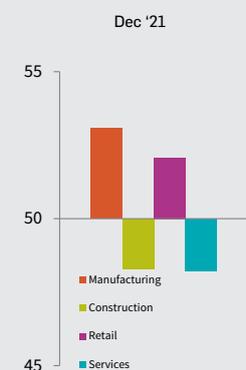
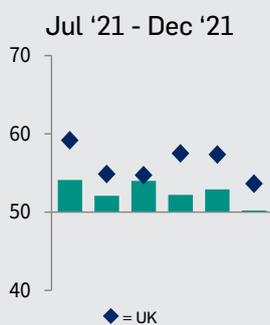


Ulster Bank Northern Ireland PMI[®]

Output growth slows to nine-month low

Northern Ireland Business Activity Index



Key findings

Activity up only fractionally as new orders fall further

Employment continues to rise at solid pace

Inflationary pressures remain elevated

A reduction in consumer confidence amid the emergence of the Omicron variant led to a further decline in new orders at the end of 2021, while growth of business activity was only fractional. Inflationary pressures remained elevated. On a more positive note, a further solid rise in employment was recorded and firms were optimistic regarding the outlook for output in 2022.

The headline seasonally adjusted Business Activity Index dropped to 50.2 in December from 52.9 in November. The index signalled a fractional rise in activity that was the slowest in the current nine-month sequence of growth. Services activity decreased for the first time since March, while construction output was also down. Manufacturing and retail remained in growth territory.

Material shortages and reduced consumer

confidence were behind the slowdown in output growth. These factors also acted to reduce new orders for the fourth month running.

Supply shortages remained a feature of the latest survey, with delivery times lengthening markedly and backlogs of work rising despite the drop in new orders. Rates of inflation also remained elevated, despite softening from November. Higher costs were reported for a range of inputs including energy, freight, fuel, raw materials and wages.

A further solid increase in employment was recorded in December amid efforts to expand capacity and deal with backlogs of work.

Expectations of a return to growth in new orders during 2022 supported optimism in the 12-month outlook for business 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.

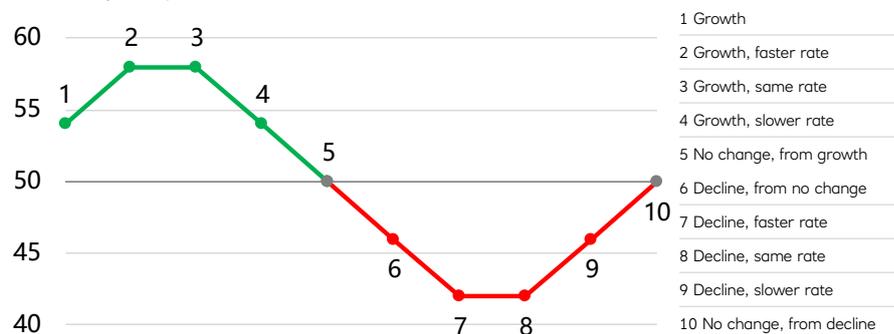
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It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

“A resurgence of Covid-19 infections, linked to the omicron variant, in December acted as a headwind for growth throughout the UK. 11 of the 12 regions reported slower rates of expansion with one - the North East of England – posting a marginal contraction.

“Northern Ireland’s private sector recovery almost ground to a halt in December with the rate of growth in business activity scraping just above the no change threshold of 50.0 at 50.2. That was the weakest rate of expansion for the 11 UK regions recording growth last month.

“No rapid improvement is anticipated anytime soon with new orders declining for the fourth month running and export orders contracting sharply, extending the current sequence of decline to 35 months. Inflationary pressures remain severe, while suppliers’ delivery times continue to lengthen sharply.

“Despite these near-term challenges, local firms notched-up their 10th successive month of employment growth with all four sectors increasing their headcount. All sectors bar construction also anticipate strong rises in output by the end of the year. Retail, perhaps somewhat surprisingly given the cost-of-living pressures, is its most optimistic

since March 2018. But with retailers increasing their prices at a record rate, it remains to be seen whether consumers will share that optimism.

“Northern Ireland’s underperformance compared to the rest of the UK and the Republic of Ireland is due to the construction and services sectors. These two sectors saw activity fall in December whereas retailers and manufacturers posted growth. Manufacturing was the only sector to report a rise in new orders with retail, services and construction all signalling a drop in incoming work.

“2022 is going to be dominated by three economic themes that were prevalent at the end of last year – slower growth, severe inflationary pressure, and the stop-start disruption associated with Covid. This might ease in the second half of the year, however, don’t forget Brexit. Whilst we should be over the hump of the pandemic by mid-2022, the same can’t be said for Brexit as some of the current grace periods come to an end in July.”



Demand and outlook

Further reduction in new orders

As has been the case in each of the past four months, new business decreased during December. That said, the pace of reduction was only slight. Where new orders declined, falling consumer confidence was mentioned as a factor, while there were some reports of issues in the construction sector related to prices and material availability. In fact, construction new orders decreased at the fastest pace in almost a year. Only the manufacturing sector posted an expansion in December.

Companies remain optimistic in 12-month outlook

Although sentiment dipped from that seen in November, firms remained confident in December that output will increase over the course of 2022. Optimism often reflected expectations that new orders will pick-up. Retailers were the most confident, followed by manufacturers and service providers. Bucking the wider trend, construction firms were pessimistic regarding the outlook.

New Business Index

sa, >50 = growth since previous month

49.3

Dec '21

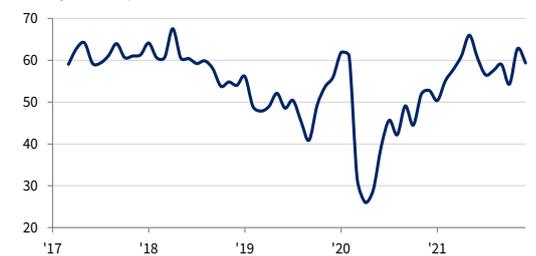


Future Activity Index

>50 = growth expected over next 12 months

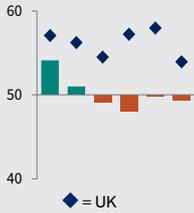
59.4

Dec '21



New Business Index

Jul '21 - Dec '21



Future Activity Index

Jul '21 - Dec '21



Employment Index

Jul '21 - Dec '21



Outstanding Business Index

Jul '21 - Dec '21



Business capacity

Solid rise in staffing levels

Efforts to expand capacity and deal with backlogs of work resulted in a further increase in staffing levels during December. Employment rose for a tenth successive month, and at a solid pace. That said, the rate of job creation was the softest since August. Staffing levels increased across each of the four broad sectors, but to varying degrees. Manufacturing workforce numbers rose substantially, while modest increases were seen elsewhere.

Backlogs of work up slightly

December data pointed to a third consecutive rise in outstanding business at companies in Northern Ireland, although the rate of accumulation was only slight and the weakest in the current sequence. A number of panellists indicated that supply shortages had been behind the latest increase in backlogs.

Employment Index

sa, >50 = growth since previous month

54.3

Dec '21



Outstanding Business Index

sa, >50 = growth since previous month

51.2

Dec '21



Exports

Accelerated downturn in new export orders

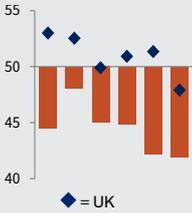
Firms in Northern Ireland's private sector continued to struggle to secure new export business during December. New orders from abroad decreased at a substantial pace that was the fastest since May. The emergence of the Omicron variant of the COVID-19 pandemic acted to disrupt international travel and harm client confidence.

New Export Business Index
 >50 = growth since previous month

41.9
 Dec '21



New Export Business Index
 Jul '21 - Dec '21



Softer improvement in export climate

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.

The ECI dropped to 55.3 in December, down from 57.0 in November and the lowest reading since March. That said, the index still signalled a marked strengthening of demand conditions in export markets.

The slowdown in large part reflected the emergence of the Omicron variant of the COVID-19 pandemic, which led to renewed restrictions, particularly in Europe. Ireland and the Netherlands saw output growth ease to nine- and 13-month lows respectively, while German business activity stagnated. Rates of expansion in the US and Canada remained solid, easing only slightly from November.

Export Climate Index

sa, >50 = growth since previous month

55.3
 Dec '21



Export Climate Index
 Jul '21 - Dec '21



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Dec'21
1	Republic of Ireland	38.6%	56.5
2	USA	12.5%	57.0
3	Canada	5.6%	53.3
4	Germany	4.3%	49.9
5	Netherlands	3.9%	53.3



Prices

Input price inflation remains elevated

Although easing for the second month in a row from October's record high, the rate of input cost inflation remained substantial and unprecedented prior to the current surge in prices. Higher freight and fuel costs were widely reported, alongside rising prices for raw materials and energy. Some panellists also reported increasing wage costs. Retailers signalled the steepest rise in input prices of the four sectors covered.

Input Prices Index 87.7
sa, >50 = inflation since previous month Dec '21



Firms pass on higher input costs to clients

The passing on of increased input prices to customers resulted in a further considerable rise in charges at the end of the year. The rate of inflation eased from the previous month's record, but was still one of the sharpest in the series history. Selling price inflation hit a new peak in the retail sector. The slowest rise in charges was registered among service providers.

Prices Charged Index 74.9
sa, >50 = inflation since previous month Dec '21

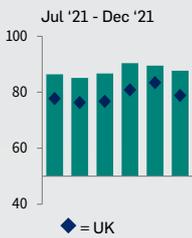


Suppliers' Delivery Times

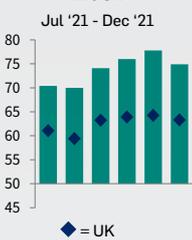
Further lengthening of lead times

Suppliers' delivery times continued to lengthen sharply in December, despite the rate of deterioration easing to the softest in ten months of data collection so far. Where lead times lengthened, companies often linked this to Brexit. There were also reports of delays in deliveries from the Far East.

Input Prices Index
Jul '21 - Dec '21



Prices Charged Index
Jul '21 - Dec '21



Suppliers' Delivery Times Index
Jul '21 - Dec '21



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 '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	

Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '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	

UK sector focus

Metals & Metal Products

After seeing strong growth over the first half of 2021, the UK's Metals & Metal Products sector recorded only a marginal rise in output during the final quarter of the year, as softening demand and supply delays took their toll.

Inflows of new work were down slightly in the three months to December, led by a steep and accelerated decline in export orders, which was linked in turn to Brexit and supply chain issues.

Metals & Metal Products manufacturers themselves continued to face lengthening lead times on inputs, albeit with the incidence of delays easing slightly from the record levels seen during the summer. This coincided with a further softening of cost inflation from the peak seen mid-year.

Looking ahead, firms in the sector remained optimistic about growth prospects in the year ahead. As such, they continued to take on new staff at a historically strong rate.

Output Index

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



UK Regional PMI overview

Business Activity

December saw a general slowdown in business activity growth across the UK regions. London remained the fastest-growing area for activity despite having seen a particularly marked loss of momentum since November. The North East saw the only outright fall in output, though the rate of decline was marginal.

Employment

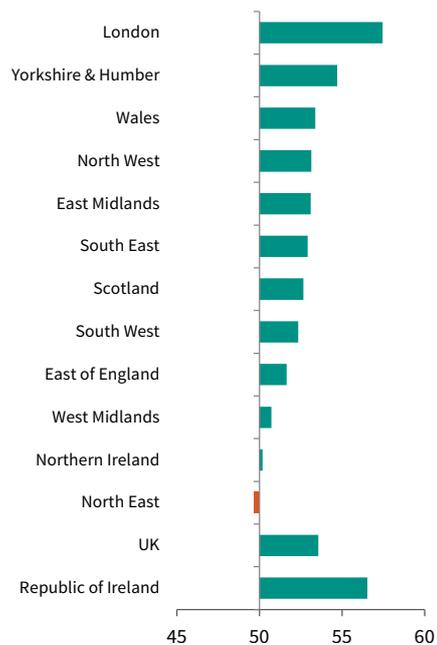
Although there was a further broad-based rise in employment in December, rates of job creation slowed in most cases. The only exceptions were the East Midlands, East of England and South West, all three of which were directly behind London at the top of the rankings. The slowest rise in employment was once again recorded in the North East.

Future Activity

Yorkshire & Humber recorded the strongest business optimism towards future activity, followed by the South East, West Midlands and East Midlands. All four, as well as the East of England (ranked eighth overall), saw expectations improve since November. Sentiment weakened elsewhere, including in the lowest ranked region, the Northern Ireland.

Business Activity Index

sa, >50 = growth since previous month, Dec '21



Employment Index

sa, >50 = growth since previous month, Dec '21



Future Activity Index

>50 = growth expected over next 12 months Dec '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	Suppliers' Delivery Times
Jul '21	54.1	54.1	56.6	54.2	55.3	44.5	60.3	86.4	70.4	22.5
Aug '21	52.1	51.0	57.6	53.5	52.5	48.1	58.0	85.1	70.0	28.2
Sep '21	54.0	49.1	59.0	54.9	49.7	45.0	57.4	86.7	74.1	24.3
Oct '21	52.2	48.1	54.3	56.3	51.9	44.9	58.3	90.4	76.0	20.2
Nov '21	52.9	49.8	62.8	55.5	52.6	42.2	57.0	89.5	77.8	27.3
Dec '21	50.2	49.3	59.4	54.3	51.2	41.9	55.3	87.7	74.9	29.0

By Sector, December '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	53.1	56.9	61.0	59.8	58.2	85.6	78.4
Construction	48.3	40.6	45.5	50.6	41.6	88.9	81.1
Retail	52.1	46.7	68.4	51.7	49.8	97.4	91.8
Services	48.2	47.7	57.6	51.2	47.4	84.5	63.4

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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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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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