11 July 2022

Ulster Bank
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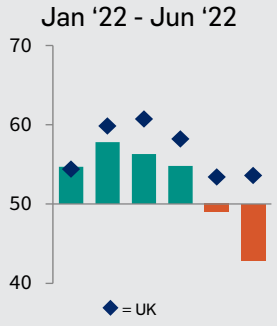
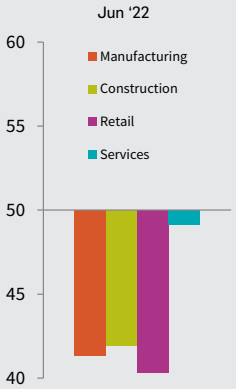
Ulster Bank Northern Ireland PMI®

Accelerated decline in output during June as price pressures hit demand

Northern Ireland Business Activity Index

Jun '22
42.9
May: 49.0





Key findings

Activity and new orders down at sharpest rates since early-2021

Business confidence at 20-month low

Solid rise in employment

Output and new orders both fell sharply in the Northern Ireland private sector during June as severe price pressures caused demand to contract. Business confidence also waned, but companies continued to expand their staffing levels.

The headline seasonally adjusted Business Activity Index posted 42.9 in June, down sharply from 49.0 in May and pointing to the steepest reduction in output since February 2021.

Falling activity was seen across all four broad sectors. The sharpest decline was in manufacturing where the rate of contraction was the most marked since the first COVID-19 lockdown.

Similarly, new orders decreased at a much sharper pace at the end of the second quarter. Anecdotal evidence indicated that the main factor underlying falls in both output and new business was sharply rising prices, with customers increasingly hesitant to commit to new projects.

Although both input costs and selling prices increased at weaker rates than in May, the respective rates of inflation remained among the fastest on record. Higher costs for energy, fuel, shipping and wages were all widely reported. Meanwhile, supply-chain disruption continued, although lead times lengthened to a lesser extent amid weaker demand.

Expectations that customers will continue to scale back spending plans amid rising costs led to a further drop in business sentiment. In fact, firms were at their most pessimistic since October 2020.

On a more positive note, employment continued to rise in June, and the rate of job creation quickened to a six-month high. Greater capacity meant that firms were able to deplete backlogs of work.

Northern Ireland Business Activity Index
sa, >50 = growth since previous month

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Contents

About the report
Comment
Demand and outlook
Business capacity
Exports
Prices
UK Sector PMI
UK Regional PMI
Data summary
Contact

About the Northern Ireland PMI® report

The Ulster Bank Northern Ireland PMI® is compiled by S&P Global 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.

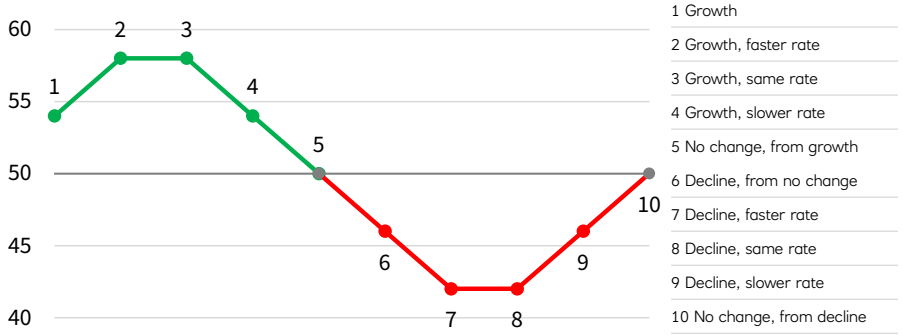
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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



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Comment

Commenting on the latest survey findings, Richard Ramsey, Chief Economist Northern Ireland, Ulster Bank, said:

"Northern Ireland firms reported a significant loss of momentum at the end of the first-half of the year. Last month's survey saw May's drop in demand broaden out to encompass all four sectors. Meanwhile the slump in new orders deepened across three of the four sectors with services' performance the best amongst a bad bunch. Demand conditions in June deteriorated more significantly in Northern Ireland than elsewhere, with local firms reporting the steepest declines in output and orders of the 12 UK regions.

"The cost-of-living crisis had already become increasingly evident in May with a slump in retail demand with this trend continuing in June. But the sudden reversal in fortunes of the local manufacturing sector has been particularly stark. Outside of periods of lockdown, Northern Ireland manufacturers recorded their biggest month-on-month fall in the output index since the PMI series began almost 20 years ago. The 'U-turn' in new orders has been significant too with a drop of over 20 points between April and June. Last month, local manufacturers saw orders slump at their fastest pace (outside of lockdowns) since April 2009.

"Despite a notable deterioration in demand conditions, all four sectors increased their staffing levels at a faster rate in June. This highlights that skills shortages remain a capacity constraint for local firms. The cost-of-living crisis coupled with competition for staff has fuelled pay pressures and added to the cost-of-doing business crisis. Last month, input cost inflation remained close to its recent highs with services firms reporting a record rise in their cost base. Outside of employment, positive news remains in short supply in the latest survey though there are some signs that supply chain disruption could be easing. Supplier delivery times continued to lengthen in June but at the slowest pace since the question was first asked 16 months ago. Clearly, an economic slowdown, by reducing demand, should help to ease supply chain disruption further in the year ahead.

"While many manufacturers have benefited from the NI Protocol, the current political impasse between the UK Government and the EU raises concerns over the durability of these benefits and therefore how the trade agreement will evolve. This, alongside a realisation that an economic slowdown is gathering pace, helps explain why Northern Ireland manufacturing has gone from the most optimistic sector to the most pessimistic in the space of one month. Manufacturing and retail both expect a sharp fall in output / sales in 12 months' time, while their counterparts in services and construction expect activity to remain flat."

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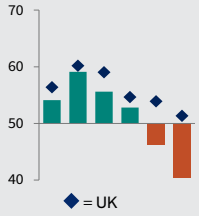
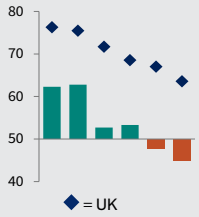
New Business Index
Jan '22 - Jun '22



Future Activity Index
Jan '22 - Jun '22



Demand and outlook

Steep decline in new business

After having fallen for the first time in five months during May, the rate of contraction in new orders accelerated sharply in June. In fact, the reduction was the fastest since January 2021. According to respondents, the principal cause of the latest decline was escalating prices. All four monitored sectors posted reductions in new orders, led by manufacturing where the fall was the steepest since the first wave of the COVID-19 pandemic.

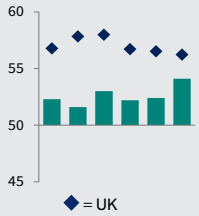
New Business Index 40.4
sa, >50 = growth since previous month Jun '22

Sentiment falls further

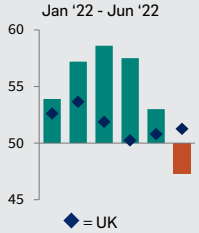
Companies in Northern Ireland became more pessimistic in the outlook for business activity at the end of the second quarter, with sentiment down to a 20-month low. The rising cost of living has resulted in a drop in customer confidence and a scaling back of spending plans, with firms expecting this to continue in the months ahead. The retail and manufacturing sectors expressed pessimism in the 12-month outlook for activity, with services and construction firms expecting no change in output.

Future Activity Index 44.9
>50 = growth expected over next 12 months Jun '22

Employment Index
Jan '22 - Jun '22



Outstanding Business Index
Jan '22 - Jun '22



Business capacity

Solid rise in employment

June data pointed to ongoing job creation in the Northern Ireland private sector, with employment now having risen in 16 successive months. Moreover, the rate of jobs growth quickened to the fastest in the year-to-date. In some cases, extra workers were hired in order to help work through backlogs. Each of the four broad sectors covered by the survey signalled a rise in employment during the month.

Employment Index 54.1
sa, >50 = growth since previous month Jun '22

Outstanding business down for first time in nine months

Falling new orders meant that firms were able to work through backlogs in June, with outstanding business subsequently falling for the first time in nine months. Services was the only sector to buck the wider trend and post a rise in backlogs.

Outstanding Business Index 47.3
sa, >50 = growth since previous month Jun '22

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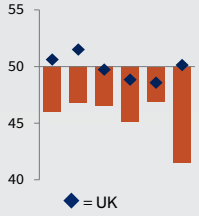
New Export Business Index

Jan '22 - Jun '22



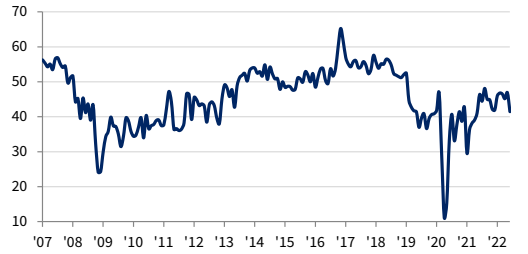
Exports

Decline in new export orders accelerates

The rate of contraction in new business from abroad accelerated in June and was the fastest in just over a year. That said, the fall in new export orders was softer than that seen for total new business. Price increases, market uncertainty and Brexit were the main factors behind the latest decrease.

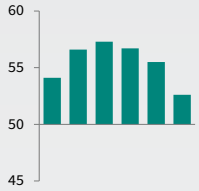
New Export Business Index 41.5

>50 = growth since previous month Jun '22



Export Climate Index

Jan '22 - Jun '22



Improvements in export demand climate lose momentum

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 52.6 in June from 55.5 in May, signalling a further improvement in the export climate but one that was the least marked in 16 months.

The weaker overall strengthening of export demand conditions was often reflective of weakness in developed markets. Each of the top five markets for Northern Ireland exporters saw output growth soften at the end of the second quarter. The Republic of Ireland posted a marked slowdown, with activity rising at the weakest pace since the return to growth in March 2021.

Export Climate Index 52.6

sa, >50 = growth since previous month Jun '22

Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, Jun'22
1	Republic of Ireland	38.6%	52.8
2	USA	12.5%	52.3
3	Canada	5.6%	50.9
4	Germany	4.3%	51.3
5	Netherlands	3.9%	52.1

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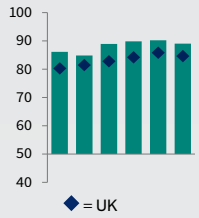
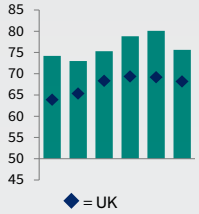
Input Prices Index

Jan '22 - Jun '22



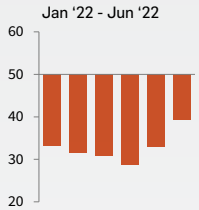
Prices Charged Index

Jan '22 - Jun '22



Suppliers' Delivery Times Index

Jan '22 - Jun '22



Prices

Further sharp increase in input costs

The spell of elevated cost inflation continued in June, with the latest rise only slightly softer than that seen in May. Close to 79% of respondents saw their input prices increase, with higher energy, fuel and shipping costs widely reported. A number of firms also noted rising wages. The retail sector posted the fastest increase in input prices, while services costs rose at a fresh record pace.

Output price inflation remains elevated

Although softening from the previous month's record high, the pace of output price inflation remained among the fastest in the survey's history in June. Firms often reported having passed on higher fuel costs to customers. Retailers posted the sharpest increase in charges, while construction was the only sector to see the rate of inflation quicken from May.

Input Prices Index — 89.0

sa, >50 = inflation since previous month — Jun '22

Prices Charged Index — 75.6

sa, >50 = inflation since previous month — Jun '22

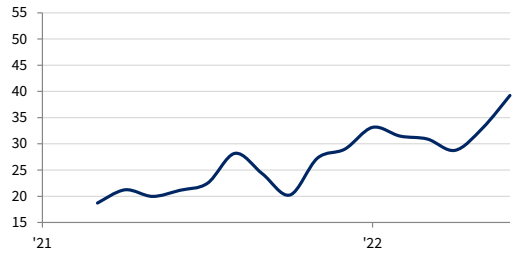
Suppliers' Delivery Times

Disruption in supply chains eases

Suppliers' delivery times continued to lengthen in June, with firms mainly blaming Brexit for the latest deterioration. Global supply-chain disruption was also reported. That said, the latest instance of delivery delays was the least marked since this question was added to the survey in March 2021, with some firms suggesting that weakening demand relieved some pressure on suppliers.

Suppliers' Delivery Times Index — 39.2

sa, >50 = shorter delivery times since previous month — Jun '22



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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, Jun '22+
1	Electrical & Optical	1.42	
2	Food & Drink	1.26	
3	Textiles & Clothing	1.19	
4	Other Manufacturing	1.09	
5	Basic Metals	0.98	
6	Timber & Paper	0.92	
7	Mechanical Engineering	0.88	
8	Chemicals & Plastics	0.78	
9	Transport	0.77	

45 50 55 60

Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '22+
1	Hotels, Restaurants & Catering	1.34	
2	Personal & Community Services	1.23	
3	Transport & Communication	1.22	
4	Business-to-business Services	0.89	
5	Computing & IT Services	0.89	
6	Financial Intermediation	0.66	

45 50 55 60

UK sector focus

Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

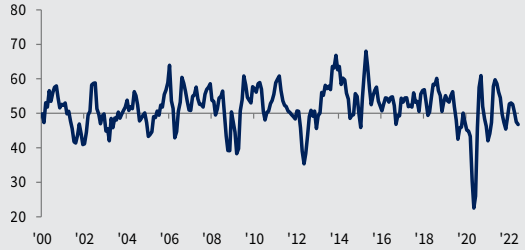
Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

Output Index

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



+ 3-month moving average

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UK Regional PMI overview

Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland*, where output fell for the second month running and at the quickest rate since February 2021.

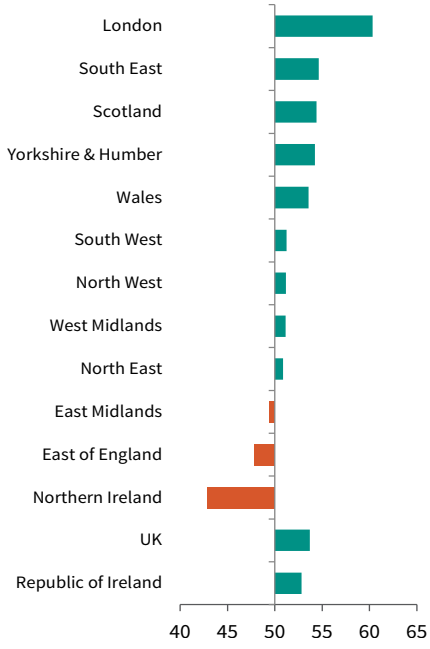
Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell - albeit fractionally - for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

Business Activity Index
sa, >50 = growth since previous month, Jun '22



Employment Index
sa, >50 = growth since previous month, Jun '22

Future Activity Index
>50 = growth expected over next 12 months Jun '22

*Coverage in England, Wales, Scotland and Republic of Ireland only includes manufacturing and services. Northern Ireland also includes retail and construction.

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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
Jan '22	54.7	54.1	62.3	52.3	53.9	46.0	54.1	86.1	74.2	33.1
Feb '22	57.8	59.1	62.8	51.6	57.2	46.8	56.6	84.8	73.0	31.5
Mar '22	56.3	55.6	52.7	53.0	58.6	46.5	57.3	88.9	75.3	30.9
Apr '22	54.8	52.8	53.3	52.2	57.5	45.1	56.7	89.8	78.8	28.7
May '22	49.0	46.2	47.8	52.4	53.0	46.9	55.5	90.2	80.1	33.0
Jun '22	42.9	40.4	44.9	54.1	47.3	41.5	52.6	89.0	75.6	39.2

By Sector, June '22

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	41.4	36.1	40.8	53.3	40.5	83.5	78.0
Construction	41.9	36.8	50.0	57.9	39.6	89.0	84.6
Retail	40.3	39.2	41.2	54.7	44.5	96.8	90.7
Services	49.1	49.8	50.0	52.9	55.6	91.0	66.5

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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