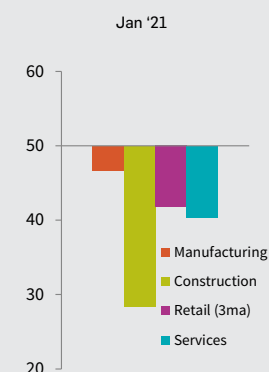
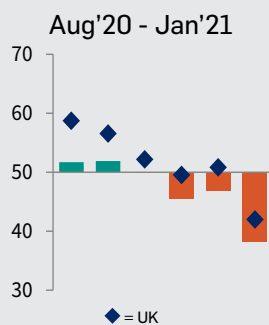


Ulster Bank Northern Ireland PMI[®]

Output falls at fastest pace since May last year amid COVID-19 lockdown

Northern Ireland Business Activity Index



Key findings

COVID-19 restrictions lead to substantial decline in activity

Inflationary pressures intensify markedly

Further reduction in employment

The Northern Ireland private sector moved deeper into contraction territory at the start of 2021 amid a further coronavirus disease 2019 (COVID-19) lockdown. Meanwhile, inflationary pressures continued to strengthen, largely as a result of higher shipping costs.

The headline seasonally adjusted Business Activity Index fell sharply in January, posting 38.3 from 46.8 in December. The substantial decline in output was the most marked since May 2020. COVID-19 restrictions were often the cause of lower business activity. Contractions were seen across each of the four broad sectors monitored by the survey, led by construction.

COVID-19 restrictions were also behind a steep contraction in new orders, which fell to the greatest extent in eight months. Some disruption following the end of the

Brexit transition period was also noted.

Higher costs for transportation, due both to rises in shipping container prices and new Brexit arrangements, led to a sharp and accelerated increase in input prices in January. Input costs rose at the fastest pace since June 2018. In turn, output price inflation was the fastest in 27 months. In both cases, the rates of inflation in Northern Ireland were faster than all other UK regions.

Redundancies due to the COVID-19 pandemic contributed to an eleventh successive fall in employment. The reduction was solid, albeit softer than the UK average.

Despite the severe contraction in output in January, panellists retained cautious optimism that the pandemic would be brought under control over the next 12 months, leading to higher activity.

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.

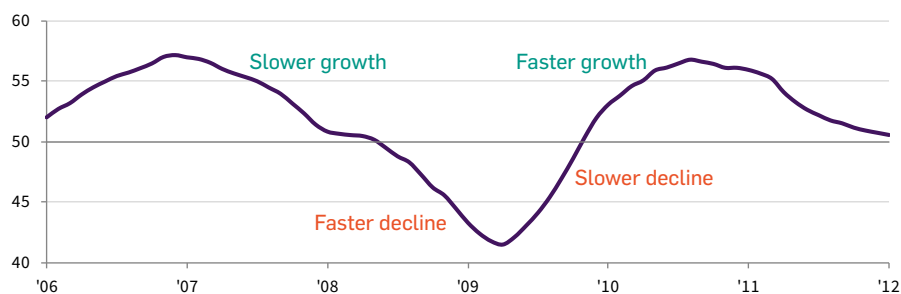
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It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

“All twelve UK regions started 2021 with the sharpest deterioration in business conditions since May last year. Lockdown restrictions were the primary cause of the slump in demand back then and in January. There was also a consistent theme across all 12 UK regions as far as new orders and employment were concerned, with contractions across the board. Within Northern Ireland, this theme of falling output, orders and employment was also evident across all four sectors. Manufacturing, construction and retail all posted their fastest rates of decline in output and orders since May. While the services sector posted its weakest readings since June for these indicators.

“While January’s rate of decline in business activity was not as steep as that recorded during the first lockdown, some regions – most notably Northern Ireland – reported much stronger rates of inflationary pressures. Indeed, Northern Ireland’s firms signalled the highest rate of input cost inflation across the UK with input prices rising at their fastest rate since June 2018. Higher shipping costs were widely cited alongside higher raw material costs and increased transport costs linked to the new Brexit arrangements. As a result of these cost pressures, local firms, most notably

retailers, hiked the price of their goods and services at the fastest pace since October 2018.

“Profit margins are being squeezed across all sectors but particularly construction. Just a few months ago the construction industry was the best performing sector in terms of business activity and new orders. But January has seen construction activity and orders plummet into the twenties, which denotes a severe drop in demand. Meanwhile input cost inflation amongst construction firms soared to the fastest in almost nine years.

“Against this backdrop it is not surprising that construction firms are the most pessimistic about the year ahead. Alongside retailers, construction firms expect output/ sales to be lower in 12 months’ time. Services remains the most upbeat about growth prospects for the year ahead and the only sector expecting activity to be higher in 12 months’ time.

“2021 has been the year of the rollout on two fronts. The rollout of the vaccine will be the single biggest factor driving economic performance later in the year. Meanwhile the rollout of red tape linked to the new Brexit arrangements will hinder Northern Ireland’s economic recovery by adding costs to business and restricting trade. While Northern Ireland has the advantage of remaining within the EU’s single market for goods, it finds itself on the wrong side of a regulatory sea-border which has effectively redrawn

the map of the UK’s single market and customs union.”



Demand and outlook

Sharpest fall in new orders since last May

Northern Ireland companies posted a substantial contraction in new business during January, with the pace of decline the fastest since May last year. Respondents indicated that the COVID-19 lockdown was the principal cause of the drop in new orders, while there were also reports of disruption following the end of the Brexit transition period. Sharp declines were recorded across each of the four monitored sectors.

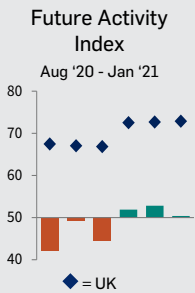
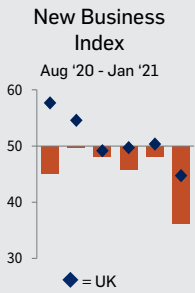
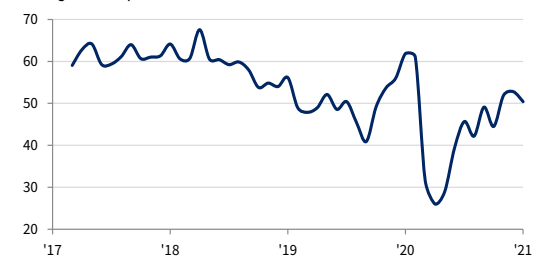
New Business Index 36.2
sa, >50 = growth since previous month Jan '21



Sentiment remains slightly positive

Despite the strong declines in business activity and new orders at the start of the year, companies expressed cautious optimism that output will increase over the next 12 months. Positive sentiment reflected hopes that COVID-19 will be brought under control over the course of 2021, leading to improving new orders. Confidence was confined to the service sector, however. Manufacturers posted a neutral outlook, while downbeat projections were seen in the construction and retail sectors.

Future Activity Index 50.4
>50 = growth expected over next 12 months Jan '21



Business capacity

Staffing levels continue to fall

As has been the case in each of the past 11 months, Northern Ireland companies lowered their employment during January. Some respondents linked lower staffing levels to redundancies, with the COVID-19 pandemic the main factor behind job cuts. That said, the fall in employment in Northern Ireland was softer than the UK average. Lower workforce numbers were registered across each of the four broad sectors.

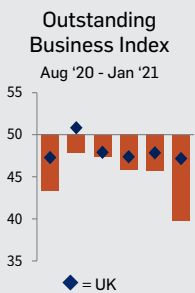
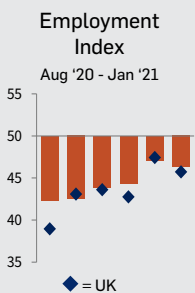
Employment Index 46.3
sa, >50 = growth since previous month Jan '21



Steep contraction in backlogs of work

The latest COVID-19 lockdown and sharp decline in new orders resulted in a substantial depletion of backlogs of work in January. The fall was the fastest since June last year, but much softer than seen during the worst of the first lockdown. The fall in Northern Ireland was the second-sharpest in the UK, marginally weaker than that seen in Scotland.

Outstanding Business Index 39.8
sa, >50 = growth since previous month Jan '21

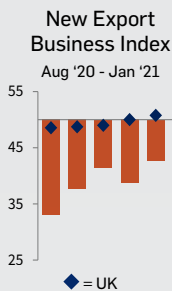
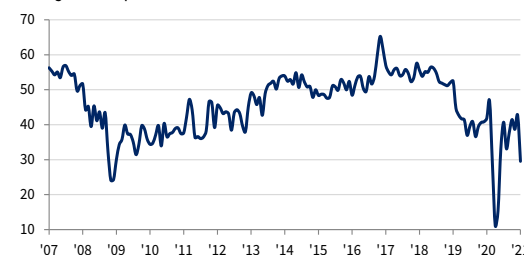


Exports

New export orders decline at severe pace in January

COVID-19 restrictions, particularly in the Republic of Ireland, resulted in a considerable reduction in new business from abroad in January. The rate of contraction accelerated sharply and was the fastest in eight months. There were also some reports that Brexit difficulties had a negative impact on new business from EU customers. The latest fall extended the current sequence of contraction to two years.

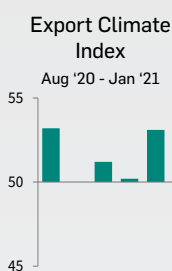
New Export Business Index 29.6
>50 = growth expected over next 12 months Jan '21



Export climate worsens

The Northern Ireland Export Climate Index (ECI) 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 47.6
sa, >50 = growth since previous month Jan '21



A new COVID-19 lockdown in the Republic of Ireland led to a sharp fall in activity in Northern Ireland's largest export market in January. As a result, the Northern Ireland ECI posted 47.6, down from 53.1 in December, to signal the first deterioration in export demand conditions in seven months.

Weakness was also evident in other European trading partners, including Germany where output increased at the slowest pace in seven months. There were some pockets of strength, however. Activity in the US increased at a sharp and accelerated rate, while solid growth was also seen in the manufacturing sectors of Canada and the Netherlands.

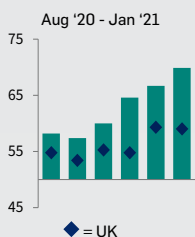
Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jan'21
1	Republic of Ireland	38.6%	40.3
2	USA	12.5%	58.7
3	Canada	5.6%	53.0
4	Germany	4.3%	50.8
5	Netherlands	3.9%	58.4



Prices

Input Prices Index



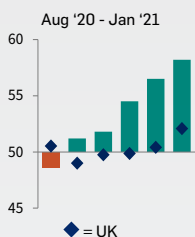
Fastest rise in input prices since June 2018

The rate of input cost inflation quickened for the fourth successive month in January and was the fastest in just over two-and-a-half years. Higher shipping costs were widely mentioned, with the price of containers up sharply. There were also reports of higher transport costs as a result of the new Brexit arrangements. Some panellists cited higher raw material prices. Manufacturers posted the fastest increase in input prices. Meanwhile, the rise in Northern Ireland was stronger than all other UK regions.

Input Prices Index



Prices Charged Index



Firms raise selling prices at faster pace

With input costs rising, particularly with regards to shipping, Northern Ireland companies increased their own selling prices accordingly. Charges were up sharply at the start of the year, with the rate of inflation the fastest since October 2018. The retail sector posted the steepest rise in selling prices, just ahead of manufacturing. As was the case with input costs, Northern Ireland posted the fastest pace of output price inflation seen across the UK.

Prices Charged Index



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, Jan '21
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, Jan '21
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

Personal & Community Services

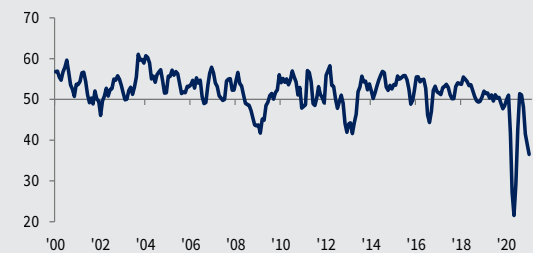
The UK's Personal & Community Services sector has been one of the hardest hit during the COVID-19 lockdowns. Latest PMI data showed activity falling sharply in the three months to January, and at a rate exceeded only by those seen during the initial shutdowns last spring. The renewed downturn followed only a modest recovery in activity over the summer, when many businesses were able to reopen but faced restrictions due to social distancing rules.

The crisis exacerbated an already downward trend in employment in the sector stretching back over two-and-a-half years. Latest data showed payroll numbers continuing to fall sharply, albeit at the slowest rate since the opening quarter of 2020.

Helping in this regard was stronger optimism among businesses that conditions would improve over the coming 12 months, with expectations at a near four-year high in the three months to January.

Output Index

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



UK Regional PMI overview

Business Activity

January saw a broad-based decrease in business activity across all regions and nations amid the reintroduction of lockdown measures. Scotland saw the steepest drop in output of goods and services, followed by the North West and Northern Ireland respectively. London and Yorkshire & Humber recorded the shallowest contractions, though in both cases the rates of decline were still the quickest since last May.

Employment

Employment fell across all 12 monitored areas of the UK in January. For the East of England and Yorkshire & Humber, this meant renewed declines in payroll numbers after slight increases in December. Rates of job shedding accelerated in all other cases except in Scotland, where the latest fall – though still notable by historical standards – was the least marked since last February.

Future Activity

Regional business expectations towards future activity remained positive across the board in January. Firms in Yorkshire & Humber recorded the highest overall optimism, having also seen the biggest improvement since December. Next in the rankings were London and the West Midlands respectively. Sentiment in Northern Ireland retreated from a ten-month high in December and was only just inside positive territory.

Business Activity Index
sa, >50 = growth since previous month, Jan '21



Employment Index
sa, >50 = growth since previous month, Jan '21



Future Activity Index
>50 = growth expected over next 12 months Jan '21



*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
Aug '20	51.7	45.1	42.2	42.3	43.3	33.1	53.2	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	50.2	64.6	54.5
Dec '20	46.8	48.2	52.8	47.1	45.7	42.7	53.1	66.7	56.5
Jan '21	38.3	36.2	50.4	46.3	39.8	29.6	47.6	69.9	58.2

By Sector, Jan '21

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	46.7	38.3	50.0	44.7	39.4	75.4	58.6
Construction	28.4	23.9	40.0	45.1	33.6	71.4	54.2
Retail (3ma)	41.8	43.3	45.2	45.5	36.1	70.6	67.5
Services	40.3	38.3	54.2	47.2	42.4	62.0	53.1

Contact

Richard Ramsey
 Chief Economist, Northern Ireland
 T +44 (0)28 9027 6354
 M +44 (0)7881 930955
richard.ramsey@ulsterbankcm.com
 Web: www.ulstereconomix.com
 Twitter: @UB_Economics

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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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