

NatWest UK Regional PMI®

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London leads regional growth for output, new orders and employment in November

Key Findings

- Higher output in London, Scotland and Wales contrasts with contractions elsewhere
- London leads job creation ahead of the South West and Scotland
- Business input costs rise more slowly in all regions

London was the leading UK area for output growth and job creation in November, according to the latest NatWest Regional PMI®. However, as was the case in October, the majority of areas recorded decreases in both activity and employment during the month.

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.

London was the top-performing region for output growth for the second month running in November. However, at 51.8, the capital's Business Activity Index pointed to a modest pace of expansion. Only two of the remaining 11 UK areas saw higher activity, with Scotland (50.9) and Wales (50.8) both recording marginal growth following contractions in October.

Of the nine regions that saw output decrease, the smallest falls were in Yorkshire & Humber, the West Midlands and the South East with readings of 49.7, 49.4 and 48.9 respectively. The East Midlands (48.8) also saw only a modest drop in business activity, while there were more solid contractions in the South West (48.0), North West (47.4), East of England (47.3) and North East (46.9).

Northern Ireland (42.3) was the worst-performing area for the eighth month running and saw its steepest decrease in output for seven years.

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Demand

Only London and Scotland saw increases in new business in November, the latter recording growth for the first time in four months. Bottom of the rankings was Northern Ireland, where the rate of decline in new orders accelerated to the fastest for seven-and-a-half years. There were also marked decreases in order book volumes in the North West, North East and South West.

Capacity

Backlogs of work decreased in ten of the 12 monitored UK regions in November, the exceptions being a marginal rise in London and no change in Scotland. Moreover, in most cases where outstanding business declined, the rate of depletion accelerated. The North East, Northern Ireland and North West occupied the bottom three places in the rankings and saw the steepest falls for 12, five and 99 months respectively.

Reflecting a general lack of pressure on business capacity, employment decreased in eight of the 12 regions in November (albeit with rates of decline easing in over half of the cases). The North East saw the steepest staff cuts, followed by the East Midlands. Alongside sustained job creation in London and the South West, data showed renewed increases in Scotland and the East of England.

Prices

Wales and Yorkshire & Humber climbed to the top of the rankings for output price inflation in November, having both seen rates of increase quicken noticeably from the month before. The North East was again the only region to record a drop in output charges, with the rate of decline accelerating sharply to the joint-fastest in over ten years.

All regions recorded a slower rise in input prices in the year's penultimate month. Northern Ireland saw the steepest overall increase in costs for the fourth month running, followed by London and then Scotland. The weakest cost pressures were in the North East, where firms registered the slowest rise in operating expenses since May 2016.

Outlook

Expectations towards output in a year's time strengthened in nine of the 12 monitored UK areas in November, including Northern Ireland where data showed confidence at a ten-month high (albeit still the lowest nationally). Yorkshire & Humber recorded the highest optimism ahead of the South West, with the latter

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being the only region where sentiment was above its long-run series average (since July 2012).

Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“Regional economic performances remain subdued on the whole, with just three areas of the UK seeing business activity rise during November, according to the latest PMI data.

“There is retrenchment taking place in most parts of the UK as firms look to cut costs and reduce some their excess capacity, though the PMI data indicate that it’s in the North East and East Midlands where local labour markets are currently hurting the most.

“After a wobble in the first half of the year, London has been the standout performer in recent months, reporting sustained gains in output and employment. However, even here growth is below trend and there is no obvious lift to the adjoining regions.”

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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

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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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.



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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.

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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