COVID-19 leads to sharp drop in business activity across all UK regions

Key Findings

- Northern Ireland, Scotland and London are the worst-hit areas, with each recording record contractions in output
- Employment falls across all regions for first time in over a decade
- Crisis undermines firms' pricing power and leads to collapse in business confidence

The outbreak of coronavirus disease 2019 (COVID-19) and associated public health measures to contain the disease severely disrupted business activity across all areas of the UK in March, latest NatWest Regional PMI© data showed. There were widespread job losses as firms scaled back operations amid efforts to realign capacity with demand and reduce costs.

The steepest decline in output in March was recorded in Northern Ireland*, where the Business Activity Index slumped to a record-low of 29.1. The PMI Business Activity Index is the first fact-based indicator of regional economic health published each month, tracking the monthly change in the output of goods and services across the private sector. A reading below 50 signals contraction, and the further below the 50 level the faster the decline signalled.

Scotland (29.7) and London (31.5) also saw record decreases in output in March, with the capital registering the largest ever month-on-month drop in the Business Activity Index.

The shallowest declines were registered in Yorkshire & Humber (41.2), the North West (40.7) and East of England (40.7), though even here the rates of contraction were the fastest since at least February 2009.

Continued…
Demand

Containment measures, lower market confidence and business closures all contributed to a broad-based drop in demand for goods and services in March. As was the case with output, firms in Northern Ireland recorded the steepest decline in new business, followed by their counterparts in Scotland. The slowest rate of contraction was in the North East, where demand has been in continuous decline throughout most of the past year.

Capacity

All 12 regions monitored by the survey recorded a decrease in employment in March as firms scaled back staffing capacity in line with lower workplace activity and a drop in outstanding business. Scotland and the West Midlands saw the deepest cuts to payroll numbers, while the North West, North East and East of England saw relatively modest job losses during the month.

Prices

There was a decrease in output charges in seven of the 12 monitored regions, which was the most since October 2015. The steepest decline was seen in Scotland, where prices were discounted to the greatest extent in the series history (since 1999). The East Midlands, East of England, North West and Yorkshire & Humber saw further, albeit much slower increases, while in Wales charges were unchanged.

Northern Ireland topped the rankings for input price inflation in March, as has been the case in seven of the past eight months. However, here and in all other areas, costs rose at a slower rate than in the previous survey period, linked to generally lower commodity prices (including oil). Firms in Scotland and Yorkshire & Humber recorded the slowest increases in operating expenses, the weakest for at least four years.

Outlook

March saw a broad-based reduction in business confidence. In seven of the 12 monitored regions, sentiment remained positive overall. This included Wales, which saw the smallest drop in expectations and the highest overall optimism (albeit a 14-month low). Expectations turned negative in Northern Ireland, London, Scotland, the North East and North West, dropping to a record low in each case.

* Coverage in Northern Ireland includes construction and retail.
Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“The COVID-19 pandemic and resulting lockdown caused widespread disruption to business activity across the UK in March, with all regions seeing output of goods and services fall to the greatest extent since at least the global financial crisis of 2008/9. For some places, such as services-dominated London, and Scotland with its high concentration of hotels and restaurants and other consumer-facing services, the collapse in demand and activity has been on an unprecedented scale. Northern Ireland – where the survey data also cover retail and construction, alongside manufacturing and services - was another of the worst-affected areas, with high streets shut and face-to-face services grinding to a halt.

“The severity of the situation is underlined by a broad-based fall in employment and a drop in prices charged for goods and services in most regions. With business confidence towards future output down sharply and hitting a record low in almost all areas, firms up and down the UK are expecting disruption to continue for many months to come.”

-ENDS-
NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

Contact

**NatWest**
Jonathan Rennie
Regional PR Manager
07769 932 102
jonathan.rennie@rbs.co.uk

**IHS Markit**
Phil Smith
Principal Economist
+44 1491 461 009
phil.smith@ihsmarkit.com

Katherine Smith
Public Relations
+1 781 301 9311
katherine.smith@ihsmarkit.com
Notes to editors

Methodology

The NatWest UK Regional PMI® data are compiled by IHS Markit from responses to questionnaires sent to companies that participate in IHS Markit’s UK PMI surveys. IHS Markit compiles data for nine English regions, Scotland, Wales and Northern Ireland (NUTS 1 definitions).

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 for each region 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 (at service providers) or output (at manufacturers) compared with one month previously. The Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the ‘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.

The survey data for March were collected 12 – 27 March 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

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. To learn more go to ihsmarkit.com/products/PMI.html.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners ©2020 IHS Markit Ltd. All rights reserved.

Disclaimer

The intellectual property rights to the NatWest UK Regional PMI® provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit’s prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information (“data”) contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. NatWest uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.