

Ulster Bank Northern Ireland PMI[®]

Downturn deepens in Northern Ireland private sector

Key Findings

Sharpest decline in output since November 2012

Steeper reductions in total new orders and exports

Companies expect output to fall over coming year

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Jun-19
Manufacturing	41.5
Construction	40.8
Retail (3mma)	40.8
Services	47.7

The downturn in the Northern Ireland private sector deepened in June, according to the latest Ulster Bank PMI[®] report. Brexit uncertainty led to sharper falls in output and new orders, with firms pessimistic regarding the 12-month outlook.

The headline seasonally adjusted Business Activity Index fell to 44.1 in June from 46.0 in May. The reading signalled a marked monthly reduction in output, and one that was the strongest since November 2012. Brexit and associated market uncertainty were behind the latest fall in activity, according to respondents. The decline was the fourth in as many months, and the most pronounced of all 12 UK regions covered.

Falling output was registered across all four broad sectors. Steep declines were seen in construction, retail and manufacturing, with the latter seeing the steepest contraction in production since April 2009. The pace of reduction in services activity softened, but decreases have now been seen in four successive months.

Demand

Brexit uncertainty was also reportedly the main factor behind a sharp decline in new orders. New business decreased for the fifth successive month, and to the greatest extent in seven years. New export orders also fared badly, falling at a considerable pace that was the steepest since August 2011.

Capacity

Falling new orders fed through to a further reduction in backlogs of work. Outstanding business decreased sharply, and at a faster pace than in May. Declines in backlogs were particularly marked in the manufacturing and construction sectors.

Employment decreased for the sixth successive month in June. That said, in contrast to a number of the other variables monitored by the survey, the rate of job shedding softened to the weakest in four months. Construction firms took on additional staff, but falling employment was recorded elsewhere.

Prices

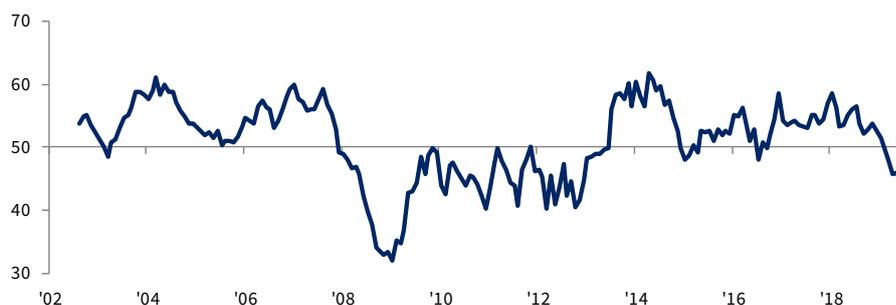
The rate of input cost inflation ticked up from May's 22-month low and was broadly in line with the series average. Where input prices rose, panellists often linked this to higher staff costs.

The rate of output price inflation also quickened, but remained modest. Manufacturers posted the fastest rise in selling prices, with only retail recording a fall.

Outlook

Business sentiment turned negative again in June, with companies pessimistic regarding the 12-month outlook for output for the fourth time in the past five months. Concerns around Brexit were widely mentioned, with Northern Ireland registering by far the lowest sentiment of the 12 UK regions.

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



New Business Index

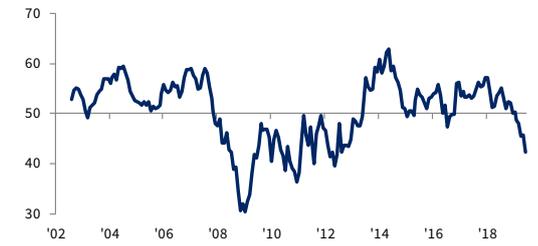


Steep fall in new business

Brexit uncertainty was reportedly the main factor behind a further reduction in new orders at Northern Ireland companies. The rate of contraction was substantial and the sharpest for seven years. The fall in output in Northern Ireland was much stronger than the UK average. Manufacturers recorded the steepest decline in demand for over a decade, and was the worst performer of the four broad sectors covered. That said, falls in new order inflows were widespread.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-19	39.5	40.7	41.0	44.4

Outstanding Business Index



Further reduction in backlogs of work

June data pointed to an eleventh successive monthly decline in backlogs of work. The pace of reduction was sharp and slightly quicker than seen in May. Anecdotal evidence suggested that the fall in outstanding business was due to the drop off in new orders. Particularly steep declines in backlogs were registered in the manufacturing and construction sectors.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-19	39.2	36.2	44.6	44.1

Employment Index



Employment down modestly in June

Northern Ireland companies lowered employment for the sixth successive month in June, maintaining a reluctance to hire additional staff given ongoing uncertainty and falling workloads. That said, the latest fall in staffing levels was modest and the weakest since February. Job cuts in Northern Ireland contrasted with a rise in employment at the UK level. Job creation continued in the construction sector, but falls in workforce numbers were recorded elsewhere.

Employment Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-19	47.8	51.6	47.7	49.1

Input Prices Index



Rising staff costs drive further increase in input prices

Northern Ireland companies continued to see increasing input costs during June. Although the second-weakest in almost two years, the rate of inflation was broadly in line with the series average. According to respondents, wage pressures was the main factor behind higher input costs, while there were continued reports of currency weakness pushing up purchase prices. Retail posted the fastest rise in input costs of the four broad sectors covered.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-19	60.9	62.3	66.9	60.5

Prices Charged Index



Modest increase in output prices

A further rise in selling prices was recorded in June, with the rate of inflation in Northern Ireland broadly in line with that seen across the UK as a whole. The increase in charges was modest, but the sharpest in three months. Despite registering the fastest rise in input costs, retailers lowered their selling prices. Elsewhere, output prices increased, with the sharpest inflation in the manufacturing sector.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-19	54.7	51.5	48.3	51.0

Future Output Index

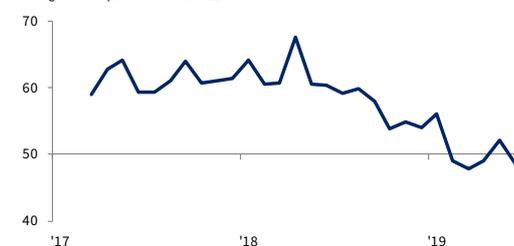


Sentiment turns negative

For the fourth time in the past five months, Northern Ireland companies were pessimistic regarding the 12-month outlook for business activity in June. Firms in Northern Ireland were again by far the most pessimistic of the 12 UK regions. The impact of Brexit, as well as the current uncertainty, caused worries for firms at the end of the second quarter. The construction and retail sectors were the most pessimistic, while manufacturing sentiment dropped sharply from the previous month.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jun-19	51.1	37.5	41.7	53.3

New Export Business Index

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



Decline in new export business accelerates

Northern Ireland companies recorded a substantial contraction in new business from abroad in June, with the rate of decline quickening to the fastest in almost eight years. According to respondents, Brexit uncertainty was behind the latest reduction, which was the fifth in as many months.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



Export conditions continue to improve

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 posted at 52.4 for the third month in a row in June, pointing to a further modest improvement in the health of Northern Ireland's export markets.

Overall growth in the Republic of Ireland picked up slightly in June as manufacturing output returned to expansion. The rise was still relatively weak, however. Solid increases in output were seen in France and Germany. The US posted another modest improvement in activity, while elsewhere in North America, Canada posted a solid reduction in manufacturing production that was the sharpest in three-and-a-half years.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jun-19
1	Republic of Ireland	41.0%	54.4
2	USA	13.8%	50.6*
3	Canada	6.6%	47.7
4	Germany	5.8%	52.6
5	France	5.1%	52.7

* 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, Jun-19 (3mma)
1	Food & Drink	1.72	55
2	Machinery & Equipment	1.20	50
3	Other Manufacturing	1.16	52
4	Electrical & Electronic	1.08	50
5	Textiles & Clothing	0.92	50
6	Wood & Paper	0.89	45
7	Metals & Metal Products	0.78	48
8	Transport Equipment	0.74	45
9	Chemicals, Rubber & Plastics	0.68	48

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Jun-19 (3mma)
1	Hotels, Restaurants & Catering	1.31	50
2	Other personal/consumer Services	1.23	50
3	Transport & Communication Services	1.20	50
4	Business-to-business Services	0.85	55
5	Financial Intermediation	0.84	45
6	Computing & IT Services	0.84	55

UK Sector Focus: Business-to-Business Services

Output Index



Last six months*



*3mma

Wood & paper products sector sinks deeper into contraction

Wood & paper products was the UK's weakest-performing manufacturing sector in the second quarter, according to PMI data, seeing output fall to the greatest extent since the global financial crisis.

The downturn was led by falling inflows of new work, which posted the steepest decline in seven-and-a-half years in the three months to June amid reports of customers destocking, weakness in the retail sector and market uncertainty.

The reversal of Brexit-related stockpiling has been a theme observed across the goods-producing economy during Q2, and the wood & paper products sector has been no exception. Input stocks have falling sharply following near-record growth in the first quarter of 2019. Weaker than expected sales has meanwhile led to the build up of unsold finished goods, boding ill for the near-term outlook for output.

Output Index

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



Stocks of Purchases Index

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



UK Regional Rankings

Business Activity

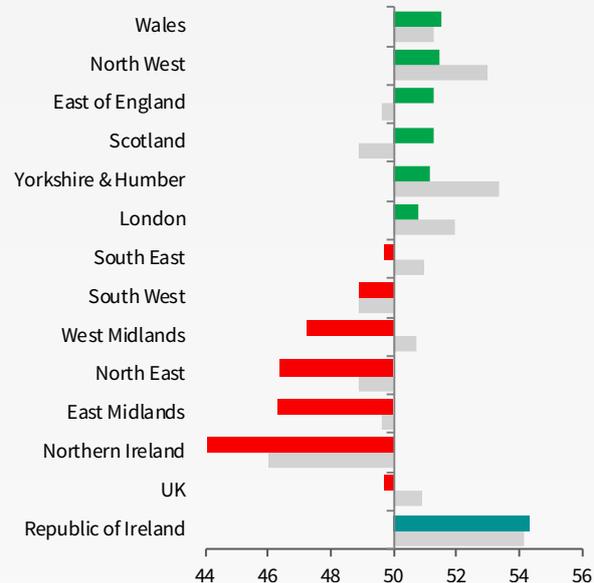
Business activity growth in June was led by Wales, where the pace of expansion ticked up slightly since May, followed closely by the North West. The East of England and Scotland were joint-third in the rankings, having both seen renewed increases in output at the end of the second quarter. The only remaining areas to see growth were Yorkshire & Humber and London, though in both cases the pace of expansion was modest and slowed since May. Northern Ireland again recorded the steepest overall decrease in business activity, with the rate of decline gathering pace to the quickest since November 2012.

Employment

Employment rose in nine of the 12 UK areas monitored by the survey in June. The fastest rate of job creation was recorded in Yorkshire & Humber, where workforce numbers posted the largest increase for ten months. There were also solid and accelerated increases in payroll numbers in the East of England, London and the North West. Employment meanwhile fell in Northern Ireland, the North East and East Midlands, albeit only modestly in all three cases.

Output Index by region

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

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 © 2019 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.