

Ulster Bank Northern Ireland PMI®

New orders fall sharply again in July

Key Findings

Ongoing declines in output and new orders

Modest reduction in staffing levels

Output prices rise at fastest pace since February

Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Jul-19
Manufacturing	41.4
Construction	42.2
Retail (3mma)	48.2
Services	46.2

According to the latest Ulster Bank PMI® report, sharp falls in output and new orders were recorded again at companies in Northern Ireland at the start of the third quarter of the year amid ongoing worries around the final Brexit outcome. Employment also continued to decrease, while sentiment remained weak. On the price front, input costs increased at a sharp pace, while output price inflation quickened to a five-month high.

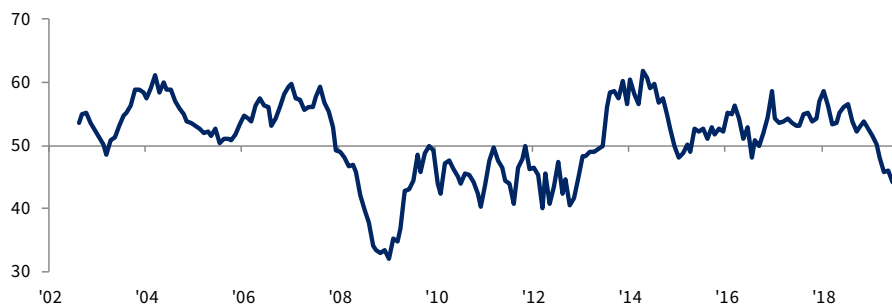
The headline seasonally adjusted Business Activity Index posted 45.0 in July, up from 44.1 in June but still signalling a marked monthly reduction in output over the month. Activity has now decreased in each of the past five months, with lower new orders amid Brexit uncertainty central to the latest fall. The reduction in output in Northern Ireland was the sharpest of the 12 UK regions covered by the survey.

All four broad sectors saw business activity fall, led by manufacturing where the rate of contraction in output quickened to the fastest for over a decade.

Demand

New orders fell for the sixth successive month in July, with the rate of contraction slowing only slightly from the seven-year record posted in June. In contrast, new orders increased across the UK as a whole. Northern Ireland firms also signalled another substantial reduction in new export business as Brexit uncertainty deterred customers.

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



Capacity

Falling new orders led companies to work through outstanding business again in July. Backlogs of work have now decreased in each month throughout the past year.

Signs of spare capacity were evident in spite of a seventh successive reduction in employment. Staffing levels decreased modestly, with the rate of job shedding easing for the third month running. Although a number of respondents lowered employment intentionally in line with falling workloads, others indicated that their efforts to hire new employees had been hindered by problems finding suitable staff.

Prices

Input costs increased at a sharp pace, and one that was broadly in line with that seen in June. Higher staff costs were widely mentioned, while there were also reports of rising material prices.

While cost inflation was broadly stable over the month, the pace at which output prices increased quickened to a five-month high. All four broad sectors raised selling prices, led by manufacturing.

Outlook

Although business sentiment moved back into positive territory during July in response to expectations of improving new orders over the coming year, confidence was weak overall. Northern Ireland firms were again by far the least optimistic of the 12 UK regions.

New Business Index



Further sharp reduction in new orders

July data pointed to a sixth successive monthly reduction in new orders at Northern Ireland companies. Although easing from June's seven-year record, the rate of contraction was substantial. The drop in new business in Northern Ireland contrasted with an increase across the UK as a whole. Brexit uncertainty was again the main factor leading new business to fall. Three of the four monitored sectors posted reductions in new work, the exception being retail where a marginal increase was registered.

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



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-19	41.9	43.3	50.5	43.0

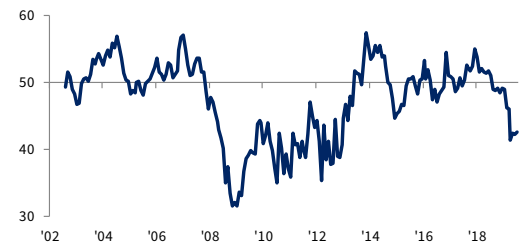
Outstanding Business Index



Companies continue to work through backlogs

Northern Ireland firms recorded a further decline in backlogs of work during July, extending the current sequence of depletion to one year. Reductions in new orders were chiefly responsible for the latest decrease in outstanding business. The rate of decline softened from June, but remained considerable. Around one-quarter of panellists registered a fall in backlogs, against 11% that posted a rise.

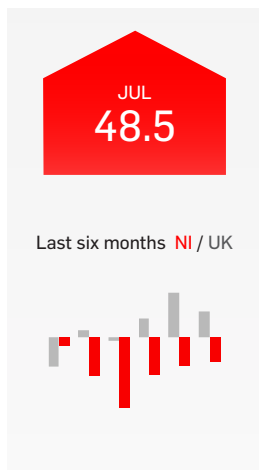
Outstanding Business Index
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-19	40.2	38.8	51.2	42.7

Employment Index



Modest reduction in employment

As has been the case in each of the past seven months, Northern Ireland companies posted a fall in employment in July. As well as a response to lower new orders, panellists also attributed reduced staffing levels to difficulties recruiting new employees. That said, the rate of job shedding eased for the third month running to the weakest since February. Three of the four broad sectors saw employment decline, the exception being construction. The overall fall in staffing levels in Northern Ireland contrasted with a rise in employment across the UK as a whole.

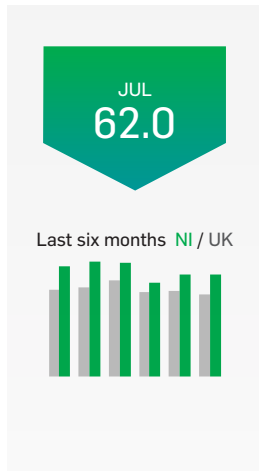
Employment Index
sa, >50 = growth since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-19	47.4	52.1	49.1	48.5

Input Prices Index



Cost inflation little-changed

The rate of input cost inflation was broadly stable in July, remaining among the lowest seen for two years. The rate of inflation in Northern Ireland was still faster than the UK average, however. Where input prices rose, panellists generally linked this to higher staff costs, with increased material prices also mentioned. Marked increases in input prices were registered across each of the four broad sectors covered by the survey, led by retail.

Input Prices Index

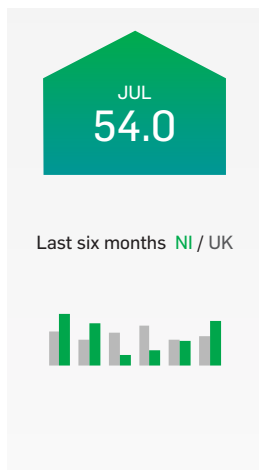
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-19	57.7	63.3	69.5	61.0

Prices Charged Index



Sharpest rise in charges since February

The rate of output price inflation quickened for the third successive month in July and was the steepest since February. Charges were raised at approximately 13% of respondents, largely reflective of the passing on of higher input costs to clients. On the other hand, 5% of panellists lowered selling prices. Manufacturing recorded the fastest rise in output charges, followed by services. All four broad sectors saw stronger output price trends than in the previous survey period.

Prices Charged Index

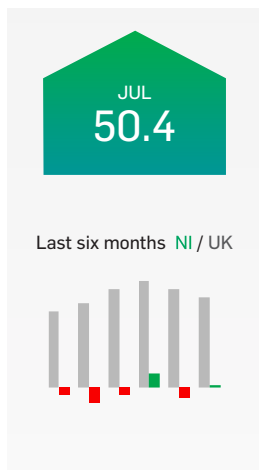
sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-19	54.8	52.9	50.2	53.1

Future Output Index

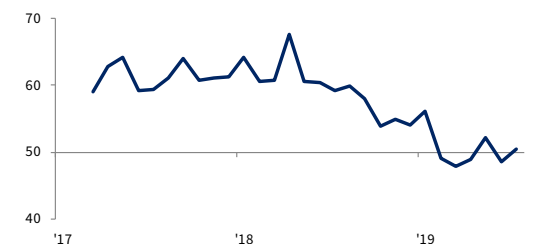


Sentiment broadly neutral in July

When asked about expectations for output in 12 months' time, Northern Ireland companies were broadly neutral in July. Sentiment moved fractionally into positive territory following pessimism in June. However, confidence in Northern Ireland was again by far the weakest of the 12 monitored UK regions. Expected increases in new contracts supported optimism at some firms, but Brexit continued to weigh on sentiment. Manufacturing was the most optimistic sector, followed by services. Both construction and retail remained downbeat regarding the outlook.

Future Output Index

>50 = growth expected over next 12 months

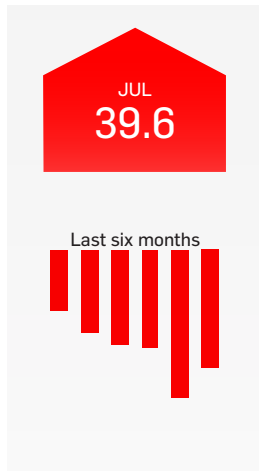


By sector

	Manufacturing	Construction	Retail (3mma)	Services
Jul-19	55.0	42.5	45.3	50.8

New Export Business Index

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



Steep contraction in new export orders

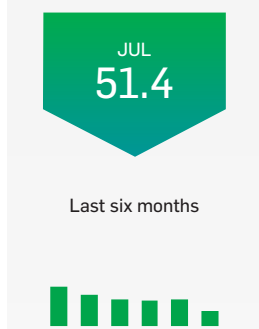
Northern Ireland companies registered a further substantial decline in new business from abroad during July. This was despite the pace of reduction softening from June's near eight-year record. Brexit remained the key factor leading new export orders to fall, according to panel members.

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



Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



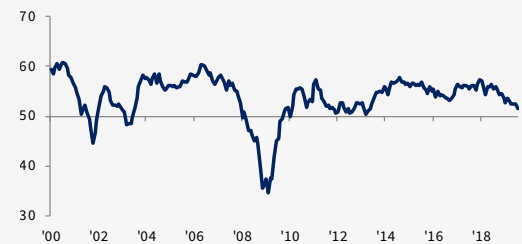
Weakest improvement in export conditions for over six years

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 51.4 in July from 52.4 in June, and was the lowest since May 2013. The reading pointed to only a modest improvement in conditions for exporters, amid slowing global demand.

Ireland saw a marked easing in the pace of output growth in July, with Northern Ireland's main export market posting the weakest rise for more than six years. Growth also slowed in Germany and France, while Canadian manufacturing output fell for the fourth month running. There was some positivity in the US, however, where activity rose at the fastest pace since April.

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



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jul-19
1	Republic of Ireland	41.0%	51.8
2	USA	13.8%	52.6
3	Canada	6.6%	49.7
4	Germany	5.8%	50.9
5	France	5.1%	51.9

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, Jul-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	

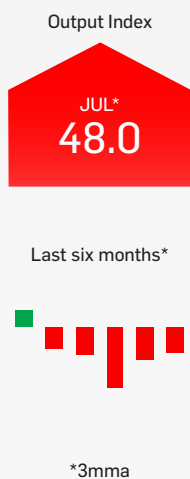
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Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Jul-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

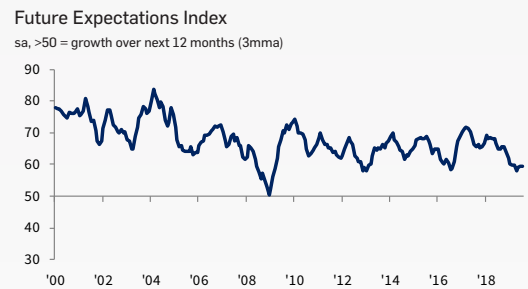
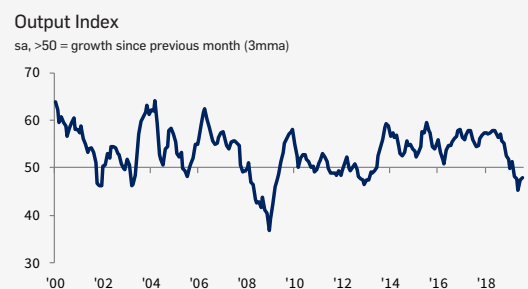


Financial intermediation weighs on UK economic growth in the three months to July

In a complete reversal of the situation one year ago, financial intermediation was the UK's worst-performing services sub-category in the three months to July. That said, with the rate of decline in business activity in the sector slowing to a modest pace, its drag on economic growth continued to ease from a nadir in the three months to May.

Business confidence towards the year-ahead outlook for activity meanwhile remained close to the six-year low recorded in the three months to April, weighed on by ongoing uncertainty around Brexit. Nevertheless, hopes of future growth were reflected in a solid rate of job creation.

Margins across the sector meanwhile remained under pressure, as firms kept output charges broadly unchanged despite facing a sustained steep rise in costs.



UK Regional Rankings

Business Activity

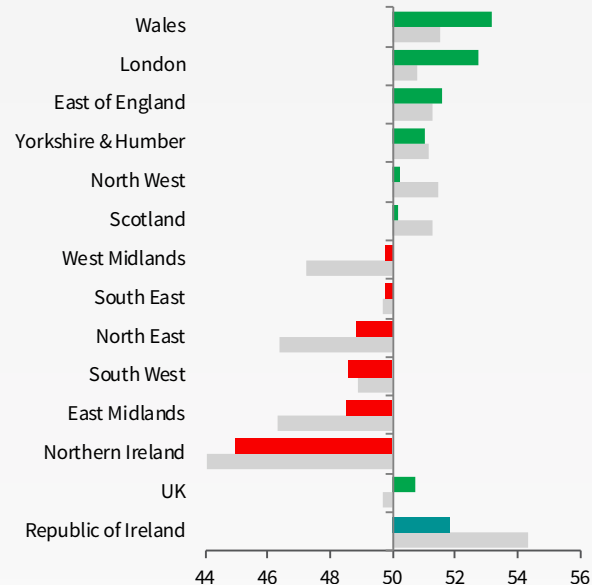
Wales stayed top of the rankings for business activity growth in July, having seen its pace of expansion accelerate for the second straight month to the quickest since February. London was ranked second overall and also saw a marked improvement in growth. The East of England and Yorkshire & Humber each posted a modest rise in output, while in the North West and Scotland marginal increases were recorded. Business activity fell in all remaining areas, with Northern Ireland again seeing the steepest rate of decline.

Employment

Yorkshire & Humber led job creation for the second month running in July, ahead of London. These were the only two regions where employment increased at a faster rate, with slower growth seen in the East of England, North West, West Midlands and South East. The steepest falls in workforce numbers were recorded in the East Midlands and Northern Ireland respectively. Modest job cuts were also seen in Wales and the South West, while negligible losses were recorded in both the North East and Scotland.

Output Index by region

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

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