

Ulster Bank Northern Ireland PMI[®]

Slower fall in activity amid stabilisation in new orders

Key Findings

Slowest reduction in activity since March 2019

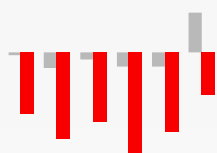
New orders decrease only fractionally

Business sentiment at 21-month high

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Jan-20
Manufacturing	42.8
Construction	45.2
Retail (3mma)	36.2
Services	48.3

January saw the Northern Ireland private sector move towards stabilisation amid a reduction in near-term uncertainty. Business activity fell at a softer pace thanks to broadly unchanged new order volumes. Meanwhile, firms raised their staffing levels for the second month running and business confidence was the highest since April 2018.

The headline seasonally adjusted Business Activity Index posted 46.8 in January, up from 44.2 in December but still below the 50.0 no-change mark. The fall in output signalled by the index was the softest since March 2019. Brexit and associated uncertainty continued to impact negatively on activity, albeit to a lesser extent following the result of the general election.

Meanwhile, the UK economy as a whole saw a return to growth in January, with Northern Ireland one of only two regions to see a fall in activity (alongside the North East).

Reductions in output were recorded again across each of the four broad sectors covered by the survey.

Demand

New orders fell only fractionally in January, with the pace of reduction slowing sharply from that seen in December. The broad stabilisation in new business reflected a return to growth in the service sector and softer declines in manufacturing, construction and retail. Although total new business was broadly stable, new export orders continued to fall at a marked

pace amid Brexit uncertainty.

Capacity

Northern Ireland companies raised employment for the second month running. Although only slight, rate of job creation quickened to a 13-month high. Staffing levels increased in the services and construction sectors.

Greater workforce numbers meant that companies continued to work through backlogs of work at a rapid pace at the start of the year. In fact, the rate of depletion of outstanding business was faster than that seen in December.

Prices

Input prices increased at the fastest pace in four months during January, with higher costs for fuel and staff most widely mentioned by respondents. Northern Ireland recorded the sharpest pace of input price inflation of the 12 monitored UK regions.

Companies responded to higher cost burdens by raising their output prices. The increase followed a first decline in over four years in December.

Outlook

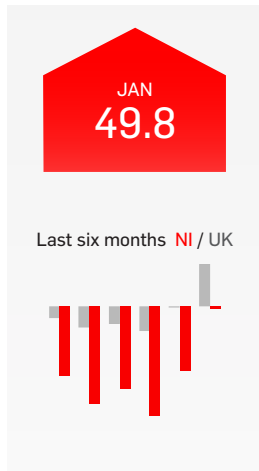
Business confidence continued to climb in January and was the highest since April 2018. Anecdotal evidence suggested that the re-establishment of the government at Stormont was the main reason for optimism, while predictions of rising new orders were also mentioned.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



New Business Index



Little change in new business at start of 2020

January data signalled a stabilisation of new orders in the Northern Ireland private sector, after new business volumes had fallen sharply through much of 2019. That said, a number of respondents continued to report difficult market conditions amid uncertainty about the final outcome of Brexit. Meanwhile, new orders increased across the UK as a whole.

Services new business returned to growth for the first time in 11 months, while softer falls in new work were recorded in the manufacturing, construction and retail categories.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-20	46.6	47.7	38.2	51.3

Outstanding Business Index

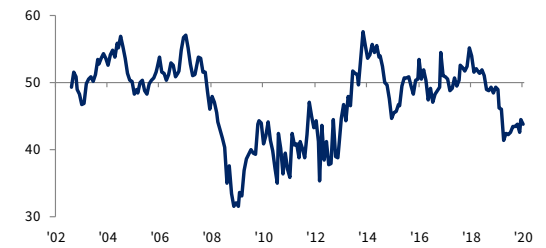


Backlogs of work continue to fall sharply

Despite broadly unchanged new order levels in January, companies in Northern Ireland continued to exhibit a degree of spare capacity as shown by a further sharp reduction in backlogs of work. In fact, the pace of depletion of outstanding business was slightly faster than that seen in the previous month. Backlogs of work have now decreased on a monthly basis throughout the past year-and-a-half. All four monitored sectors posted lower levels of outstanding work in January.

Outstanding Business Index

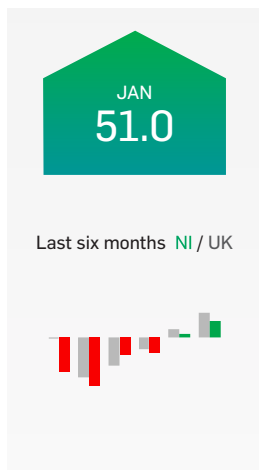
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-20	43.0	35.7	37.1	48.0

Employment Index



Slight increase in employment

Helping lead to the reduction in backlogs of work at the start of the year was an increase in staffing levels, the second in as many months. The rate of job creation picked up from that seen in December, but was still only slight. Both the services and construction sectors saw employment increase in January, the former recording the strongest pace of job creation since May 2018. On the other hand, manufacturing and retail posted further modest reductions in workforce numbers.

Employment Index

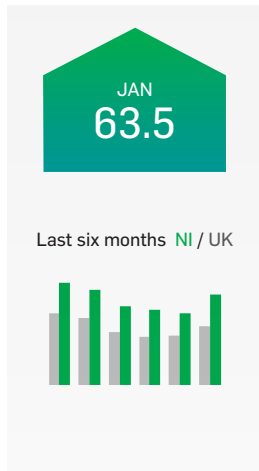
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-20	48.1	54.5	48.5	53.3

Input Prices Index



Sharpest rise in input prices for four months

The rate of input cost inflation at companies in Northern Ireland accelerated to the fastest since September 2019 in January. The latest rise in input prices was sharp and faster than the series average. Northern Ireland posted the steepest increase in input costs of the 12 monitored UK regions. Where input prices rose, panellists mainly linked this to higher costs for fuel and staff.

Services posted the sharpest pace of cost inflation of the four monitored sectors, but marked increases were also registered in manufacturing, construction and retail.

Input Prices Index

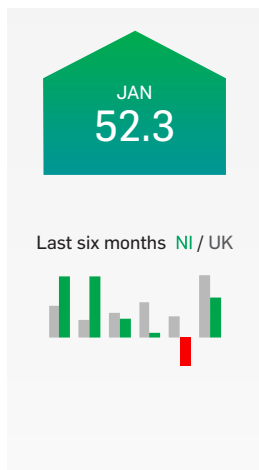
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-20	60.8	60.7	60.2	64.6

Prices Charged Index



Output prices increase following fall in December

After having declined for the first time in over four years in December, output prices increased during January. The rise in charges was solid and faster than the series average. That said, the rate of inflation in Northern Ireland was softer than seen across the UK as a whole. Output prices increased in the services, construction and retail sectors, with constructors posting the sharpest pace of inflation. Meanwhile, manufacturing selling prices decreased fractionally, extending the current sequence of reduction to three months.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-20	49.8	54.9	51.2	53.5

Future Output Index

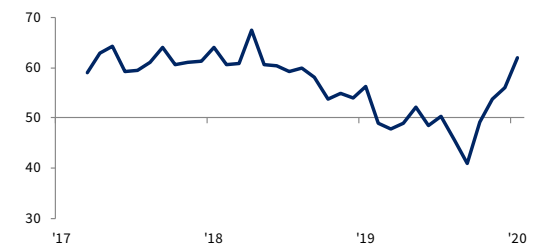


Business confidence at 21-month high

Sentiment at Northern Ireland companies improved for the fourth successive month in January and reached the highest since April 2018. The re-establishment of the government at Stormont was a key factor boosting confidence in the 12-month outlook for output, with the prospect of new order growth also cited. Improving sentiment was signalled across each of the four broad sectors covered by the survey, with manufacturing firms the most optimistic.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jan-20	63.6	62.0	54.6	61.4

New Export Business Index

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



Further steep decline in new export orders

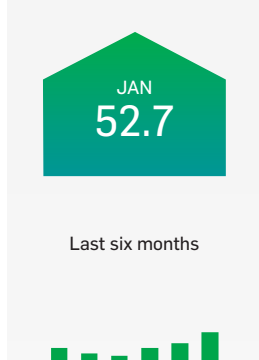
As has been the case on a monthly basis throughout the past year, new export orders decreased in January. The rate of contraction remained sharp, despite softening for the fourth successive month to the weakest since March 2019. According to respondents, Brexit and related uncertainty was the main factor leading to the latest decline in new business from abroad.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



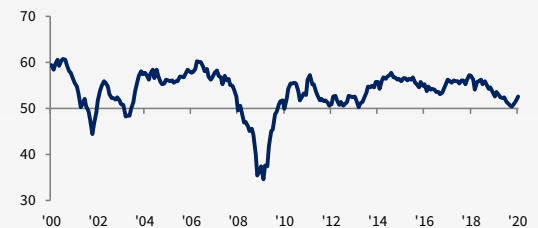
Strongest improvement in export climate for ten months

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 rose to 52.7 in January from 51.6 in December to signal a solid improvement in the demand climate for Northern Ireland exporters. Moreover, the rate at which the climate strengthened was the most marked since last March.

Both of the two largest export markets for Northern Ireland exporters (accounting for almost half of all exports) saw growth of business activity accelerate in January. Ireland posted the fastest expansion of output for just under a year, while activity in the US rose solidly. Modest increases were seen in other key export markets.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jan-20
1	Republic of Ireland	36.2%	54.7
2	USA	12.2%	53.1*
3	Canada	5.8%	50.3
4	Germany	5.1%	51.2
5	France	4.5%	51.1

* 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, Jan-20 (3mma)
1	Food & Drink	1.72	55
2	Machinery & Equipment	1.20	50
3	Other Manufacturing	1.16	45
4	Electrical & Electronic	1.08	45
5	Textiles & Clothing	0.92	55
6	Wood & Paper	0.89	50
7	Metals & Metal Products	0.78	45
8	Transport Equipment	0.74	40
9	Chemicals, Rubber & Plastics	0.68	45

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Jan-20 (3mma)
1	Hotels, Restaurants & Catering	1.31	55
2	Other personal/consumer Services	1.23	50
3	Transport & Communication Services	1.20	55
4	Business-to-business Services	0.85	50
5	Financial Intermediation	0.84	55
6	Computing & IT Services	0.84	50

UK Sector Focus: Other Personal & Community Services

Output Index



Last six months*



*3mma

Sustained weakness in consumer services at the turn of the year, but outlook brightens

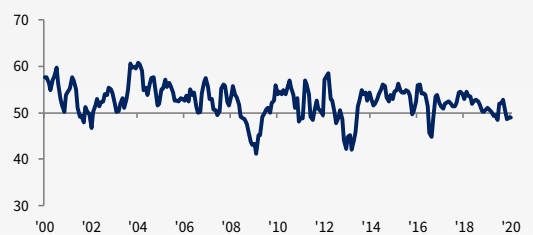
Business activity across the UK's Other Personal and Community Services sub-sector remained subdued at the turn of the year, with latest PMI data signalling a further modest drop in output in the three months to January. It followed a period of broad stagnation across 2019.

The combination of a lack of pressure on capacity and efforts to guard against rising costs saw the sector's businesses pare back staffing numbers during the latest survey period, maintaining a sustained decline in employment that stretches back to mid-2018.

More encouragingly, however, data showed signs of demand reviving, with inflows of new business growing at the strongest pace since the third quarter of last year. There was also an improvement in firms' optimism towards the outlook for activity over the next 12 months to the highest in nearly one-and-a-half years.

Output Index

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



Future Business Activity Index

sa, >50 = growth forecast over next 12 months (3mma)



UK Regional Rankings

Business Activity

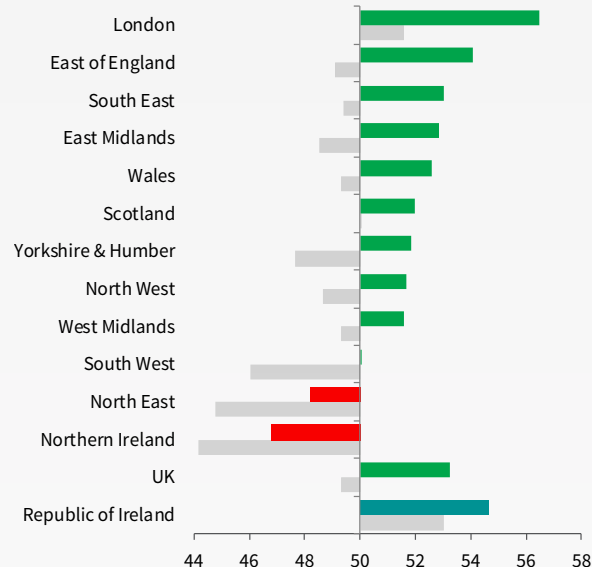
January saw an increase in business activity in nine of the 12 UK regions monitored by the survey. The strongest growth was seen in London, where output showed the steepest rise for almost three years, followed by the East of England. There were renewed increases in activity in the South East, East Midlands, Wales, Scotland, Yorkshire & Humber, North West and the West Midlands. Output stabilised in the South West following ten months of contraction, while rates of decline eased in both the North East and Northern Ireland.

Employment

London also topped the rankings for employment growth in January, with the capital recording its steepest rise in workforce numbers since February 2018. There were net job gains in all but one of the remaining regions, albeit with the increase in the East Midlands being only fractional. The North East saw the only decrease in employment, though even here the rate of staff cuts eased for the third month in a row.

Output Index by region

sa, >50 = growth since previous month, Jan-20 (Dec-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

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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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