

NatWest UK Regional PMI[®]

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East Midlands is top performing region in 2018 despite strong finish from the North West

Key Findings

- 2018 ends with North West leading growth in both output and employment
- Scotland sees a renewed decline in business activity
- East Midlands posts slightly slower output growth but a marked rise in new orders
- North East records steepest drop in employment since 2009

Parts of the UK saw robust growth in December, according to the latest NatWest Regional PMI[®], despite signs of uncertainty weighing on job creation and business confidence. A strong finish to the year for the North West saw it top the latest regional rankings for both output and employment growth. However, it was the East Midlands, ranked second overall in December, that saw the best performance in terms of business activity over 2018 as a whole.

December saw the North West Business Activity Index recover to a three-month high of 54.2, rebounding further from the 27-month low seen in October. The Index, which measures changes in the combined output of the region's manufacturing and service sectors, signalled markedly stronger growth than that seen across the UK as a whole (51.4).

Other outperformers in December included the East Midlands (54.1), Yorkshire & Humber (53.3) and Northern Ireland (52.7). The former was the year's overall top performer, followed by the latter.

Growth picked up in the East of England (52.3) in December; however, the South East (51.9) and Wales (51.1) both saw slower increases in output, whilst the pace of expansion in the West Midlands (50.7) remained subdued.

London (50.6) and the South West (50.3) both saw only modest recoveries in business activity following the declines in November. In contrast, Scotland (49.3) slipped back into contraction to end nine months of continuous expansion.

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The weakest performer overall was the North East (47.8) which, despite seeing a slower fall in output compared to November, recorded its worst quarterly performance since 2009.

Demand

The East Midlands was the stand-out performer for new order growth in December, recording a marked rise in new work that was the steepest since last April. Faster increases were also seen in the East of England and Yorkshire & Humber, which were joint-second in the regional rankings. In contrast, demand fell in both the North East and Scotland, with the latter seeing order books decline for the first time in ten months.

Capacity

Having seen by far the strongest growth in new orders in December, the East Midlands was the only monitored region to record a rise in backlogs during the month. The most marked contraction in outstanding orders was in the North East, where a fall has been recorded in every month since April 2015. The West Midlands and South West also saw steep declines, their sharpest for 29 and 69 months respectively.

Employment rose in 11 of the 12 monitored regions in December; however, the rate of job creation slowed in each case. The North West led workforce growth, ahead of Northern Ireland and the East of England. Though the only drop in private sector staffing numbers was in the North East, where firms reported the sharpest monthly fall since 2009, employment barely rose across Scotland and the South East.

Prices

Firms in Northern Ireland posted the steepest increase in input costs in December, and also the strongest average rate of inflation across 2018 as a whole. Last month's leader, the North East, slipped to fourth in the rankings as operating expenses in the region showed the slowest rise for eight months. The weakest increase was recorded in Wales, where cost pressures remained close to their lowest for over two years.

December saw a UK-wide increase in average prices charged for goods and services. The quickest rates of inflation were recorded in the North West and neighbouring North East. Here, and in seven out of the ten remaining regions, the rate increased picked up since November. Amongst these was London which, despite still being ranked bottom overall, saw output prices rise the most for six months.

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Outlook

Business confidence towards future output remained highest in Yorkshire & Humber, followed by the East Midlands and then the North West, as had been the case in both October and November. However, the former saw optimism weaken to its lowest since the month after the EU referendum – a trend repeated in London and the South East. Firms in Northern Ireland were the least upbeat about the outlook.

Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“2018 ended with some solid regional performances, according to latest NatWest PMI surveys, but also some that underwhelmed. Starting with one of the main positive takeaways, the North West saw output growth return to a more solid rate to top the regional rankings in December. The region was also notable in recording the fastest rate of job creation not only in the final month of 2018 but across the year as a whole. It was not such good news for neighbouring North East, where the survey data showed sustained downturns in both output and employment throughout the fourth quarter.

“The East Midlands was one of the success stories of 2018, seeing the strongest average growth of business activity of all regions over the year as a whole. And thanks to a surge in new orders in December, the region also looks to be carrying good momentum into the New Year. By contrast, the West Midlands remained stuck in a low growth phase, with many of its key sectors, not least the automotive industry, under pressure during the fourth quarter.

“A generally positive year for the Scottish economy ended on a disappointing note. Firms north of the border have been some of the hardest hit by the recent softening of demand and recorded falls in both output and new orders for the first time in ten months.

“Employment trends were consistent by region, with the slowdown in job creation seen nationally in December encompassing almost all parts of the UK. Business confidence has ebbed in recent months which, coupled with signs of pressure coming off capacity, has led to increased caution towards hiring.”

-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

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