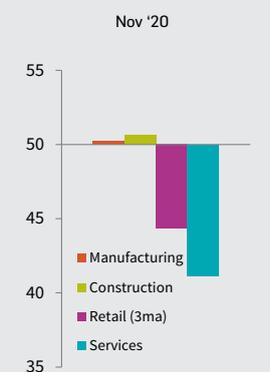
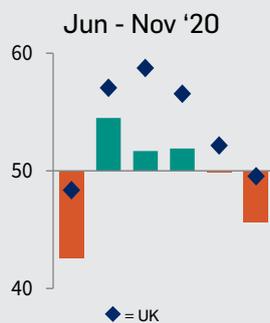


Ulster Bank Northern Ireland PMI[®]

Output falls at faster pace amid COVID-19 restrictions

Northern Ireland Business Activity Index



Key findings

Sharper declines in both output and new orders

Rates of inflation accelerate

Business sentiment turns positive for first time in nine months

Lockdown restrictions in order to contain the spread of the coronavirus disease 2019 (COVID-19) pandemic resulted in declines in output and new orders in the Northern Ireland private sector during November. Employment also decreased, while inflationary pressures strengthened.

The headline seasonally adjusted Business Activity Index fell to 45.6 in November, down from 49.9 in October and pointing to a marked reduction in output in the Northern Ireland private sector.

The overall decline was driven by falls in the services and retail sectors, which were particularly impacted by COVID-19 restrictions. Slight increases in activity were seen in manufacturing and construction.

COVID-19 restrictions also impacted new orders in November, with total new business down to the greatest degree

in three months and new export orders falling sharply.

A lack of new orders meant that firms were able to work through outstanding business. Staffing levels were also reduced, albeit at the joint-softest pace in the current nine-month sequence of job cuts.

Higher prices for raw materials, transportation and staff contributed to a sharp and accelerated increase in input costs. Output price inflation also quickened and was the fastest since February 2019. In both cases, the rises in Northern Ireland were faster than in any other area of the UK.

Hopes of an improvement to the COVID-19 situation, particularly with regards to a vaccine, supported modest optimism in the outlook for activity. Sentiment was positive for the first time in nine months.

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.

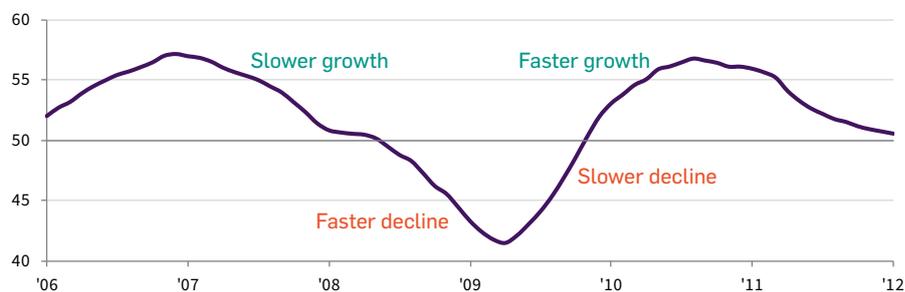
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It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

“2020 has been characterised by imposing and lifting lockdown restrictions. As a result, private sector activity has been switched off and on to a greater or lesser degree. Not surprisingly, renewed containment measures in November saw local private sector output contract at a significant rate, albeit not on the scale witnessed between March and June. New orders are signalling that no meaningful improvement in activity is anticipated in the near-term, with the pace of decline accelerating in November. Most of the UK regions reported a fall in both output and new orders last month with all 12 regions reducing their staffing levels for the ninth month running. Northern Ireland’s rate of decline in employment levels was not as steep as the UK average. However, output and orders amongst local firms fell at the fastest and joint-fastest rates of all the UK regions. Demand from export markets (notably the Republic of Ireland) continues to weaken at a much faster pace than the domestic market. Meanwhile mounting cost pressures is another challenge facing the business community. Rising wage, raw material and shipping costs saw input cost inflation accelerate to a 15-month high.

“The deterioration in business conditions was most marked within services and retail. Both sectors were particularly

impacted by COVID-19 restrictions and recorded rapid rates of decline in output, orders and employment. Once again construction posted the fastest rate of output growth of all the sectors, marginally ahead of manufacturing. However, the rates of expansion were modest and represented a marked slowing from construction’s recent spurt of activity. Local construction firms continue to experience the steepest rises in input costs and as a result are raising prices at their fastest pace since January 2019.

“While business conditions remain challenging, the latest survey highlighted that there is some optimism returning. The arrival of a range of vaccines, which are now being rolled out, suggests that there is some light at the end of the tunnel. Indeed, business sentiment turned positive for the first time since February. Manufacturing firms are the most bullish about output growth in 12 months’ time, followed by construction. However, services and retail remain pessimistic about the year ahead. With the end of the Brexit transition rapidly approaching, the implications of a UK-EU deal / no-deal will have a major bearing on business performance and confidence in 2021 and beyond.

“Meanwhile lockdowns aren’t yet consigned to the past and will impact on economic growth next year as well. A successful roll out of vaccines

though could make 2021 a year of two very different halves for those sectors that have been most impacted by the restrictions.”



Demand and outlook

Downturn in new orders intensifies

As has been the case in each of the past four months, new orders decreased in the Northern Ireland private sector in November. Moreover, the rate of decline was marked and the fastest since August. Respondents largely attributed the fall to COVID-19 lockdown restrictions. Sector data showed that the services and retail sectors drove the overall downturn, while modest but weaker growth was recorded in the manufacturing and construction categories.



Modest optimism in 12-month outlook

The prospect of an end to the disruption caused by the COVID-19 pandemic amid hopes of a vaccine supported confidence among firms that output will rise over the coming year. This was the first instance of optimism in nine months. That said, sentiment in Northern Ireland was the lowest of all UK regions as a number of firms were still wary of the impacts of the pandemic, as well as Brexit. Optimism was recorded in the manufacturing and construction sectors, but services and retail companies remained downbeat regarding the 12-month outlook.



Business capacity

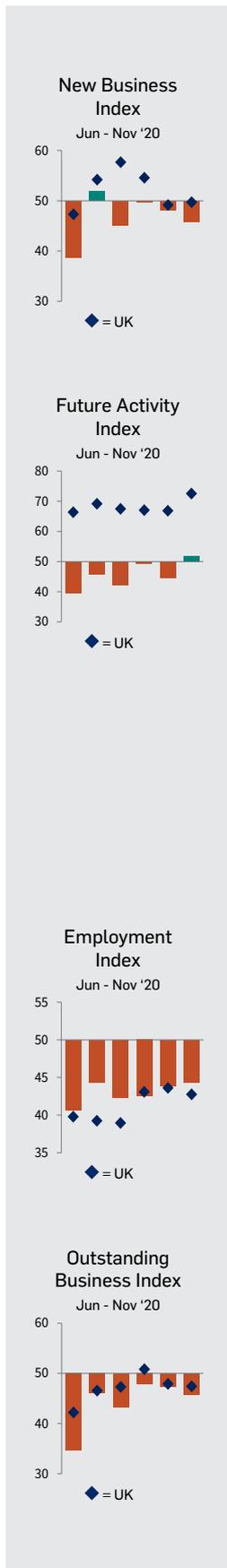
Staffing levels fall markedly

Northern Ireland companies reduced employment for the ninth month running in November, and at a marked pace. That said, the rate of job cuts eased for the third successive month to the softest since July. The fall in employment in Northern Ireland was weaker than the UK average. Staffing levels decreased across each of the four broad sectors covered by the survey, with the sharpest decline at retailers.



Sharper reduction in backlogs

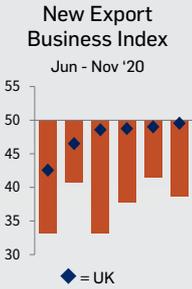
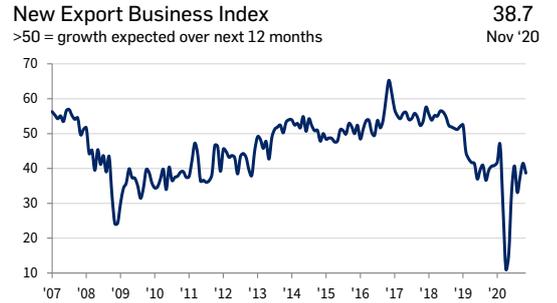
A lack of new work due to COVID-19 restrictions led firms to work through outstanding business in November. Furthermore, the rate of depletion was marked and the fastest in three months. Construction was the only sector to buck the wider trend and post an increase in outstanding work, albeit one that was softer than in October.



Exports

Accelerated decline in new export orders

November data pointed to a sharp and accelerated reduction in new business from abroad in the Northern Ireland private sector. The COVID-19 pandemic was again the main factor leading new export orders to fall, with restrictions on travel impacting new business from the Republic of Ireland in particular.



Export conditions broadly unchanged

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 50.1 in November, down from 51.2 in October and signalling broadly no change in demand conditions in export markets during the month.

There were marked contrasts in activity trends among the main export markets for Northern Ireland firms. The Republic of Ireland and France both recorded sharp declines in output amid COVID-19 restrictions. On the other hand, strong expansions in activity were seen in the US and Canada. Germany, meanwhile, saw output continue to rise, but at a much-reduced pace.

Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Nov'20
1	Republic of Ireland	36.2%	47.7
2	USA	12.2%	58.6
3	Canada	5.8%	55.1
4	Germany	5.1%	51.7
5	France	4.5%	40.6



Prices

Fastest rise in input prices since August 2019

The rate of input cost inflation continued to accelerate in November, quickening to the fastest in 15 months. The rise in input prices in Northern Ireland was also the fastest of the 12 UK regions covered by the survey. Rising raw material prices, increased shipping costs and higher staff pay were all mentioned as factors pushing up input costs. Sharp increases in input prices were seen across each of the four broad sectors.

Input Prices Index

sa, >50 = inflation since previous month

64.6

Nov '20



Input Prices Index

Jun - Nov '20



Output price inflation accelerates

In line with the trend in input costs, the rate of output price inflation quickened in November. Charges were up for the third month running, and at the fastest pace since February 2019. Also consistent with the trends in input costs, selling prices rose more quickly in Northern Ireland than in any other area of the UK. Charges increased in the manufacturing, construction and retail sectors, but were unchanged at service providers.

Prices Charged Index

sa, >50 = inflation since previous month

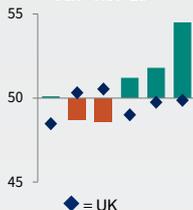
54.5

Nov '20



Prices Charged Index

Jun - Nov '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, Nov '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	

45 50 55 60 65

Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Nov '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	

20 30 40 50 60

UK sector focus

Computing & IT Services

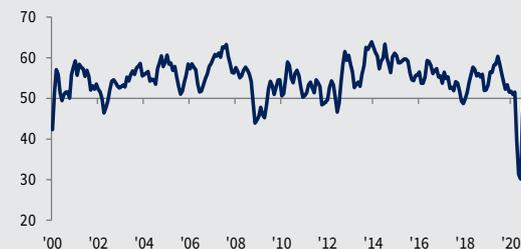
According to latest detailed PMI data, Computing & IT Services was the UK's strongest-performing services sector in the three months to November, showing notable resilience to the second wave of coronavirus infections and the subsequent tightening of containment measures. Since its initial rebound back in the summer, the sector has enjoyed consistently strong growth, with latest data showing the fastest upturn in business activity since mid-2019.

The sector also defied the broader trend in UK employment, recording a solid increase in workforce numbers that was the quickest since March. Job creation was supported by rising backlogs of work and growing optimism towards the outlook.

Latest data did, however, point to a squeeze on margins, with firms as yet unable to pass on higher costs to clients through increased charges.

Output Index

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



UK Regional PMI overview

Business Activity

Just five of the 12 monitored UK regions recorded higher business activity in November, the lowest number since June. The strongest-performing area was the South East, though even here growth slowed sharply to the weakest for five months. At the other end of the scale, Northern Ireland* saw the steepest drop in business activity, followed by Wales. The latter, like Scotland, did however register a slower rate of contraction than in October.

Employment

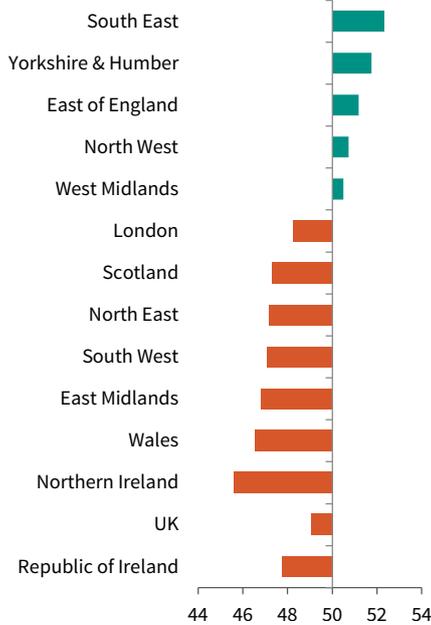
November saw another broad-based decrease in private sector employment across the UK. The West Midlands, London and North East recorded the fastest overall rates of job losses respectively, with workforce numbers falling more quickly than in October in all three cases. The East of England and East Midlands registered the joint-slowest overall rate of staff cuts, though the declines were still considerable by historical standards.

Future Activity

There was a general improvement in firms' expectations for activity over the next 12 months in November. Those in Yorkshire & Humber were once again the most optimistic, recording their highest level of confidence for almost four years. Notably, sentiment in Northern Ireland turned positive for the first time since February, albeit with expectations remaining muted by historical standards and still the lowest of all UK areas.

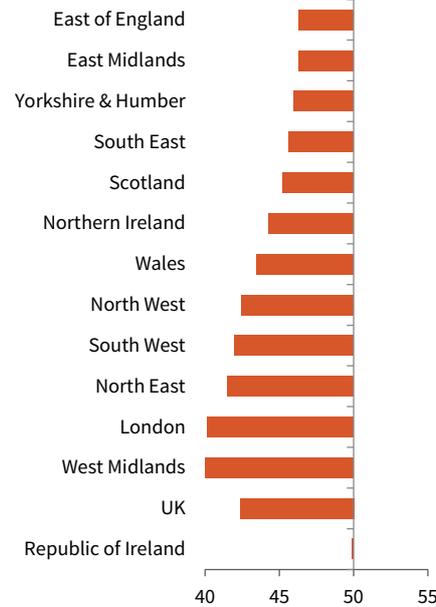
Business Activity Index

sa, >50 = growth since previous month, Nov '20



Employment Index

sa, >50 = growth since previous month, Nov '20



Future Activity Index

>50 = growth expected over next 12 months Nov '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
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
Sep '20	51.9	49.7	49.1	42.5	47.8	37.7	50.0	57.4	51.2
Oct '20	49.9	48.1	44.5	43.9	47.4	41.5	51.2	60.0	51.8
Nov '20	45.6	45.8	51.9	44.3	45.8	38.7	50.1	64.6	54.5

By Sector, Nov '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	50.3	51.5	61.0	45.8	49.1	62.6	54.0
Construction	50.7	50.3	52.1	43.2	51.0	65.3	58.7
Retail (3ma)	44.3	45.4	42.0	39.3	39.8	61.4	55.3
Services	41.2	41.3	47.9	44.3	42.9	63.5	50.0

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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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