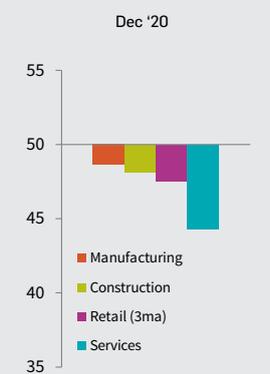


Ulster Bank Northern Ireland PMI[®]

Decline in activity softens, while employment nears stabilisation

Northern Ireland Business Activity Index



Key findings

Slower reductions in output and new orders

Weakest reduction in employment for ten months

Sharpest rise in input costs since August 2018

The coronavirus disease 2019 (COVID-19) pandemic kept the Northern Ireland private sector in contraction territory at the end of 2020, but rates of decline in output, new orders and employment all softened. Meanwhile, inflationary pressures strengthened.

The headline seasonally adjusted Business Activity Index posted 46.8 in December, up from 45.6 in November but signalling a reduction in business activity for the third month running. Respondents indicated that the COVID-19 pandemic was the principal cause of the latest fall, which was widespread across the four monitored sectors.

A similar picture to activity was seen with regards to new orders, which decreased in December but at a softer pace. New export orders continued to be particularly affected by the COVID-19 pandemic.

Although employment continued to fall in December, the rate of job cuts eased to the weakest in the current ten-month sequence of decline. Meanwhile, backlogs of work were depleted markedly again.

Input costs increased at the fastest pace since August 2018, often due to higher raw material prices but also reflecting rising shipping costs amid widespread issues with freight. Inflationary pressures were particularly strong at manufacturers.

The passing on of rising input costs to customers resulted in a marked increase in selling prices, and one that was the fastest in just under two years.

Companies remained optimistic, with sentiment at its highest since February. Confidence was centred on hopes that the pandemic would come to an end over the coming year, giving way to an economic recovery.

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.

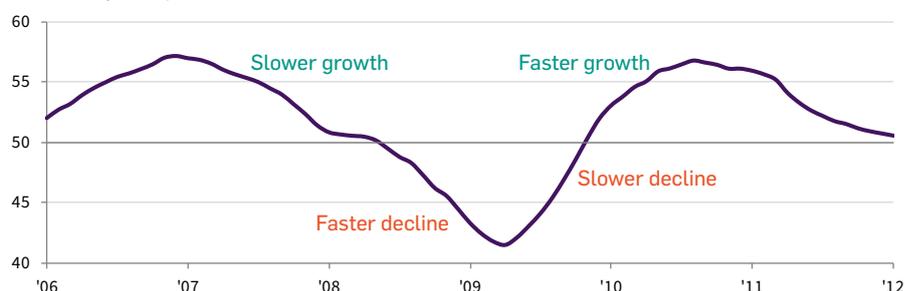
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It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

“Northern Ireland’s private sector ended 2020 the way it began the year with business activity contracting at the same pace in December as in January (46.8). These two months provided a bookend for what was a dramatic year for economies worldwide. Economic forecasts made a year ago proved to be so wide of the mark that they quickly became meaningless. The local economy experienced six months of contraction during the first half of 2020, including the record rates of decline across a range of indicators in the second quarter. Indeed some of the PMI indicators hit single-digits, a feat that was unheard of prior to the pandemic and the use of lockdowns. A robust rebound occurred in the third quarter with three months of output growth. However, this recovery was short-lived and faltered as renewed lockdown restrictions triggered three months of contraction during the final quarter of the year.

“December’s PMI survey smacked of déjà vu with all four sectors posting declines in both output and employment; like most of 2020. Meanwhile export orders notched up their twenty-third successive month of decline. The one area where growth is accelerating is inflation. Input costs rose at their fastest pace since August 2018 with inflationary pressures

most marked amongst manufacturers. In turn, firms are passing on these higher costs, such as freight and raw materials, to their customers. As a result, the selling prices of goods and services are rising at their fastest rate in almost two years.

“Services was the sector where firms posted the fastest rates of decline in output and new orders - not only in December but for 2020 as a whole. This contrasts with previous recessions whereby services has traditionally been the least affected sector. Services remains the only sector not to experience a pick-up in new orders since the first lockdown. However, more encouragingly, services firms did report a surge in business confidence in December with optimism surrounding the 12-month outlook at its highest level since February 2020.

“The arrival of a number of vaccines has already provided a general boost to business confidence. Furthermore, the recent UK-EU trade deal (secured after this survey was conducted) has taken the risk and uncertainty of a ‘no-deal’ Brexit off the table. This will act as an additional boost to confidence for 2021. In the meantime, however, we can expect teething problems to emerge as firms on both sides of the Irish Sea get to grips with the new trading arrangements. Even when these are mastered the reality is

that trade will be more restricted, involve more bureaucracy, and therefore be more costly than before. Following last year’s salutary lesson, economic forecasters will this year be wary of making predictions for the 12 months ahead. But it looks like the speed and scale of the vaccine rollout will be the biggest and most important factor determining economic performance in 2021.”



Demand and outlook

Modest reduction in new orders

The COVID-19 pandemic continued to lead to falling new business in the Northern Ireland private sector during December. New orders decreased for the fifth month running, albeit at a modest pace that was the softest since September. The only sector to buck the wider trend and see new orders increase was manufacturing. The sharpest contraction was recorded in the service sector.

New Business Index

sa, >50 = growth since previous month

48.2

Dec '20



Business confidence improves

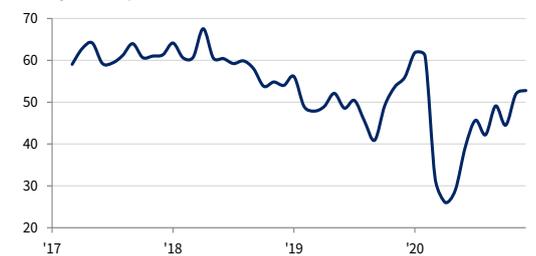
Companies in Northern Ireland were optimistic regarding the 12-month outlook for activity for the second month running in December, with sentiment strengthening to a ten-month high. Optimism reflected hopes that the COVID-19 pandemic will come to an end over the course of the year, leading to an economic recovery. That said, Northern Ireland continued to show the weakest sentiment of the 12 UK regions, with ongoing concerns around the impact of the pandemic and Brexit dampening confidence. The manufacturing and service sectors were optimistic regarding the outlook, while pessimism was signalled in construction and retail.

Future Activity Index

>50 = growth expected over next 12 months

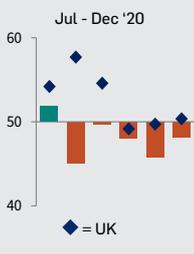
52.8

Dec '20



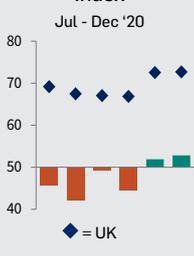
New Business Index

Jul - Dec '20



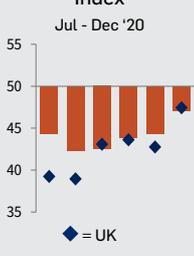
Future Activity Index

Jul - Dec '20



Employment Index

Jul - Dec '20



Business capacity

Softer reduction in employment

Employment in the Northern Ireland private sector moved closer to stabilisation at the end of 2020. Although employment decreased at a solid pace, the latest reduction was the softest in the current ten-month sequence of job cuts. The fall in staffing levels in Northern Ireland was broadly in line with the UK average. All four sectors saw slower falls in employment, with the weakest decline at service providers.

Employment Index

sa, >50 = growth since previous month

47.1

Dec '20



Outstanding business falls further

Backlogs of work decreased markedly again in December, with the rate of depletion little-changed from that seen in November. Falling new orders due to the COVID-19 pandemic were behind the latest drop in backlogs, according to respondents. Work-in-hand decreased more quickly at Northern Irish firms than across the UK economy as a whole.

Outstanding Business Index

sa, >50 = growth since previous month

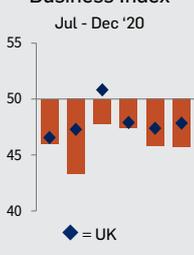
45.7

Dec '20



Outstanding Business Index

Jul - Dec '20

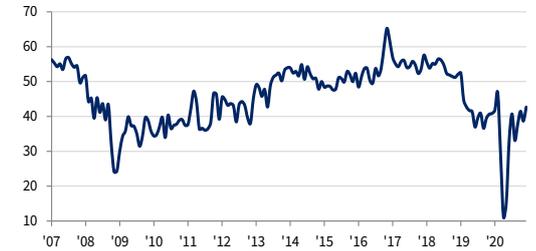


Exports

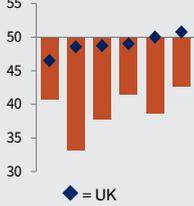
Sharp reduction in new business from abroad

As has been the case in each of the past 23 months, new export orders decreased in December. The rate of contraction remained sharp, despite easing to the weakest since February. The COVID-19 pandemic and lockdown restrictions in key export markets such as Ireland remained the main factor leading to lower new business from abroad. Meanwhile, there were also some mentions of issues with freight shipping.

New Export Business Index 42.7
Dec '20
>50 = growth expected over next 12 months



New Export Business Index
Jul - Dec '20



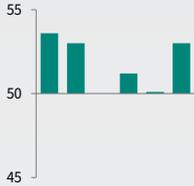
Solid improvement in export climate

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.

Export Climate Index 53.0
Dec '20
sa, >50 = growth since previous month



Export Climate Index
Jul - Dec '20



The Northern Ireland Export Climate Index rose to 53.0 in December, up from 50.1 in November and showing the strongest improvement in export demand conditions since August.

The export climate was boosted by a return to growth of output in Ireland, where activity increased for the first time in four months. Marked growth continued in the US and Canada. Meanwhile, Germany posted a modest increase in activity in December, while France joined a number of other European markets in seeing a much softer reduction in output than in November.

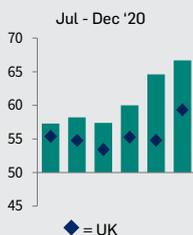
Top export markets, Northern Ireland

| Rank | Market | Weight | Output Index, Dec'20 |
|------|---------------------|--------|----------------------|
| 1 | Republic of Ireland | 36.2% | 53.4 |
| 2 | USA | 12.2% | 55.3 |
| 3 | Canada | 5.8% | 57.1 |
| 4 | Germany | 5.1% | 52.0 |
| 5 | France | 4.5% | 49.5 |



Prices

Input Prices Index
Jul - Dec '20



Rate of input cost inflation gathers pace

Northern Ireland companies recorded the sharpest increase in input prices since August 2018 in December as the rate of inflation quickened for the third month running. Higher prices for raw materials including metals were reported, while there were a number of mentions of higher shipping costs. Manufacturers posted the fastest increase in input prices, and one that was the steepest for two-and-a-half years.

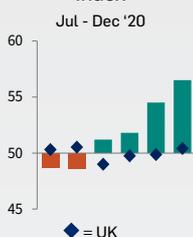
Input Prices Index

sa, >50 = inflation since previous month

66.7
Dec '20



Prices Charged Index
Jul - Dec '20



Pace of charge inflation at 23-month high

The need to try to recoup increases in input costs led companies to raise their own selling prices in December. Moreover, the rate of inflation accelerated, quickening to a sharp pace that was the fastest in just under two years. Northern Ireland posted the sharpest rise in output prices of the 12 UK regions covered. As was the case with input costs, manufacturers posted the steepest increase in charges.

Prices Charged Index

sa, >50 = inflation since previous month

56.5
Dec '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, Dec '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 | |

40 45 50 55 60 65

Northern Ireland specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Dec '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

Textiles & Clothing

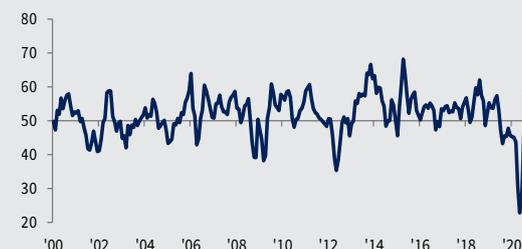
After a strong rebound in the third quarter, the UK's Textiles & Clothing sector suffered a sustained downturn in the three months to December. Output contracted sharply and to the greatest extent of any manufacturing sub-sector, albeit with the decline being far shallower than that seen in the spring during the initial COVID-19 outbreak.

Firms reduced production volumes in line with a further fall in total order book volumes. Weakness in demand was centred on the domestic market, with data showing an upturn in new export orders, linked to foreign clients stockpiling ahead of the end of the Brexit transition period.

Despite firms growing in confidence about the year-ahead outlook, they continued to make deep cuts to payroll numbers during the final quarter of 2020. Of the manufacturing sub-sectors monitored, only Food & Drink saw a more marked fall in employment.

Output Index

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



UK Regional PMI overview

Business Activity

The West Midlands topped the regional rankings for business activity growth in December, ahead of Yorkshire & Humber. At the same time, the North West, East Midlands South East and London each recorded modest increases in output. In the North East, East of England and Wales, business activity was little-changed since November. Further contractions were meanwhile registered in Northern Ireland, the South West and Scotland.

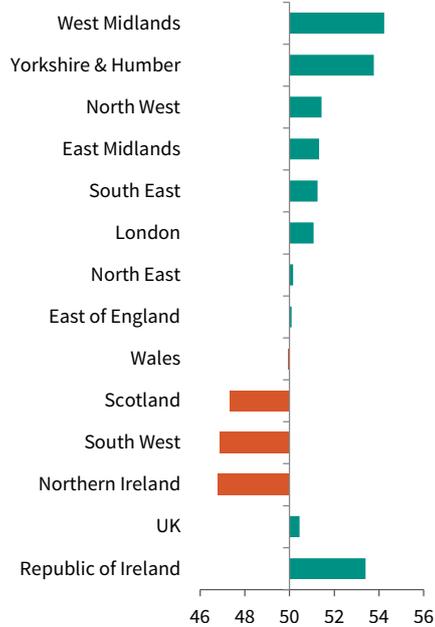
Employment

There were marginal increases in employment across both Yorkshire & Humber and the East of England in December, the first time any of the regions have recorded a rise in workforce numbers since last February. Elsewhere, rates of job shedding slowed in almost all other areas. The only exception was a slightly quicker decrease in staffing levels in Scotland, which dropped to the bottom of the regional rankings.

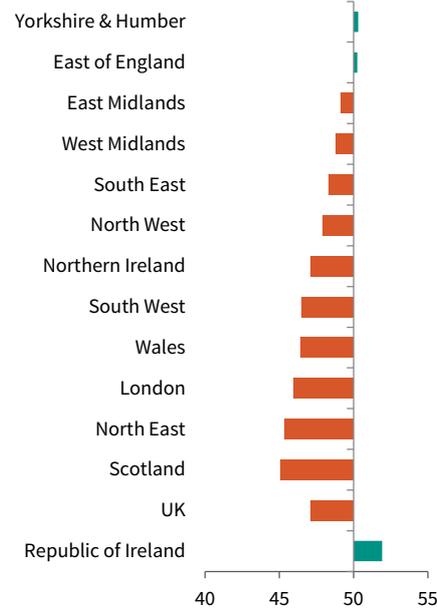
Future Activity

Firms in all UK areas remained upbeat about the year-ahead outlook for activity in December. Businesses in London reported the highest degree of optimism, closely followed by those in the South East. Northern Ireland* continued to record the lowest overall expectations, although business confidence did strengthen slightly to the highest for ten months. The West Midlands saw the biggest improvement in sentiment since November.

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



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



Future Activity Index
>50 = growth expected over next 12 months Dec '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 |
|---------|-------------------|--------------|------------------|------------|----------------------|---------------------|----------------|--------------|----------------|
| 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 |
| Dec '20 | 46.8 | 48.2 | 52.8 | 47.1 | 45.7 | 42.7 | 53.0 | 66.7 | 56.5 |

By Sector, Dec '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 | 48.6 | 51.0 | 55.8 | 46.3 | 46.2 | 73.5 | 60.0 |
| Construction | 48.1 | 47.9 | 43.5 | 44.7 | 47.6 | 66.6 | 57.2 |
| Retail (3ma) | 47.5 | 47.0 | 42.2 | 44.3 | 39.0 | 64.5 | 58.6 |
| Services | 44.3 | 44.9 | 58.3 | 48.1 | 43.2 | 61.0 | 51.2 |

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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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