

NatWest UK Regional PMI[®]

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North West and Yorkshire & Humber lead UK growth in January

Key Findings

- North West tops regional output growth rankings for second month running
- Job creation jointly-led by North West and Yorkshire & Humber
- London sees renewed contraction in business activity amid downturn in new work

The North West and Yorkshire & Humber were the two main contributors to UK output growth in January, whilst also recording the joint-strongest rates of job creation, according to the latest NatWest Regional PMI[®].

The North West led business activity growth for the second month in a row in January. The region's Business Activity Index – which measures changes in the combined output of the region's manufacturing and service sectors – read 53.9. This compared with a UK-wide average of 50.3 – the lowest since July 2016.

Yorkshire & Humber (52.8) also saw a relatively solid increase in output, despite its rate of expansion easing to a three-month low. The only notable improvement in growth was seen in Wales (52.7), which showed a slight recovery from a 29-month low in December.

The East Midlands (52.5), Northern Ireland (51.6) and the South East (50.6) each saw a slowdown in the rate of output growth, while business activity in the South West (50.4) was up only marginally.

Four areas saw a decrease in business activity in January. With the exception of the shock to activity in the immediate aftermath of the referendum, this was the highest number in any one month for over six years. London (48.0) saw the most marked decline, with output in the capital falling to the greatest extent for two-and-a-half years. Scotland (49.2), the North East (49.2) and the West Midlands (49.5) all recorded only marginal contractions. In the case of the latter, it was the first decrease in private sector output since July 2016.

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Demand

Only five areas of the UK saw a rise in new orders in January, led by Yorkshire & Humber. In each case, growth either slowed or remained only marginal. The steepest falls in new work were recorded in London and the North East, where the respective rates of decline were the quickest since July 2016. The South East, West Midlands and North West all saw a fall in new orders for the first time in two-and-a-half years.

Capacity

A decrease in outstanding business was recorded across all areas of the UK in January. The fastest declines were across the English regions, with Northern Ireland, Wales and Scotland all seeing only modest reductions. The North East saw the steepest overall decrease in backlogs for the twentieth month in a row, despite the rate of depletion in the region being the slowest since last September.

Yorkshire & Humber and the North West jointly-led the regional rankings for employment growth in January, albeit at a rate that was only modest overall. A fall in employment was recorded in seven of the 12 monitored regions, the highest number since November 2012. The steepest decrease was seen in the North East, where a decline has been recorded in each of the past seven months.

Prices

Northern Ireland saw the steepest rise in input costs, with the rate of inflation reaccelerating to a five-month high. It was a similar situation for the North West, which ranked second overall. At the bottom of the table was the West Midlands, where input prices continue rise at a strong rate by historical standards, but one that was the weakest since July 2016. In Wales, the rate of cost inflation stayed close to last November's 28-month low.

Reflecting the trends in underlying cost pressures, firms in Northern Ireland recorded the steepest rise in average output prices in January, followed by those in the North West. Rates of inflation slowed in eight of the 12 monitored areas, including London. The capital saw a marginal rise in average prices charged that was the weakest in eight months. Scotland saw the second-slowest increase, but one that was still solid overall.

Outlook

The strongest optimism towards future activity was in the South West, where it reached the highest for seven months, followed by the North West. Other areas where confidence improved since December included the South East, London and Northern Ireland, with the latter climbing off the foot of the rankings for the first time

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since last August. Firms in the North East held the lowest expectations for output in the year ahead.

Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“The UK economy managed to stay just inside territory at the start of the year, and key to this was the performance of businesses across the Northern Powerhouse. The North West was the top-performing region for business activity for the second month running in January, followed by Yorkshire & Humber, with the latter also topping the rankings for new orders.

“The exception remained the North East, which has seen a sustained soft patch in demand exacerbated by weakness in the automotive industry.

“London businesses appear the most susceptible to the heightened uncertainty surrounding Brexit, recording the steepest decreases in both output and new orders in January. It was a similar situation in the immediate aftermath of the referendum back in 2016, when firms in capital suffered a greater shock to demand than the UK-wide average.

“The slowdown in demand and anxieties towards the outlook have filtered through to regional labour markets. Seven of the 12 monitored areas saw a decrease in employment, which was the highest number in more than six years. Again, it was the North West and Yorkshire & Humber that showed the most positive performances in terms of job creation, though even here rates of workforce growth were only modest.”

-ENDS-

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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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