

# Ulster Bank Northern Ireland PMI<sup>®</sup>

## Slightly sharper fall in activity in February

### Key Findings

Northern Ireland only UK region to see output decrease

Marginal reduction in new orders

Employment growth quickens

### Northern Ireland Business Activity Index



Last six months NI / UK



By sector	Feb-20
Manufacturing	45.6
Construction	48.2
Retail (3mma)	38.3
Services	48.0

The Northern Ireland private sector remained in contraction territory in February, and saw rates of decline in output and new orders quicken slightly from the start of the year. Business confidence also softened. One bright spot, however, was employment which increased for the third month running and to the greatest extent since November 2018.

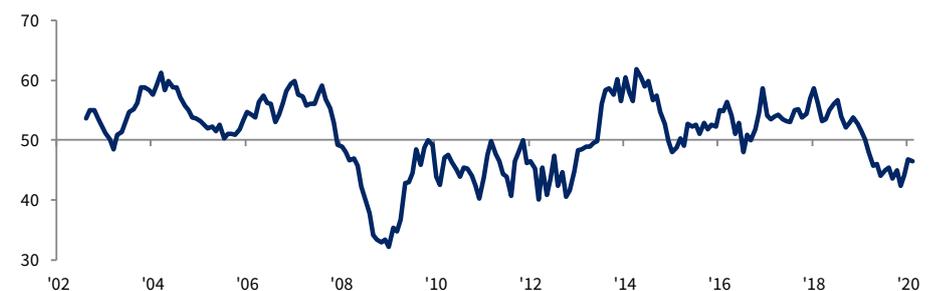
The headline seasonally adjusted Business Activity Index dropped to 46.5 in February from 46.8 in January, with the latest reading signalling a solid monthly decline in private-sector output. Business activity has now fallen on a monthly basis throughout the past year. Northern Ireland was the only region of the UK to see a drop in output during February.

Panellists reported that contracts coming to an end without being replaced amid ongoing uncertainty had been behind the latest fall in activity. All four monitored sectors saw activity decrease, led by retail. That said, services was the only category to see the pace of contraction accelerate over the month.

### Demand

Total new orders decreased at a slightly faster pace, after having neared stabilisation at the start of the year. Some panellists noted signs of demand picking up, but this was outweighed by those respondents that signalled a decline in new orders amid continued uncertainty. Meanwhile, new export orders fell again, but at a much softer pace that was the weakest in the current 13-month sequence of contraction.

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



### Capacity

The ending of contracts and a lack of new orders to replace them meant that companies in Northern Ireland were again able to reduce their backlogs of work. The rate of depletion slowed to an 11-month low, but remained solid.

In contrast to the picture for activity and new orders, employment increased for the third month running. Moreover, the rate of job creation was solid and the fastest since November 2018. Staffing levels increased in the services, construction and retail sectors, but fell at manufacturers.

### Prices

Input costs continued to rise markedly, with respondents generally attributing the latest increase to higher salaries. The rate of inflation was broadly in line with that seen in the previous month. Construction firms posted the sharpest increase in cost burdens. In turn, constructors also raised their charges to the greatest extent of the four monitored sectors. Overall, output prices increased for the second month running, and at the fastest pace for a year.

### Outlook

After hitting a 21-month high in January, business confidence ticked down in February as concerns around the final outcome of Brexit remained. Predictions of higher new orders over the coming year supported confidence in the outlook for output.

## New Business Index



### Marginal reduction in new orders

After having neared stabilisation in January, new business inflows decreased marginally in Northern Ireland during February as the rate of decline quickened. Although some panellists indicated that customer demand had shown signs of picking up, others pointed to an ongoing reluctance to commit to new projects amid market uncertainty. Northern Ireland was one of only three regions to see a fall in new orders, the others being the North East and South West of England. All four monitored sectors recorded declines in new business, although the contraction in services was only fractional.

### New Business Index

sa, >50 = growth since previous month



### By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-20	48.3	47.1	44.2	49.8

## Outstanding Business Index



### Softer decline in backlogs of work

Northern Ireland companies recorded a further decline in outstanding business, extending the current sequence of depletion to 19 months. Although softening to the weakest since last March, the pace of reduction remained solid. Respondents indicated that backlogs decreased in line with the ending of contracts. Outstanding business was broadly unchanged in the service sector, with declines registered elsewhere.

### Outstanding Business Index

sa, >50 = growth since previous month



### By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-20	44.5	40.7	44.6	49.9

## Employment Index



### Solid increase in employment

Companies in Northern Ireland raised staffing levels for the third successive month in February. Moreover, the rate of job creation was solid, having accelerated for the second month running to the fastest since November 2018. The increase in employment in Northern Ireland outpaced the UK average. Business growth and signs of improvements to demand were the main factors leading firms to take on additional staff. The services, construction and retail sectors all posted increases in employment, with only manufacturing seeing a reduction.

### Employment Index

sa, >50 = growth since previous month



### By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-20	49.3	57.3	50.8	52.6

## Input Prices Index

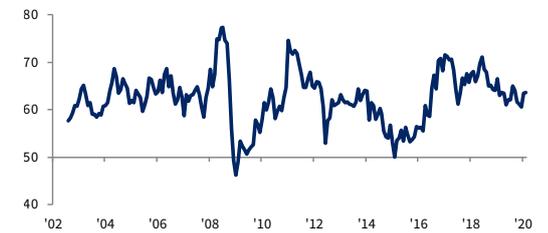


### Rate of cost inflation remains marked

February data pointed to another sharp monthly increase in input prices in the Northern Ireland private sector, with the rate of inflation little-changed from that seen in January and above the series average. Firms in Northern Ireland posted the sharpest rise in input costs of the 12 monitored regions. Higher staff costs were reportedly behind the latest increase in input prices. Construction posted the steepest rise, closely followed by services.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-20	60.8	65.8	61.2	64.5

## Prices Charged Index



### Sharper rise in output prices

February data pointed to a second successive increase in output prices at firms in Northern Ireland, with the rate of inflation quickening to the fastest for a year. Panellists reported that selling prices had been raised in response to higher input costs. In line with the picture for input prices, construction posted the fastest rise in charges, with services output price inflation also accelerating. Manufacturers raised their selling prices for the first time in four months, while retailers saw inflation soften.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-20	51.7	57.0	50.9	54.0

## Future Output Index

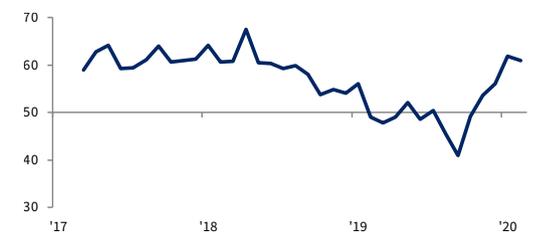


### Business sentiment ticks down

Although companies in Northern Ireland remained optimistic that output will rise over the coming year, sentiment dipped from that seen in January and was the lowest of the 12 UK regions covered by the survey. Anecdotal evidence suggested that confidence derived from signs of improving demand and predictions of increases in new orders during the next 12 months. On the other hand, uncertainty related to Brexit was still a factor leading some firms to be pessimistic regarding the year-ahead outlook. Manufacturers posted the highest optimism in February, followed by service providers.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Construction	Retail (3mma)	Services
Feb-20	62.5	61.5	56.2	61.9

## New Export Business Index

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



### Rate of decline in new export business slows markedly

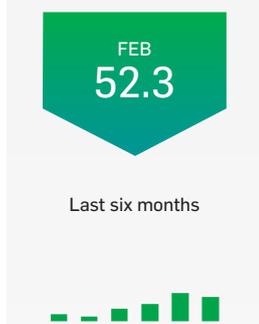
New export orders decreased for the thirteenth successive month in February. Although solid, the rate of decline was much softer than that seen in January and the weakest overall in the current sequence of contraction. Brexit continued to deter customers, according to respondents, but there were some reports of higher new orders from customers in the Republic of Ireland.

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



## Northern Ireland Export Climate Index

Note: Export markets are defined as non-UK.



### Export climate continues to improve solidly in February

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 52.3 in February, down slightly from 52.7 in January but still pointing to a solid improvement in the health of export markets.

The climate for exporters was supported by a sharp and accelerated improvement in demand in the Republic of Ireland. Business activity in Northern Ireland firms' largest export market rose at the fastest pace since September 2018. Modest increases in output were seen in Canada, Germany and France. On the other hand, the US saw the first reduction in business activity for over six years.

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



#### Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Feb-20
1	Republic of Ireland	36.2%	56.7
2	USA	12.2%	49.6*
3	Canada	5.8%	51.5
4	Germany	5.1%	50.7
5	France	4.5%	52.0

\* 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.

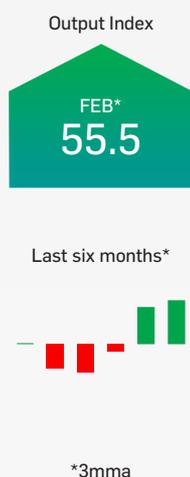
Manufacturing specialisation: Northern Ireland

Rank	Sector	LQ	UK Output Index, Feb-20 (3mma)
1	Food & Drink	2.10	55
2	Electrical & Electronic	1.13	48
3	Machinery & Equipment	1.08	45
4	Textiles & Clothing	1.00	45
5	Other Manufacturing	0.94	52
6	Wood & Paper	0.75	45
7	Metals & Metal Products	0.75	48
8	Transport Equipment	0.60	42
9	Chemicals, Rubber & Plastics	0.56	50

Services specialisation: Northern Ireland

Rank	Sector	LQ	UK Business Activity Index, Feb-20 (3mma)
1	Hotels, Restaurants & Catering	1.29	52
2	Other personal/consumer Services	1.23	50
3	Transport & Communication Services	1.18	48
4	Business-to-business Services	0.89	55
5	Computing & IT Services	0.84	50
6	Financial Intermediation	0.81	55

## UK Sector Focus: Other Manufacturing



### UK's 'Other Manufacturing' sector makes flying start to 2020, but supply chain disruptions emerge

After contracting in the final quarter of 2019, the UK's 'Other Manufacturing' sector – which comprises mostly consumer goods categories, including jewellery, sports equipment, toys and games – has rebounded strongly at the start of 2020, recording marked growth in output, new orders and employment. The increase in production in the three months to February was second only to that seen in the Food & Drink sector.

Less positively, however, latest data showed the rapid emergence of heightened supply chain pressures, linked mainly to disruption in China caused by the coronavirus outbreak. Delays for raw materials and other inputs were the most widespread since mid-2018.

Worryingly for production in the coming months, firms' stocks of purchases have fallen sharply, decreasing at the fastest rate for over ten years in the three months to February.



## UK Regional Rankings

### Business Activity

London remained by far the best-performing region for business activity growth in February, with the rate of expansion in the capital staying close to January's 33-month high. Wales and the North West rose to second and third in the rankings respectively, having each recorded a faster rise in output. Growth slowed in the East of England, South East, East Midlands and West Midlands. Business activity rose in the South West and North East – albeit only fractionally – for the first time in 12 and ten months respectively. Output in Scotland broadly stagnated, while Northern Ireland saw a further marked contraction.

### Employment

London and Northern Ireland jointly led job creation in February, and were two of six (out of 12) monitored areas to record a rise in employment. This was down from 11 in January, as the South East, West Midlands, East Midlands, North West and Scotland all recorded renewed declines in payrolls. The East of England and Wales both saw faster employment growth, while Yorkshire & Humber registered a slower rise. The decline in workforce numbers in the North East eased to the weakest for seven months and was only marginal.

Output Index by region

sa, >50 = growth since previous month, Feb-20 ■ (Jan-20 ■)



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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](mailto: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.

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