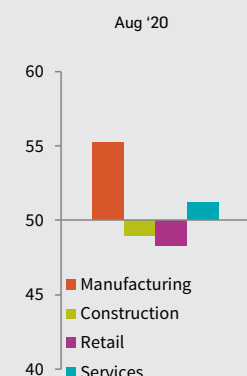
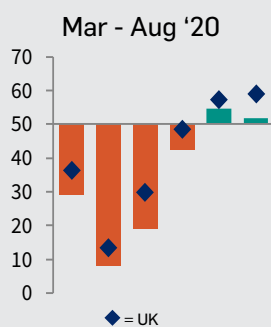


Ulster Bank Northern Ireland PMI[®]

Activity increases, but new orders take a step back

Northern Ireland Business Activity Index



Key findings

New orders fall after return to growth in July

Sharper reduction in staffing levels

Firms remain pessimistic

Although business activity increased for the second month running in August, the rate of expansion softened amid signs of a stalling in the recovery in new orders. There remained further evidence of spare capacity, which led to a sharper reduction in employment. The rate of cost inflation quickened, but firms lowered their selling prices to try and attract new business.

At 51.7 in August, the headline seasonally adjusted Business Activity Index was above the 50.0 no-change mark for the second month running. That said, the reading was down from 54.5 in July to signal a weaker increase in output. A number of respondents signalled that they were catching up on work delayed during the lockdown.

Manufacturing production growth was sustained, while services activity rose for the first time in a year-and-a-half. Both

the construction and retail sectors saw activity pause following rebounds in July.

New orders took a step back, falling following a return to growth in July. That said, the reduction was much softer than seen during the worst of the coronavirus disease 2019 (COVID-19) downturn.

Employment continued to fall sharply, with some firms reporting redundancies due to the pandemic. The rate of job cuts quickened from July.

The return of some staff from furlough and COVID-19 related expenses resulted in a further increase in input costs, the sharpest in five months. On the other hand, output prices continued to fall.

Companies remained pessimistic around the 12-month outlook for output, with the longer-term impacts of COVID-19 the main cause for concern.

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



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About the Northern Ireland PMI® report

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.

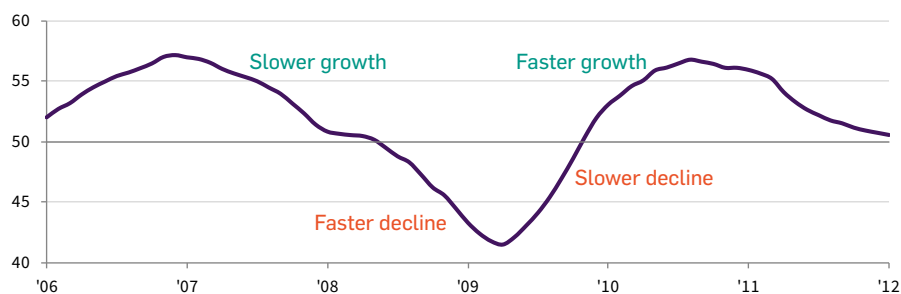
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It 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.

Index interpretation

50.0 = no change since previous month



Comment

Commenting on the latest survey findings, Richard Ramsey, Chief Economist Northern Ireland, Ulster Bank, said:

"PMIs in four English regions posted growth rates in the '60s' in August, with the North East (66.0) and the South East (64.9) recording their fastest rates of growth on record. Hopes of a 'V-shaped' recovery remain intact in these regions; but the same is not the case in Northern Ireland. All of the headline indicators for Northern Ireland's private sector deteriorated in August relative to July. Business activity slowed from an encouraging 54.5 in July to 51.7 last month. After Wales, this was the weakest rate of growth of any UK region. Interestingly, the Devolved Regions – who were more cautious in lifting lockdown restrictions – continue to lag their English counterparts.

"In Northern Ireland, both retail and construction saw activity fall back from July's strong 'reopening' rebound. Meanwhile manufacturing notched up its third successive month of growth albeit at a weaker rate than July. Significantly, the local services sector saw its first month of growth since the pandemic started. However, the scale of the rebound was much weaker than anticipated despite the boost from initiatives such as the Eat Out to Help Out scheme. Indeed, Northern Ireland's service sector recovery is lagging well behind the UK and is mirroring the lacklustre performance of the Republic of

Ireland's service industry.

"While the recovery in output has at least begun, albeit not as rapid as had been hoped for, the start of a labour market recovery remains a long way off. Northern Ireland's private sector saw employment fall for the sixth month running in August and with the furlough scheme due to end, this trend looks set to continue. All four sectors cut their staffing levels in August with manufacturing reporting the most significant reductions in headcount.

"Overall, Northern Ireland's loss of momentum in August does not look temporary. New orders fell at a significant rate in August after rising in July for the first time in eighteen months with the rate of contraction most marked within export markets. The rise in the number of cases of COVID during September to date, combined with the heightened tensions surrounding Brexit, make the landscape a very challenging one."



Demand and outlook

New business dips in August

After having returned to growth in July, new orders took a step back during August, falling at a solid pace. Anecdotal evidence suggested that while the easing of lockdown restrictions led some firms to take on additional new business, the COVID-19 pandemic resulted in declines elsewhere. In some cases, new work had settled following an initial post-lockdown rebound. Only retail bucked the overall trend by posting a rise in new work, with new orders falling in the other three sectors.

Business sentiment moderates

Companies in Northern Ireland retained a pessimistic outlook for business activity in August, with sentiment slightly below that seen in July. Northern Ireland was again the only monitored region to forecast activity to fall. The lasting impacts of the COVID-19 pandemic were central to pessimism, while Brexit was also a factor. Sentiment worsened in the services, construction and retail sectors, but picked up in manufacturing where firms displayed neutral expectations for production over the coming year.

New Business Index

sa, >50 = growth since previous month

45.1

Aug '20

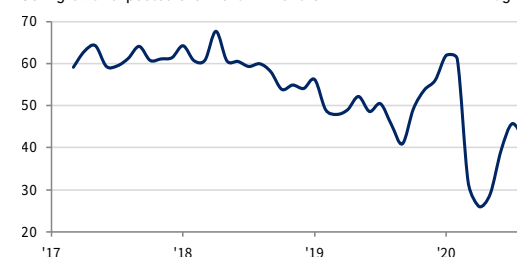


Future Activity Index

>50 = growth expected over next 12 months

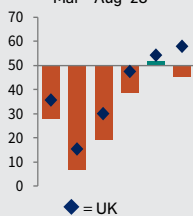
42.2

Aug '20



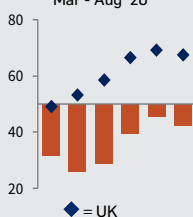
New Business Index

Mar - Aug '20



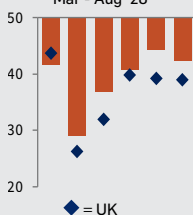
Future Activity Index

Mar - Aug '20



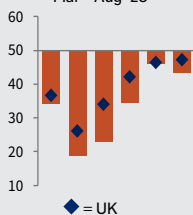
Employment Index

Mar - Aug '20



Outstanding Business Index

Mar - Aug '20



Employment Index

sa, >50 = growth since previous month

42.3

Aug '20



Outstanding Business Index

sa, >50 = growth since previous month

43.3

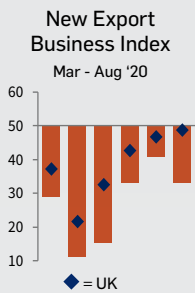
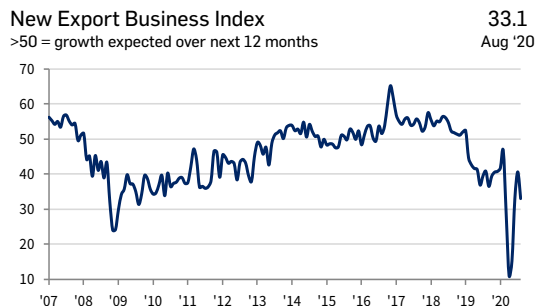
Aug '20



Exports

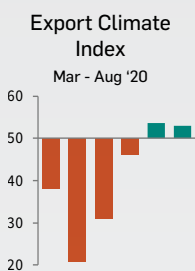
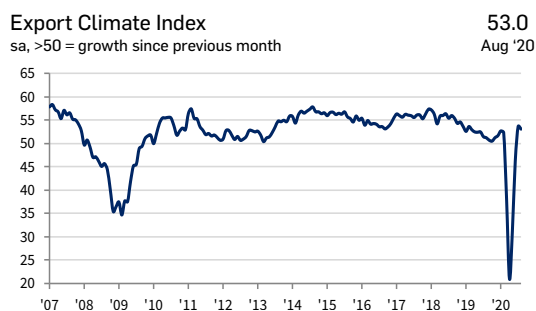
Sharper reduction in new export orders

New business from abroad decreased in August, extending the current sequence of decline to 19 months. Moreover, the rate of contraction was substantial, quickening from that seen in July. Panellists reported COVID-19 uncertainty in key export markets.



Solid improvement in demand conditions in export markets

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 53.0 in August, down from 53.6 in July but still above the 50.0 no-change mark for the second month running. The latest reading pointed to a solid improvement in demand conditions in export markets.

All key markets saw continued recoveries in output following the COVID-19 downturn, although some saw rates of growth soften from July. Ireland, Germany and France all posted weaker rises in output. Growth strengthened in North America, meanwhile, with the US and Canada seeing the strongest expansions in output for 17 and 24 months respectively.

Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Aug '20
1	Republic of Ireland	36.2%	54.0
2	USA	12.2%	54.6
3	Canada	5.8%	54.7
4	Germany	5.1%	54.4
5	France	4.5%	51.6



Prices

Input cost inflation quickens

Northern Ireland companies posted a fourth successive increase in input prices during August. The rate of inflation accelerated to a five-month high and was the second-fastest of the 12 UK regions (behind North East England). Respondents indicated that the return of some staff from furlough had added to operating expenses, while higher COVID-19 related costs were also mentioned. The construction and retail sectors posted the fastest rises in input costs.

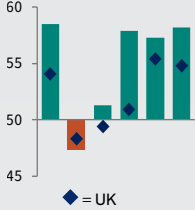
Input Prices Index

sa, >50 = inflation since previous month

58.2
Aug '20



Input Prices Index
Mar - Aug '20



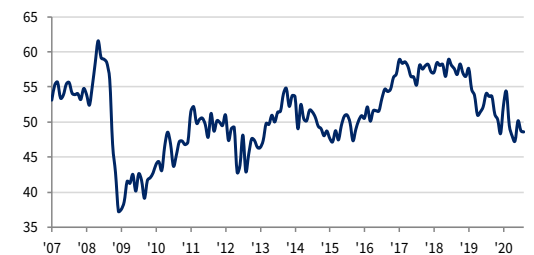
Charges decrease for second month running

Output prices fell modestly for the second consecutive month in August, with the trend in Northern Ireland contrasting with a slight rise in charges across the UK as a whole. Respondents indicated that discounts had been offered to try and secure new work. This outweighed the impact of some firms raising charges as part of efforts to protect profit margins. Output prices increased in the construction and retail sectors, but fell at manufacturing and services companies.

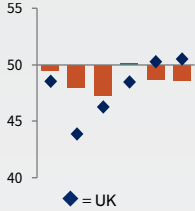
Prices Charged Index

sa, >50 = inflation since previous month

48.6
Aug '20



Prices Charged Index
Mar - Aug '20



UK Sector PMI

Sector specialisation: Northern Ireland

Location quotients (LQs) are useful measures of regional economic specialisation and can 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. The UK Output Index for each sub-sector is also displayed.

Northern Ireland specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Aug '20*
1	Food & Drink	2.10	
2	Electrical & Electronic	1.13	
3	Machinery & Equipment	1.08	
4	Textiles & Clothing	1.00	
5	Other Manufacturing	0.94	
6	Wood & Paper	0.75	
7	Metals & Metal Products	0.75	
8	Transport Equipment	0.60	
9	Chemicals, Rubber & Plastics	0.56	

Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '20*
1	Hotels, Restaurants & Catering	1.29	
2	Other Services	1.23	
3	Transport & Communication	1.18	
4	Business-to-business Services	0.89	
5	Computing & IT Services	0.84	
6	Financial Intermediation	0.81	

UK sector focus

Electronics & Electrical Equipment

The UK's electronics & electrical equipment sector is lagging behind the rest of manufacturing in its recovery from the COVID-19 lockdown, according to latest sector PMI data. Output was little-changed in the three months to August, which compared with sharp growth in overall UK goods production. Holding back output in the sector was a lack of new work, with demand from abroad remaining particularly subdued.

Despite firms growing more optimistic about a recovery over the next 12 months, latest data showed a further round of staff cuts amid reports of redundancies due to lower sales. Businesses were also under pressure to cut costs amid a squeeze on margins, with inflation in input costs having well outpaced that of output prices in each month since the onset of the pandemic. Higher costs often reflected ongoing supply disruption and an associated rise in freight charges.

Output Index

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



UK Regional PMI overview

Business Activity

It was a mixed picture for business activity in August. Five of the 12 monitored regions saw growth accelerate, led by record expansions in the North East and South East. Scotland meanwhile recorded higher output for the first time in six months. Elsewhere, however, growth either stalled or lost some momentum. This included Northern Ireland, which saw activity rise at a much slower rate, albeit one that was still slightly quicker than seen in Wales, the lowest-ranked area.

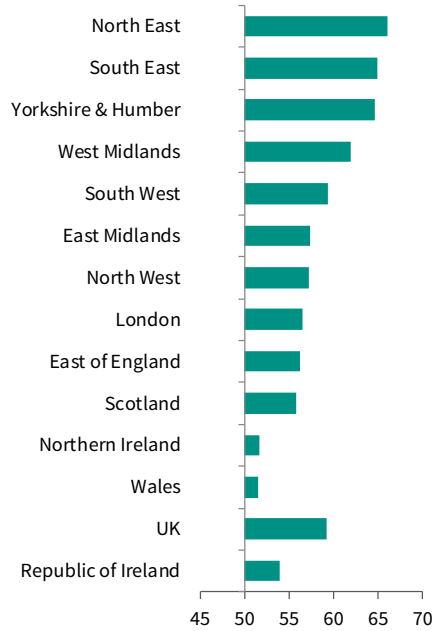
Employment

While business activity rose across all regions in August, latest data showed another broad-based decrease in employment. Furthermore, the rate of staff cuts accelerated in eight areas. One example was Yorkshire & Humber, which was the worst-performing region on the job front, having seen employment fall sharply and to the greatest extent for three months. The slowest reduction was in Scotland, with the rate of decline here easing to the weakest since February.

Future Activity

Firms across the UK generally remained hopeful of an increase in business activity over the next 12 months. Confidence was strongest in Yorkshire & Humber, followed closely by the North West. Alongside London, these were the only regions where expectations improved since July, however. The greatest loss of confidence was in the North East, though Northern Ireland remained the only area where firms were pessimistic about the outlook (and more so than July).

Business Activity Index
sa, >50 = growth since previous month, Aug '20



Employment Index
sa, >50 = growth since previous month, Aug '20



Future Activity Index
>50 = growth expected over next 12 months, Aug '20



*Coverage in England, Wales, Scotland and Republic of Ireland only includes manufacturing and services. Northern Ireland also includes retail and construction.



Index summary

Northern Ireland

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	New Export Business	Export Climate	Input Prices	Prices Charged
Mar '20	29.1	28.0	31.7	41.7	34.3	28.8	38.0	58.5	49.5
Apr '20	8.3	6.7	26.0	29.1	18.7	11.2	20.9	47.3	48.0
May '20	18.9	19.1	29.0	36.8	22.9	15.4	31.1	51.3	47.3
Jun '20	42.6	38.7	39.3	40.7	34.6	33.1	46.1	57.9	50.1
Jul '20	54.5	51.9	45.7	44.3	46.0	40.7	53.6	57.3	48.7
Aug '20	51.7	45.1	42.2	42.3	43.3	33.1	53.0	58.2	48.6

By Sector, Aug '20

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Manufacturing	55.2	48.0	50.0	36.1	47.0	54.8	49.7
Construction	49.0	37.8	41.3	48.6	38.9	59.6	51.0
Retail	48.3	52.5	40.5	41.1	52.1	59.7	50.3
Services	51.2	43.0	37.7	45.1	40.6	58.6	46.2

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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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