NatWest UK Regional PMI®

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Record decreases in business activity seen across all UK regions in April

Key Findings

- Northern Ireland, North East and Scotland see steepest falls in business activity amid COVID-19 crisis
- All regions record unprecedented monthly job losses
- First broad-based drop in output prices for almost 11 years

Latest NatWest Regional PMI® data showed a nationwide collapse in business activity in April as a result of the coronavirus disease 2019 (COVID-19) pandemic and subsequent lockdown, with the survey revealing record contractions in output and employment across all areas of the UK.

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.

As was the case in March, the decline in output of goods and services in April was the steepest in Northern Ireland*, where the Business Activity Index slumped to a new record-low of 8.3, down sharply from 29.1.

The North East and Scotland (both 10.7) saw the next-steepest decreases in output, followed closely by the West Midlands (10.9). At the other end of the scale, the slowest fall in business activity was registered in the North West (19.7), albeit with the rate of decline here still considerably faster than even at the depths of the global financial crisis.

Continued…
Demand

Mirroring the trend in business activity, all 12 monitored regions saw survey-record declines in incoming new work in April amid reports of client closures and a collapse in both domestic and international demand. Given the outcome for headline business activity, firms in Northern Ireland unsurprisingly recorded the steepest drop in new business, followed by those in the South West and North East. At the other end of the scale, Yorkshire & Humber recorded the shallowest decline.

Capacity

Reflecting a general collapse in incoming new work, all 12 regions saw backlogs of work fall at a rate unmatched since data were first compiled. The steepest declines were recorded in the North East, Northern Ireland and South West respectively. The South East saw the slowest rate of backlog depletion, though even here the decline was well beyond even that seen at the depths of the global financial crisis.

As a consequence of both forced business closures and reduced workloads, firms across all regions reported record decreases in employment in April. In many cases this reflected redundancies, though there were also widespread mentions of the use of the government furlough scheme. The fastest rate of decline was in the North East, which fell 11 places in the rankings since March. Neighbouring North West, by contrast, saw the least marked drop in workforce numbers, with employment in Scotland also falling much slower than the national rate.

Prices

For the first time since the aftermath of the global financial crisis, a decrease in average prices charged for goods and services was seen in all 12 UK regions in April. The greatest amount of discounting by businesses was in Scotland and the South West. This partly reflected trends in underlying costs, with the same two areas also seeing the steepest decreases in average input prices. For the first time on record, firms across all 12 monitored regions reported a drop in average input prices. Many firms cited a furlough-related drop in payroll costs, while the influence of lower oil prices and supplier discounting were also widely mentioned.

Outlook

Business confidence towards future output varied greatly by region in April. Sentiment was positive in eight of the 12 areas, with optimism even improving in the five highest ranked regions, namely Wales, East of England, West Midlands, South
West and South East. Expectations were negative in Scotland, London, North East and Northern Ireland, falling to new record lows in the case of the latter two.

* Coverage in Northern Ireland includes construction and retail.

**Comment**

**Sebastian Burnside**, NatWest Chief Economist, commented:

“The disruption to business activity that we’ve seen in April is unprecedented. Firms all across the UK have suffered immensely from the COVID-19 pandemic and resulting lockdown, with April’s results revealing the full scale of the economic fallout.

“While business confidence has started to pick up in some areas, activity is going to be coming off a low base and the message from firms in most regions is that the recovery – when it does begin – is going to take time.

“The length of time it is going to take to get back to 2019 levels of activity will depend largely on the scale of permanent business closures and the breadth of job losses. It’s worrying that, despite widespread uptake of the government furlough scheme, we’ve already seen the largest single-month job losses on record across each and every UK region.

“What the job retention scheme has done is to help reduce businesses’ cost pressures, as is highlighted by a drop in input prices in every region for the first time in the survey history. Furloughing has been particularly prevalent across the accommodation and food services industries, so it’s almost no surprise to see Scotland and the South West – two areas of the UK with high concentrations of these types of businesses – recording the steepest drop in business costs.

“The PMI data help us identify the areas that have suffered the most in terms of the loss of economic output and jobs during the crisis, and in the months to come they will provide valuable insight into which areas are bouncing back the fastest – and those that have more permanent scars.”

-ENDS-
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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.
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 April were collected 7 – 28 April 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.

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