

NatWest UK Regional PMI®

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Majority of UK regions see growth of output and employment in January

Key Findings

- Nine out of 12 regions record higher business activity in January, up from just one in December
- London leads general upturn in employment, with the North East seeing the only fall
- Northern Ireland and North East remain the weakest-performing areas, but both move closer to stabilisation

Growth of business activity broadened into more areas of the UK in January, according to the latest NatWest Regional PMI® report. Nine out of the 12 regions monitored by the survey saw a rise in output at the start of the year, with all but one also recording increased employment.

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 growth signalled.

The strongest output growth in January was seen in London, where the Business Activity Index rose to a near three-year high of 56.5. The East of England (54.1) was ranked second overall and was one of eight UK areas to see a renewed increase in activity, alongside the South East (53.0), East Midlands (52.9), Wales (52.6), Scotland (52.0), Yorkshire & Humber (51.9), the North West (51.7) and West Midlands (51.6).

Output stabilised in the South West (50.0) following ten months of contraction, while rates of decline eased in both the North East (48.2) and Northern Ireland (46.8) to the weakest for six and ten months respectively.

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Demand

There was a general improvement in demand for goods and services across the UK regions in January. Growth of new business was particularly strong in London, though firms in the East of England and the North West also recorded marked increases in order book volumes. The North East and Northern Ireland were the weakest-performing areas for new business, though in both cases the rates of decline eased sharply since December and were only marginal.

Capacity

While the majority of UK areas saw a rise in employment in January, in most cases rates of job creation were only modest. The main exception to this was London, which saw workforce numbers rise at a marked pace that was the quickest for almost two years. The only decrease in employment was in the North East, though the rate of decline was the weakest for five months. Greater staffing capacity helped firms alleviate backlogs of work, which fell in all regions except London.

Prices

Average charges for goods and services rose in 11 of the 12 monitored regions in January, with East Midlands recording the fastest rate of inflation followed by the South East. Selling prices fell in the North East, albeit only marginally and at the slowest rate for three months.

Firms in Northern Ireland noted the sharpest increase in input prices in January, with the area also seeing one of the most marked accelerations in cost inflation from the month before (behind the East of England). Eight of the remaining regions recorded faster rises in input prices.

Outlook

January saw a broad-based improvement in business confidence. Firms in Yorkshire & Humber were the most optimistic about future output, followed by those in the West Midlands and Wales respectively. The biggest upswing in expectations was recorded in the North West. Despite seeing optimism strengthen to a ten-month high, Scotland sank to the bottom of the rankings behind Northern Ireland.

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Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“The green shoots that we saw across the regional PMI surveys in December were not a false dawn, with most areas of the UK sustaining this momentum and making a bright start to the new year. The data show a broadening of growth of both business activity and employment in January, with London continuing to lead the way but being followed closely by improving performances in most other regions.

“Firms in the North East and Northern Ireland struggled the most under the weight of Brexit uncertainty in 2019, so it’s encouraging to see that even here demand is showing signs of stabilising, and there is a real confidence among businesses of growth in 2020.”

-ENDS-

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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.

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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