

NatWest UK Regional PMI®

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Majority of regions see downturns in business activity ease in June, with some pockets of growth

Key Findings

- Strongest trends in business activity seen in the Midlands
- Scotland remains mired in a particularly steep downturn
- Business confidence improves, but all regions see further job losses

The lifting of lockdowns across the UK economy was reflected in the latest NatWest Regional PMI® data, which showed downturns in business activity easing markedly across the majority of areas in June, with some even seeing slight growth in output and demand.

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.

The East and West Midlands recorded the strongest trends in business activity in June. Both registered a Business Activity Index reading of 50.4, signalling their first respective increases in output for four months, albeit marginal. In all other areas, business activity fell at a much slower rate than in May.

The worst-performing area in June was Scotland with a reading of 37.1. It was overtaken by Northern Ireland*, which saw a near 24-point rise in its Business Activity Index – the sharpest increase of all 12 regions monitored by the survey.

Demand

Three of the 12 monitored regions saw a renewed rise in new business in June, namely the East Midlands, West Midlands and Yorkshire & Humber. Elsewhere, rates of decline eased further from the historic lows seen in April. Firms operating in

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Scotland recorded the most marked downturn in new business, followed by those in Northern Ireland, the South West and London.

Capacity

A lack of incoming new orders meant that firms in all regions operated below capacity during June, as highlighted by a broad-based drop in backlogs of work. Matching the trends in new business, firms in Scotland and Northern Ireland recorded the steepest decreases in work-in-hand, while those in the East Midlands noted the slowest. That said, rates of decline eased in all cases.

Employment decreased in all regions for the fourth month in a row in June, albeit at a slower rate in each case. The weakest decline in private sector workforce numbers was in the East Midlands, followed by the North West and South East. At the other end of the scale, businesses in the North East and London recorded the most marked rates of job losses.

Prices

Reflecting the picture for the UK as a whole, most areas monitored by the survey saw a modest rise in firms' cost burdens during June. The main outliers were Northern Ireland, where the rate of input price inflation accelerated sharply and was strong overall, and London and the West Midlands, which both saw slight decreases in operating expenses.

Five of the 12 monitored regions saw notable decreases in output prices in June, led by further marked (albeit slower) declines in London, Scotland and the North East. The same number meanwhile saw virtually no change in charges from the month before. The only areas that saw discernible rises in output prices were the West Midlands and Wales, though even here rates of inflation were modest.

Outlook

Business confidence towards future output improved in almost all areas in June. The only exception was Yorkshire & Humber, which had topped the rankings in May and saw a slight decline. Wales moved back to the top of the table, a position it has held in three of the past four months. Only firms in Northern Ireland were downbeat about the outlook, though the degree of pessimism here receded further from April's nadir.

* Coverage in Northern Ireland includes construction and retail.

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Comment

Sebastian Burnside, NatWest Chief Economist, commented:

"There were positive signs for all areas of the UK in June, as the PMI data for every region improved further from the historic lows seen in April.

"In most cases, downturns in activity eased markedly and local economies across the UK moved closer towards stabilisation, however we continued to see a degree of variation in regional performance. It was across the Midlands where the data showed the most positive trends in business activity, with Yorkshire & Humber also displaying signs of stronger demand. At the other end of the scale, Scotland, with its relatively slower pace of reopening, was furthest behind on its path to recovery.

"A common theme across all areas of the UK is a sustained decline in employment. Rates of staff shedding have continued to moderate in all areas, but with businesses still generally operating well below capacity, we've seen another round of marked job cuts across the board. With the furlough scheme set to be wound down over the coming months, the outlook for the labour market is clouded in uncertainty.

"Nevertheless, with the survey indicating a general improvement in business confidence towards future activity, firms feel that the worst is behind them and their focus is now on making up the lost ground."

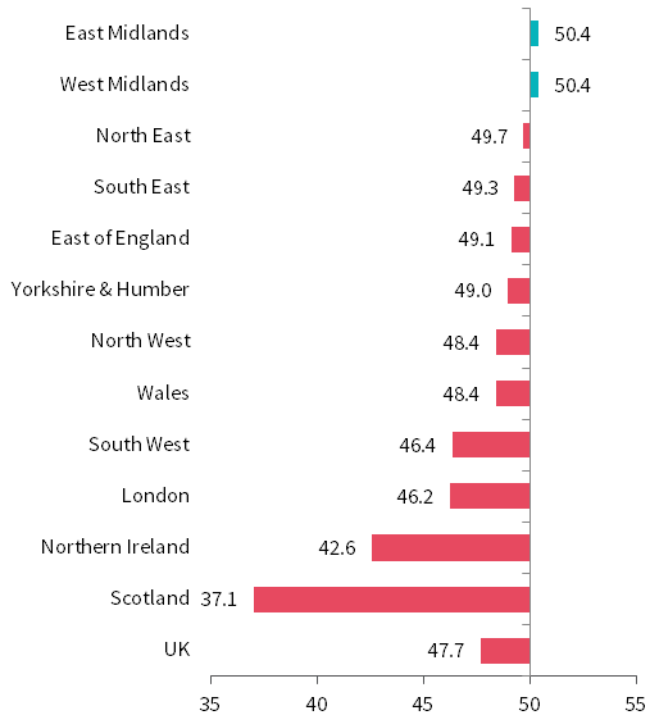
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Business Activity Index, Jun '20

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 June were collected 12 – 26 June 2020.

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

About PMI

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