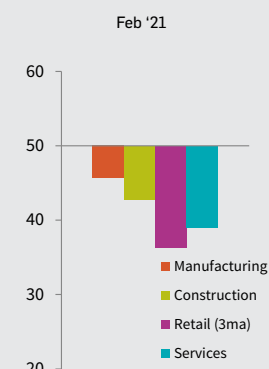
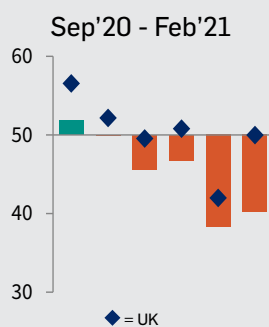


Ulster Bank Northern Ireland PMI[®]

Output price inflation at record high amid steep rise in input costs

Northern Ireland Business Activity Index



Key findings

Sharpest increase in output prices in near 19-year survey history

Output and new orders fall markedly

Business confidence at one-year high

Output and new orders continued to fall sharply in the Northern Ireland private sector during February amid the continuing coronavirus disease 2019 (COVID-19) lockdown. Meanwhile, prices surged higher, with selling prices raised to the greatest extent since the survey began in August 2002.

The headline seasonally adjusted Business Activity Index remained well below the 50.0 no-change mark in February, despite rising to 40.2 from 38.3 in January. Anecdotal evidence indicated that the COVID-19 lockdown was the principal cause of the latest decline in output, which was the most marked of all 12 UK regions. Each monitored sector saw activity fall, led by retail. Manufacturing posted the softest contraction.

A similar picture was seen with regards to new orders, which decreased sharply but

at a softer pace than in January.

Rates of inflation of both input costs and output prices were substantial, having accelerated further in February. Respondents indicated that higher shipping costs were a key driver of input price inflation, with increases in costs for raw materials also mentioned. The rise was the steepest since July 2008. In turn, output charges were increased to the greatest extent since the survey began in August 2002.

A solid decrease in employment was recorded, with the pace of job cuts quickening slightly from January.

Hopes of an easing of COVID-19 restrictions later in the year supported growing confidence in the 12-month outlook for activity. Sentiment was the highest since the onset of the pandemic.

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.

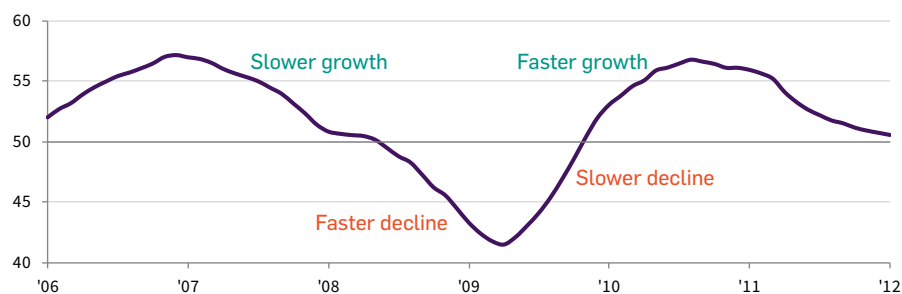
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It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

“The one real positive in the latest Ulster Bank NI PMI is that Northern Ireland businesses are more optimistic about business activity in 12 months’ time than they have been since the pandemic began.

“Whilst this is encouraging, it doesn’t change the fact that business conditions now are challenging to say the least.

“Northern Ireland was at the bottom of the UK regional table as far as output, orders and employment were concerned. Meanwhile it was ranked at the top when it comes to input costs and output price inflation.

“Manufacturing, services and retail all saw their rates of contraction in business activity accelerate in February with services also recording faster rates of decline in new orders and employment levels.

“Significantly, Northern Ireland’s private sector saw input costs rise at their fastest pace since July 2008. Once again, shipping costs, raw materials and Brexit-related costs were cited as factors. Manufacturing was the sector that posted the highest rate of cost inflation, but it was evident in all sectors. Due to these costs, firms raised their own prices at the sharpest rate in the survey’s history (almost 19 years). The rate at

which construction firms’ costs and prices charged are also both rising at the fastest rates on record.

“Looking to the months ahead, whilst conditions will remain challenging for some time, confidence will likely continue to build as the vaccine roll-out continues. But the key trigger for a recovery in some sectors, particularly retail and services, is going to be when the current restrictions are lifted.”



Demand and outlook

Further marked reduction in new orders

The COVID-19 lockdown led to a further sharp decline in new orders in the Northern Ireland private sector, despite the pace of reduction softening from that seen in January. Meanwhile, the UK as a whole recorded a broadly stable picture for new work. In Northern Ireland, all four sectors posted reductions in new orders. The sharpest decline was at service providers, with manufacturers recording the slowest fall.

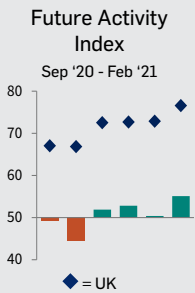
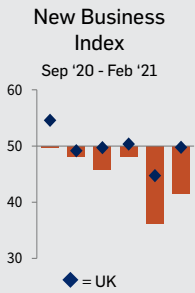
New Business Index
sa, >50 = growth since previous month
41.5
Feb '21



Optimism at one-year high

There were signs of growing confidence among Northern Ireland companies, with February seeing the strongest optimism regarding the 12-month outlook for activity since the onset of the pandemic. Confidence was largely centred on hopes that an easing of COVID-19 restrictions would lead to greater activity. Retail was the only sector to buck the wider trend and signal continued pessimism.

Future Activity Index
>50 = growth expected over next 12 months
55.1
Feb '21



Business capacity

Rate of job shedding intensifies

Northern Ireland companies reduced their staffing levels in February, extending the current period of job cuts to a year. Moreover, the solid decline in employment was the fastest since last November. Lay-offs due to the COVID-19 pandemic was the most common reason leading to job cuts, which were recorded across all four sectors. Meanwhile, the UK as a whole saw broadly unchanged employment levels.

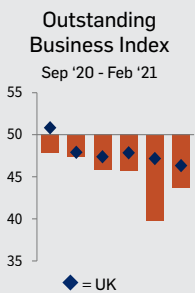
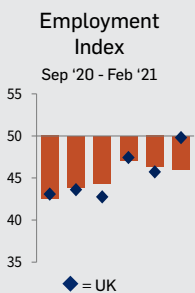
Employment Index
sa, >50 = growth since previous month
46.0
Feb '21



Firms deplete outstanding business

With new orders continuing to fall sharply, firms took the opportunity to work through outstanding business. Backlogs of work subsequently declined for the thirty-first successive month. The pace of reduction remained marked, despite easing from that seen in January.

Outstanding Business Index
sa, >50 = growth since previous month
43.7
Feb '21

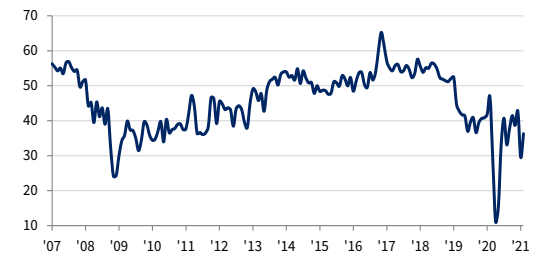


Exports

New export orders fall sharply again

Although the pace of reduction in new export orders softened in February, new business from abroad continued to decline at a substantial pace. COVID-19 restrictions in the Republic of Ireland and other export markets was the main factor behind the latest fall. New business from abroad has now decreased in each of the past 25 months.

New Export Business Index **36.3**
 Feb '21
>50 = growth expected over next 12 months



Modest decline in export conditions

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 Northern Ireland ECI remained below the 50.0 no-change mark in February and signalled a second successive deterioration in demand conditions in export markets. That said, at 48.7 the latest reading was up from 47.6 in January, pointing to a less marked worsening of the export climate.

An ongoing COVID-19 lockdown in the Republic of Ireland meant a further sharp decline in activity in Northern Ireland's largest export market. In contrast, the US posted a sharp and accelerated expansion of output. Improving demand conditions were also seen in Canada, Germany and the Netherlands during February.

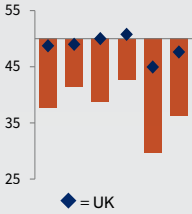
Export Climate Index **48.7**
 Feb '21
sa, >50 = growth since previous month



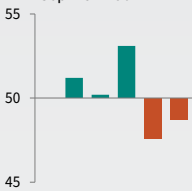
Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Feb'21
1	Republic of Ireland	38.6%	42.7
2	USA	12.5%	59.5
3	Canada	5.6%	52.0
4	Germany	4.3%	51.1
5	Netherlands	3.9%	58.0

New Export Business Index
 Sep '20 - Feb '21



Export Climate Index
 Sep '20 - Feb '21



Prices

Cost inflation surges in February

A considerable rise in input costs was recorded in February. The rate of inflation was the fastest for just over 12-and-a-half years, and slower only than those seen in June and July 2008 since the survey began in 2002. Higher shipping costs were widely mentioned, while raw material prices were also up. There were also some reports of higher costs related to Brexit. Manufacturers posted the fastest increase in input prices of the four monitored sectors. Northern Ireland registered the steepest cost inflation of the 12 UK regions.

Input Prices Index

sa, >50 = inflation since previous month

75.2
Feb '21



Record rise in selling prices

Output prices increased to the greatest extent in the series history during February, with the rate of inflation surpassing the previous record from May 2008. Respondents indicated that selling price rises mainly reflected the covering of higher input costs. The sharpest pace of inflation was in the retail sector, followed by manufacturing. Service providers posted the weakest rise in charges.

Prices Charged Index

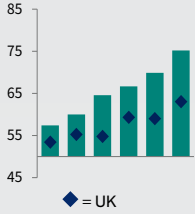
sa, >50 = inflation since previous month

62.5
Feb '21



Input Prices Index

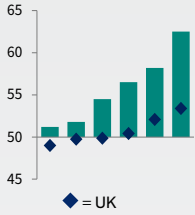
Sep '20 - Feb '21



◆ = UK

Prices Charged Index

Sep '20 - Feb '21



◆ = UK



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, Feb '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, Feb '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

Transport Equipment

Latest PMI data showed a renewed downturn in production across the UK's Transport Equipment sector in the three months to February. Output slipped back into contraction after rising in the second half of 2020 as the sector recovered some of the ground lost during the initial COVID-19 shutdowns last spring.

In some cases, firms attributed the slowdown to a drop in demand, following a surge in orders from clients in Europe in the lead up to the end of the Brexit transition period late last year. Another factor weighing on production was a lack of availability of components, linked to delays at UK borders and increasing pressure on global supply chains.

These supply bottleneck pushed up input costs at the fastest rate for almost a decade. Still, there was strong optimism for the year ahead and firms reported a sustained upturn in employment as they looked to expand capacity.

Output Index

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



UK Regional PMI overview

Business Activity

Following sharp decreases in business activity across the board in January, just four regions recorded a rise in February: London, Yorkshire & Humber, the West Midlands and North West. Downturns slowed in all other areas, with the North East close to stabilisation and the East of England and South East seeing only modest declines. Northern Ireland recorded the sharpest drop in output, followed by Wales, Scotland and the South West, respectively.

Employment

Three out of the 12 monitored regions recorded higher employment in February, the most for a year. The strongest rate of job creation was in Yorkshire & Humber, with the East of England and East Midlands also recording increases. As was the case for business activity, the steepest decline in payroll numbers was in Northern Ireland. It was also the only area where the pace of job losses quickened since January.

Future Activity

Firms in all regions and nations were optimistic about the year-ahead outlook in February. Moreover, confidence improved since January in most cases. This included Yorkshire & Humber, which saw the highest overall expectations, ahead of the South East and South West. Sentiment was weakest overall in Northern Ireland by some margin. That was despite the outlook being the brightest for 12 months.

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



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



Future Activity Index
>50 = growth expected over next 12 months Feb '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
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
Feb '21	40.2	41.5	55.1	46.0	43.7	36.3	48.7	75.2	62.5

By Sector, Feb '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	45.7	44.2	59.3	47.6	45.5	82.2	63.9
Construction	42.8	43.0	54.5	42.2	37.2	76.6	63.8
Retail (3ma)	36.3	40.6	46.2	45.3	36.4	73.3	71.7
Services	39.0	37.1	53.6	46.6	43.9	66.8	54.2

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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