

Ulster Bank Northern Ireland PMI[®]

Third successive monthly fall in activity

Key Findings

Further marked reductions in output and new orders

Rate of cost inflation softens

Sentiment improves, but remains weak

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	May-19
Manufacturing	46.4
Construction	47.5
Retail (3mma)	37.7
Services	46.0

The Northern Ireland private sector remained in contraction territory midway through the second quarter of 2019, according to the latest Ulster Bank PMI[®] report. Activity and new business continued to fall markedly, often linked to Brexit uncertainty. In turn, companies lowered their staffing levels again. There was some relief on the price front, as the rate of input cost inflation eased. That said, the extent of input price increases far outweighed that of selling charges again during the month.

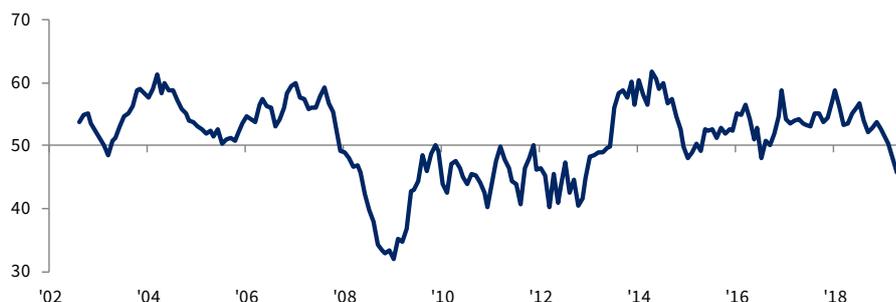
The headline seasonally adjusted Business Activity Index posted below the 50.0 no-change mark for the third month running in May, signalling an ongoing period of decline in Northern Ireland private-sector output. At 46.0, the reading was up fractionally from 45.8 in April. The fall in Northern Ireland contrasted with a marginal expansion across the UK economy as a whole. For the first time in more than six years, all four monitored sectors saw activity decrease.

According to respondents, Brexit uncertainty was the main factor leading output to decline, while there were again mentions of the negative impact of the lack of government at Stormont.

Demand

These factors were also responsible for a drop in new orders, according to respondents. New business decreased for the fourth successive month. Meanwhile, the rate of decline in new export orders continued to accelerate, and was the steepest in six-and-a-half years.

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



Capacity

As has been the case throughout 2019 so far, Northern Ireland companies lowered staffing levels in May. Panellists reported the non-replacement of leavers amid falling workloads. The construction sector posted a slight uptick in employment, but job cuts were signalled in the other three sectors.

Falling new orders and ongoing Brexit uncertainty led companies to work through outstanding business. Backlogs decreased at a sharp pace, and one that was only slightly slower than the 76-month record seen in April.

Prices

Although input prices continued to increase at a sharp pace in May, the rate of inflation softened to the joint-weakest in almost three years and was only just above the UK average. Where input prices rose, panellists often reported higher staff costs. Companies responded to increases in input costs by raising their output prices. That said, the rate of charge inflation was only slight, and the second-weakest in 38 months.

Outlook

Companies expressed optimism in the 12-month outlook for business activity for the first time in four months, amid hopes that the securing of new contracts would support growth. That said, Brexit uncertainty meant that sentiment remained relatively weak, with firms in Northern Ireland by far the least optimistic in the UK.

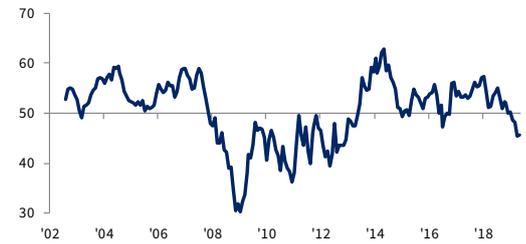
New Business Index



New orders fall markedly again in May

As was the case in April, companies in Northern Ireland recorded a marked reduction in new business during May. New orders have now fallen in four successive months, with the UK as a whole seeing a slight uptick in new work. Survey respondents continued to blame falling new orders on Brexit uncertainty and a lack of government at Stormont. All four monitored sectors saw new business decline, led by retail.

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



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-19	44.4	46.4	41.9	46.0

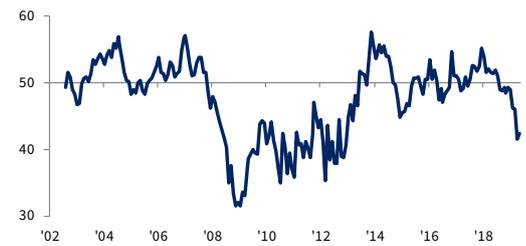
Outstanding Business Index



Steep reduction in backlogs of work

Anecdotal evidence suggested that Brexit uncertainty and falling new orders resulted in another sharp decline in backlogs of work midway through the second quarter. The rate of depletion was only slightly weaker than that seen in April, which was the steepest in almost six-and-a-half years. More than 24% of respondents worked through outstanding business in May, against 11% that posted a rise.

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



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-19	44.6	35.9	45.4	43.4

Employment Index



Employment down for fifth month running

As has been the case throughout 2019 so far, Northern Ireland companies lowered their staffing levels during May. That said, the rate of job cuts eased and was the slowest in three months. Northern Ireland was one of only three UK regions to record a drop in staffing levels, alongside the North East and East Midlands. Panellists often reported the non-replacement of leavers in an uncertain environment. Workforce numbers fell in the manufacturing, services and retail categories, but increased slightly in construction.

Employment Index
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-19	48.8	50.6	46.8	47.0

Input Prices Index



Rate of cost inflation softens

Although input prices continued to increase at a marked pace in May, the rate of inflation eased to the joint-weakest since June 2016 and was only slightly stronger than the UK average. Where input prices rose, panellists largely attributed this to higher staff costs. Retail posted the sharpest rise in input prices, closely followed by construction.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-19	59.8	65.3	65.9	61.4

Prices Charged Index



Slight increase in output prices

Some companies were reportedly able to pass higher cost burdens onto customers in May, thereby resulting in an increase in output prices. The rate of inflation ticked up, but was only marginally quicker than April's 37-month low. The manufacturing and construction sectors posted increases in selling prices, while charges were little-changed in services and retail.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-19	52.1	53.1	49.8	49.9

Future Output Index

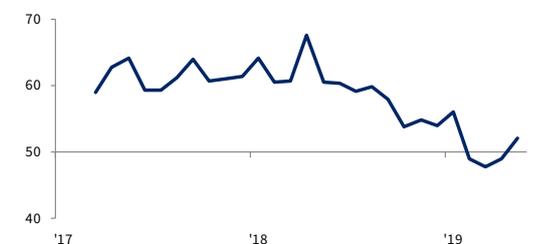


Sentiment turns positive in May, but remains weak

For the first time in four months, Northern Ireland firms were, on balance, optimistic that output will increase over the coming year. That said, sentiment was still relatively weak, with firms in Northern Ireland by far the least optimistic of the 12 UK regions. Those companies that were optimistic about the future linked this to the likelihood of securing new contracts. On the other hand, Brexit uncertainty continued to hang over the outlook.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
May-19	60.6	48.0	43.1	50.0

New Export Business Index

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



Sharp contraction in new business from abroad

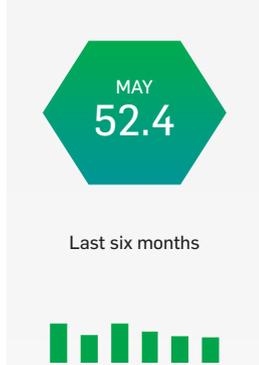
May data pointed to a fourth successive monthly decline in new export orders. Moreover, the rate of contraction continued to accelerate, reaching the sharpest in six-and-a-half years. According to respondents, Brexit was the main factor leading new business from abroad to fall.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



Modest improvement in export climate

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 was unchanged from April's 70-month low at 52.4 in May, signalling a modest improvement in the export climate for Northern Ireland companies.

While output growth in the Republic of Ireland picked up in May, it remained subdued relative to the picture in 2018. The US saw activity rise at the slowest pace for three years, while elsewhere in North America Canadian manufacturing production decreased for the second month running. There were some signs of improvement in European markets, with both France and Germany seeing stronger growth in May.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, May-19
1	Republic of Ireland	41.0%	54.1
2	USA	13.8%	50.9
3	Canada	6.6%	48.6
4	Germany	5.8%	52.6
5	France	5.1%	51.2

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-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 60

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, May-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: Business-to-Business Services



Last six months*



*3mma

Business-to-business services provides timely boost to UK employment

With recent PMI surveys having shown a reduced appetite among UK firms to hire new staff amid ongoing political uncertainty, an uptick in the pace of job creation across the large business-to-business (B2B) services sector has provided a timely boost to employment.

Workforce growth in B2B services in the three months to May was the fastest recorded since Q3 2017, outstripping hiring in all other parts of the services economy except for the fast-growing computing & IT services.

The improved trend in job creation in B2B services partly reflected a renewed increase in new work across the sector and stronger optimism towards future activity.

Latest data meanwhile showed growth in overall business activity picking up slightly but remaining close to the weakest since 2012.

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



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



UK Regional Rankings

Business Activity

Yorkshire & Humber moved to the top of the rankings for business activity growth in May, as the region's firms reported the strongest rise in output for eight months. Last month's leader, the North West, dropped to second place, having seen growth slow to a six-month low. London was the biggest climber, up from joint-ninth position in April to third, as output in the capital rose for the first time in five months and to the greatest extent since last September. At the other end of the scale, Northern Ireland recorded another marked drop in activity to sit at the foot of the table for a second straight month. Five other areas saw a fall in business activity. Notably, the East Midlands recorded a contraction for the first time since 2012.

Employment

Regional job creation continued to be led by the West Midlands in May, ahead of Yorkshire & Humber and the East of England. The latter was the biggest climber in the rankings, followed by London. The steepest fall in employment was recorded in the North East, followed by Northern Ireland. Workforce numbers also dipped across the East Midlands, albeit falling only fractionally overall.

Output Index by region

sa, >50 = growth since previous month, May-19 (Apr-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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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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