

Ulster Bank Northern Ireland PMI®

Activity falls markedly in October

Key Findings

Output and new orders decline, albeit at softer rates

Slight fall in employment

Inflationary pressures weaken

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Oct-19
Manufacturing	52.5
Construction	39.9
Retail (3mma)	38.8
Services	47.3

The Northern Ireland private sector remained in contraction during October, according to the latest Ulster Bank PMI® report. Business activity, new orders and employment all decreased over the month, albeit at softer rates than in September. Meanwhile, inflationary pressures also moderated.

The headline seasonally adjusted Business Activity Index posted 44.9 in October, up from 43.6 in September but still pointing to a marked monthly reduction in output across the private sector. Activity has now decreased in each of the past eight months, with Brexit uncertainty again the most widely mentioned factor leading to the latest decline. The fall in output in Northern Ireland was the sharpest of the 12 UK regions covered by the survey.

Reductions in activity were particularly marked in the construction and retail sectors. Services posted a solid decline, while manufacturing production expanded for the first time in six months.

Demand

New orders continued to fall at a sharp pace, with clients reportedly reluctant to commit to new projects amid ongoing Brexit uncertainty. All four sectors registered declining new business, although the fall in manufacturing was only fractional. Meanwhile, the rate of contraction in new export orders remained substantial, despite softening from the more than eight-year record posted in September.

Capacity

With new orders continuing to fall, companies in Northern Ireland were again able to work through outstanding business. Backlogs were reduced for the fifteenth month in a row.

As has been the case in each month of 2019 so far, staffing levels decreased in October. That said, the rate of job cuts was slight and the weakest since February. The reduction in employment in Northern Ireland was also softer than the UK average.

Prices

October data pointed to weaker inflationary pressures at the start of the final quarter of the year. Input prices continued to rise sharply, due to currency weakness and higher staff costs, but the rate of inflation was at a five-month low.

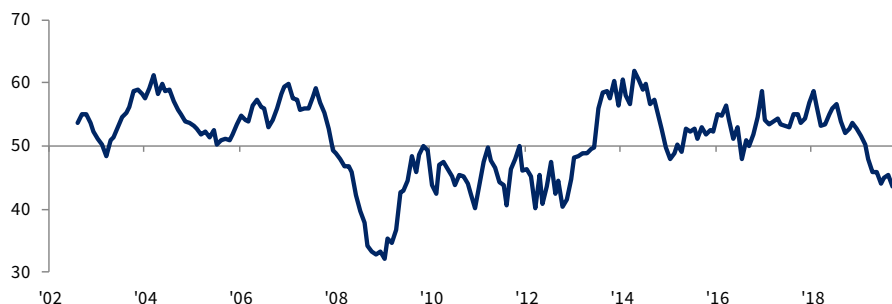
Output prices, meanwhile, rose at the softest pace since April as efforts to boost sales amid competitive pressures led some companies to offer discounts.

Outlook

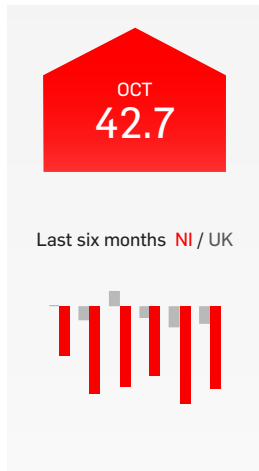
On balance, firms remained pessimistic regarding the 12-month outlook for output, the only UK region for which this was the case. That said, sentiment improved from the position in September, with service providers expecting business activity to rise over the coming year. A resolution to Brexit and the prospect of new order growth supported optimism at some respondents.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



New Business Index



Further marked reduction in new business

As has been the case in each of the past nine months, new business decreased in the Northern Ireland private sector during October. The rate of decline remained sharp, but softened from that seen in September. The fall in new orders in Northern Ireland was the fastest of the 12 UK regions covered by the survey. Respondents mainly linked lower new business to Brexit uncertainty, with clients reluctant to commit to new projects. New orders decreased across all four monitored sectors, with declines in construction and retail particularly sharp. Manufacturing new orders fell only fractionally, however.

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



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-19	49.8	38.0	37.2	46.6

Outstanding Business Index



Softer fall in outstanding business

With Brexit concerns leading to further declines in new orders, companies in Northern Ireland used spare resources to work on existing projects at the start of the fourth quarter. As a result, backlogs of work decreased for the fifteenth successive month. The rate of depletion was sharp, albeit the weakest since March. Work-in-hand was reduced across all four broad categories.

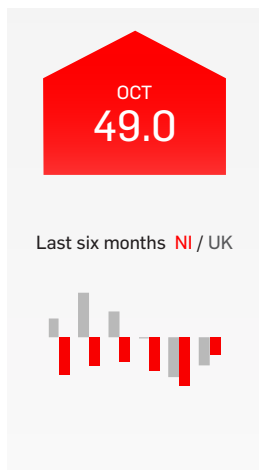
Outstanding Business Index
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-19	47.8	36.4	35.9	46.1

Employment Index



Marginal fall in staffing levels

Although firms continued to lower their staffing levels in October, the rate of job cuts was only slight and the weakest since February. In fact, the decline in Northern Ireland was softer than that seen across the UK as a whole. A number of panellists reported that they had not replaced departing staff, thereby leading to a reduction in workforce numbers. Three of the four sectors covered by the survey saw employment decrease, the exception being services where a fractional increase was registered.

Employment Index
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-19	47.3	48.9	45.6	50.2

Input Prices Index



Rate of cost inflation softens to five-month low

Input prices continued to rise at a sharp pace during October, albeit one that was the weakest since May and softer than the series average. Currency weakness was again mentioned as a key factor behind higher input prices, while rising staff costs were also reported. Retail signalled the sharpest rise in input prices, but marked inflation was also recorded elsewhere. The increase in input costs in Northern Ireland was the fastest of the 12 monitored UK regions.

Input Prices Index

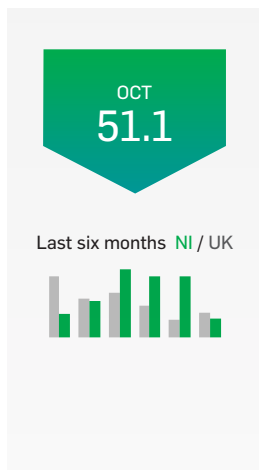
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-19	62.3	59.3	73.2	60.9

Prices Charged Index



Charges raised only slightly in October

As has been the case on a monthly basis throughout the past four years, Northern Ireland companies increased their output prices during October in response to higher cost burdens. That said, the rate of inflation was only slight, having moderated to a six-month low. Some panellists reported having reduced charges in an effort to secure new orders in a competitive environment. Retail selling prices rose sharply, but more modest increases were seen in the services and construction sectors. Meanwhile, manufacturing charges were broadly unchanged.

Prices Charged Index

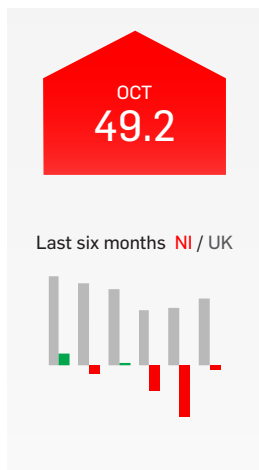
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-19	50.1	51.0	57.6	51.6

Future Output Index

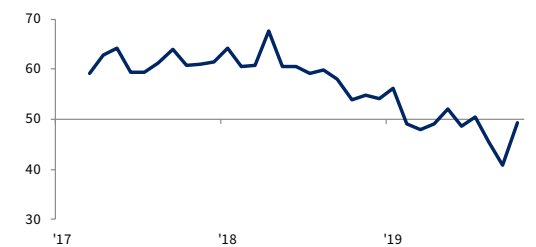


Sentiment shows signs of improvement

Firms operating in the Northern Ireland private sector were less pessimistic in October than they had been in September. Although still expecting a fall in output over the coming year, the level of negative sentiment was only slight. While uncertainty around Brexit and future trading arrangements weighed on confidence, some panellists expect the position to become clearer in the next few months. There were also some predictions that new orders would expand over the coming year. Service providers were optimistic around the 12-month outlook, with pessimism recorded elsewhere.

Future Output Index

>50 = growth expected over next 12 months

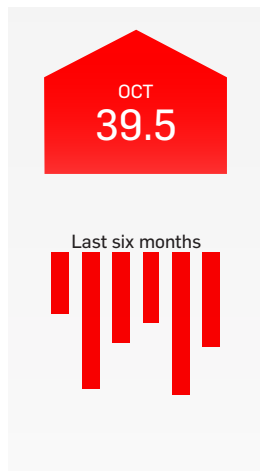


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Oct-19	48.9	43.8	39.2	53.2

New Export Business Index

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



New export orders continue to fall sharply

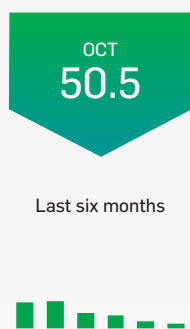
October data pointed to a ninth successive monthly reduction in new export orders at Northern Ireland companies. The rate of contraction was substantial, albeit weaker than that seen in September. Uncertainty around Brexit was widely mentioned by those respondents that saw a fall in new export orders.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



Weakest improvement in export climate for over 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 dropped to 50.5 in October, down from 50.7 in September and falling for the fourth month in a row. The improvement in the export climate was marginal, and the weakest in over six-and-a-half years.

Business activity increased only modestly in some of Northern Ireland's key export markets, including the Republic of Ireland, the US and Canada. Elsewhere, growth in France picked up and was solid. On the other hand, Germany remained a point of weakness, seeing output decrease for the second month running.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Oct-19
1	Republic of Ireland	36.2%	50.6
2	USA	12.2%	50.9
3	Canada	5.8%	51.1
4	Germany	5.1%	48.9
5	France	4.5%	52.6

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, Oct-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	

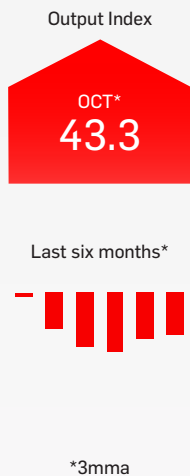
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Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Oct-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: Transport Equipment

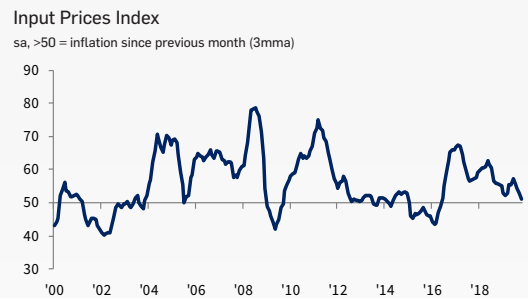
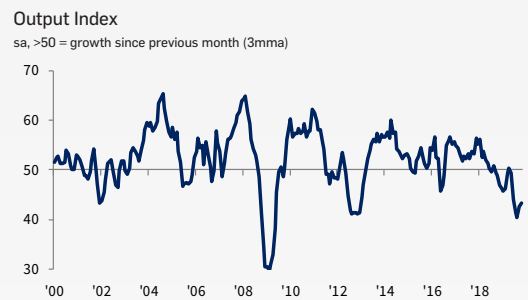


Has the downturn in the transport equipment sector bottomed-out?

The downturn in UK transport equipment continued in the three months to October. However, with rates of decline in output, new orders and employment all easing for the second month in a row, there were tentative signs of a turnaround in the sector.

Production fell at the slowest rate since the three months to June, though the extent of the decrease was still marked and meant that transport equipment remained one of the worst-performing across the UK private sector. Two forward-looking indicators – the Future Output Index and the ratio of new orders to stocks of finished goods – also ticked up but remained close to their recent lows.

Job shedding has been a feature across the sector since the second quarter of 2018 amid efforts to adjust capacity in line with demand and control costs. Input cost inflation has, however, reached a near three-and-half-year low, to show that pressures on this front are easing.



UK Regional Rankings

Business Activity

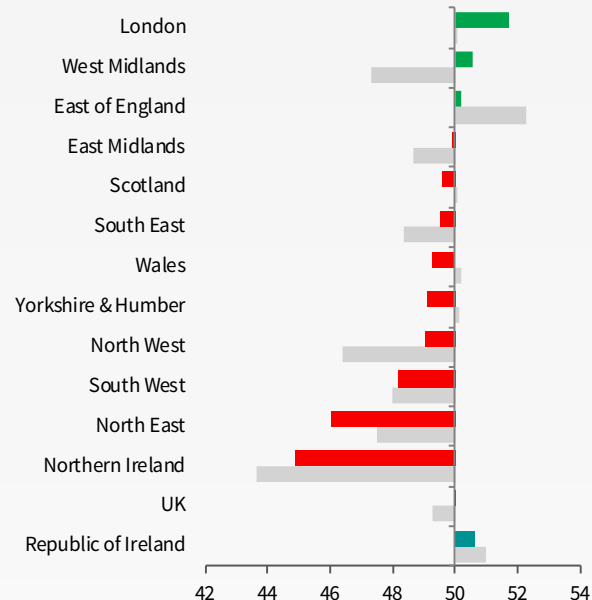
London recorded an accelerated increase in business activity in October to lead the regional rankings for the first time in almost four years. The pace of expansion in the capital was nevertheless only modest. The only other regions to record higher output were the West Midlands and the East of England, though growth was marginal in both cases. The East Midlands saw broadly no change in business activity, while all remaining areas recorded contractions. Northern Ireland recorded the fastest rate of decline, followed by the North East and South West respectively.

Employment

The only bright spots on the employment front in October were modest increases in workforce numbers in London and the South West, with the latter recording the slightly faster rate of job creation. Staffing levels fell in all other areas, albeit with rates of shedding easing in five out of the ten cases. The North East was at the foot of the rankings, with Wales and the East Midlands making up the bottom-three places.

Output Index by region

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

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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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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