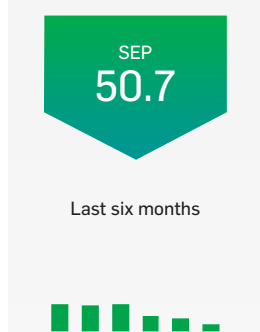
The rate of contraction in new business from abroad reaccelerated in September, and was the fastest since August 2011. Uncertainty surrounding Brexit reportedly led to a reluctance among international customers to commit to new orders. Approximately one-third of respondents signalled a fall in new export orders, against 5% that posted a rise.

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 only marginally in September

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 dropped for the third month running in September, posting 50.7. This signalled a marginal improvement in the health of Northern Ireland's export markets, and the weakest for six-and-a-half years.

Output growth in the Republic of Ireland softened to a 78-month low in September, while business activity in France also rose at a slower pace. Meanwhile, Germany dipped into contraction, posting the first fall in activity since April 2013. The US saw growth quicken slightly, but remain muted.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Sep-19
1	Republic of Ireland	36.2%	51.0
2	USA	12.2%	51.0
3	Canada	5.8%	50.2
4	Germany	5.1%	48.5
5	France	4.5%	50.8

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, Sep-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	

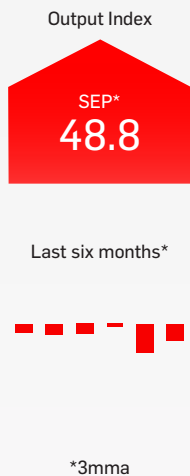
40 45 50 55

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Sep-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 60

UK Sector Focus: Transport & Communication Services

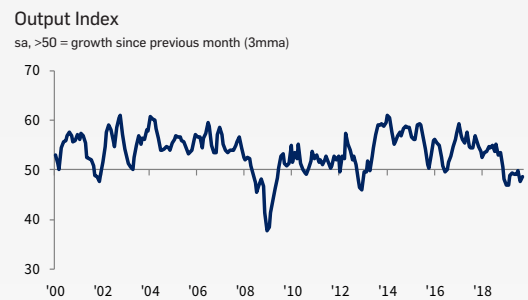


Downturn in Transport & Communication services continues

Transport & Communications remained a key drag on the performance of the UK service sector during the third quarter of the year. Activity has fallen throughout 2019 so far, with only Hotels & Restaurants seeing a more marked contraction in the three months to September.

Inflows of new work remained subdued, linked in part to Brexit uncertainty and ongoing weakness in manufacturing. The same factors also weighed on firms' expectations for the year ahead, which slumped to the lowest since the depth of the financial crisis.

The combination of dwindling order book backlogs and low business confidence was reflected in overall job losses across the sector in the latest three-month period. Transport & Communication firms were also under pressure to cut costs amid sharply rising input prices, with the rate of inflation second only to that seen across Hotels & Restaurants.



UK Regional Rankings

Business Activity

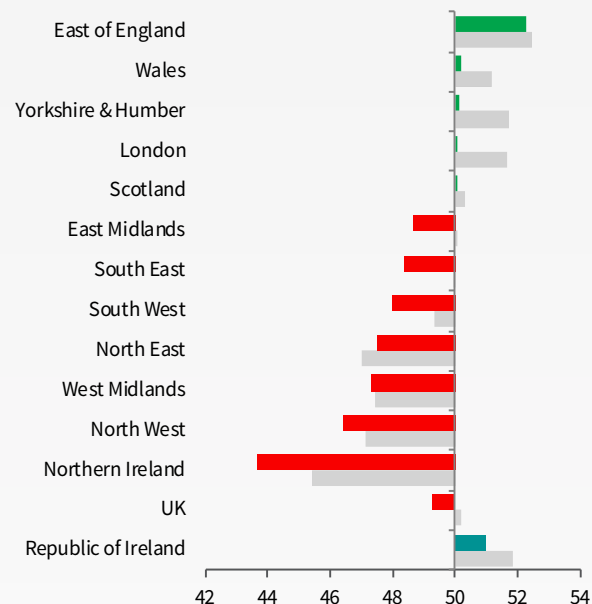
The East of England topped the rankings for business activity growth for the second straight month in September, and was the only region to see any notable increase in output. Wales, Yorkshire & Humber and London all saw negligible rises, while Scotland stagnated. The remaining seven monitored areas recorded contractions in business activity, the most since the aftermath of the EU referendum in July 2016. There were renewed contractions in the East Midlands and South East, while rates of decline accelerated in all remaining regions except the North East.

Employment

A decrease in employment was recorded across all 12 monitored regions in September. The East Midlands and Wales registered the joint-fastest rates of decline, followed by the North East and Northern Ireland respectively. At the other end of the spectrum, only a marginal decrease in workforce numbers was seen in Yorkshire & Humber.

Output Index by region

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