

NatWest UK Regional PMI®

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Business activity continues to rise across all regions, but more slowly in most cases

Key Findings

- September sees sustained, albeit generally slower, increases in UK regional output
- Further broad-based retrenchment, though rates of staff cuts ease
- Firms in most regions remain positive towards outlook

Latest Regional PMI® data from NatWest showed a sustained recovery in business activity across all UK regions in September, albeit with signs of a loss of momentum in most cases.

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 above 50 signals growth, and the further above the 50 level the faster the expansion signalled.

The best performance in September was seen in the North East, which recorded a business activity index reading of 60.3. Other areas registering sharp increases in output included Yorkshire & Humber (59.2) and the East Midlands (58.6).

At the other end of the spectrum, Scotland (51.2) moved to the bottom of the rankings having seen growth slow sharply since August. In fact, nine of the 12 monitored regions saw softer rates of increase in business activity.

Demand

The North East led a broad-based increase in new business across England in September. Wales also saw a rise in new orders, although the rate of growth eased to a moderate pace that was slower than that seen in even the worst-performing English region, London. Northern Ireland* recorded a near-stabilisation in new business after a solid decline in August, while Scotland posted a renewed contraction.

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Capacity

The picture for employment contrasted with that of output, with payroll numbers continuing to fall on a broad-based basis in September. Though rates of job shedding generally eased since August, data still showed sharp decreases in staffing levels in some regions such as the West Midlands and Yorkshire & Humber. The slowest fall in employment was seen in the North East.

Seven of the 12 monitored UK regions saw renewed increases in outstanding business in September. London recorded the steepest rise, followed by similarly solid increases in the East of England, South East and North East. Having registered the most marked drop in incoming new work, Scotland saw the fastest rate of backlog depletion.

Prices

September saw a further divergence in prices charged for goods and services by region. Wales recorded the fastest rate of output price inflation ahead of the West Midlands and Yorkshire & Humber. At the other end of the scale, lower input costs in London allowed for widespread discounting across the capital, which posted a far steeper fall in charges than the four other areas that saw a decrease.

Firms in London recorded an accelerated decline in operating expenses in September, which was partly linked to lower employment costs. This contrasted with further increases in average input prices in all other regions. The East of England registered the strongest rate of cost inflation, closely followed by Northern Ireland. The latter was one of eight areas to post a slower increase in costs, however.

Outlook

Business confidence towards future output remained positive in all regions except Northern Ireland. Even here, however, the degree of pessimism receded sharply to the weakest for seven months. Yorkshire & Humber was the most optimistic region. That was despite expectations softening since August, as was the case in five other areas, namely London, East of England, North West, Scotland and Wales.

* Coverage in Northern Ireland includes construction and retail.

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Comment

Sebastian Burnside, NatWest Chief Economist, commented:

"The third quarter has seen a rebound in business activity across all UK regions, with September's PMI data indicating a continuation of this broad-based recovery.

"The English regional economies have seemingly fared better in the initial reopening stage of the recovery, however even here we are starting to see signs of a loss of momentum amid the introduction of local restrictions and the withdrawal of government support such as the 'Eat Out to Help Out' scheme.

"Rates of job shedding slowed across the majority of areas amid the first signs of capacity pressures beginning to emerge, but of course the outlook for the labour market is still clouded in uncertainty with firms set to transition away from the current job retention scheme. In the coming months, the regional PMI data are set to play an important role in providing an early guide as to how developments in local job markets are unfolding."

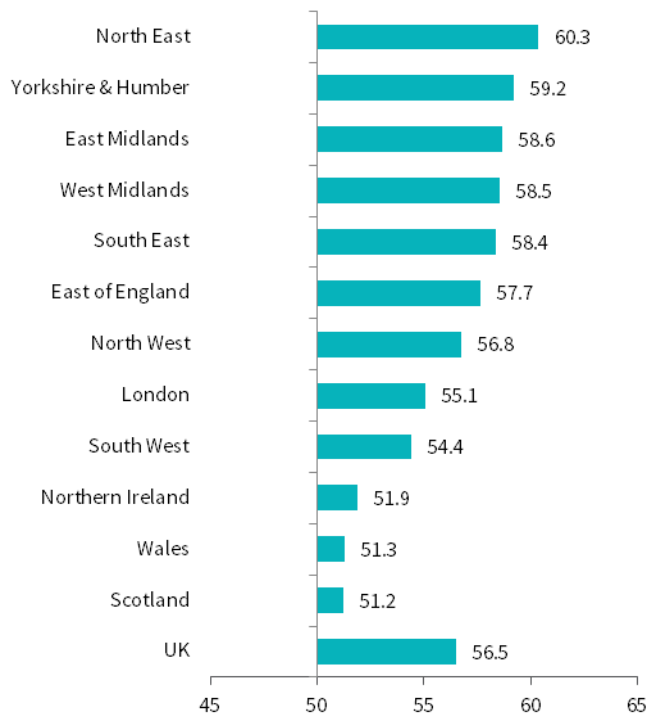
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Business Activity Index, Sep '20

sa, >50 = growth since previous month



Source: NatWest, IHS Markit

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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.



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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 September were collected 11 – 28 September 2020.

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

About PMI

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