

## NatWest UK Regional PMI®

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### Output rises in almost all regions in February, led by strong growth in London

#### Key Findings

- London tops output growth rankings for fifth month running, with Northern Ireland seeing the only fall in business activity
- Number of regions recording higher employment drops from 11 in January to six
- Business confidence improves in most regions before Europe coronavirus outbreak

London continued to lead UK regional growth in February, according to the latest NatWest Regional PMI® report. Almost all regions in fact saw a rise in output, though only half recorded higher 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.

London remained by far the best-performing region for output growth in February, with its Business Activity Index recording 56.0 and staying close to January's 33-month high. Wales (53.7) and the North West (53.0) meanwhile rose to second and third place in the rankings respectively, having each recorded a faster rise in output. Yorkshire & Humber (52.7) too saw a pick-up in momentum.

By contrast, growth slowed in the East of England (52.8), South East (52.6), East Midlands (52.1) and West Midlands (51.2). Business activity rose in the South West (50.2) and North East (50.1) – albeit only fractionally – for the first time in 12 and ten months respectively. Output in Scotland (50.1) broadly stagnated, while Northern Ireland (46.5) saw a further marked contraction.

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## Demand

London continued to top the regional rankings for new business growth in February, despite seeing the rate of increase ease sharply from January's 32-month high. In fact, all of the nine regions that recorded a rise in new business saw the rate of expansion weaken. There was a renewed decline in new work across the South West, while both the North East and Northern Ireland saw further marginal decreases.

## Capacity

London and Northern Ireland jointly led job creation in February. The number of areas recording higher employment fell from 11 in January to just six, as the South East, West Midlands, East Midlands, North West and Scotland all recorded renewed declines in payrolls. The East of England and Wales both saw faster employment growth, while Yorkshire & Humber registered a slower rise. The decline in workforce numbers in the North East eased to the weakest for seven months and was only marginal.

A slight rise in outstanding business in London contrasted with decreases in all other regions in February. Furthermore, in all cases except Northern Ireland and Wales, the rate of backlog depletion accelerated since January. The North East recorded the steepest overall drop in work-in-hand, as has been the case in each of the past seven months. The West Midlands and South West also saw notable declines.

## Prices

February saw a broad-based increase in average prices charged for goods and services. Inflation picked up in the majority of regions, with the East Midlands recording the fastest rate. In the case of the North East, it was the first rise in charges for seven months.

The strongest cost pressures continued to be faced by businesses in the Northern Ireland, where the rate of input price inflation accelerated to a five-month high. Just three other regions recorded faster increases, including second-placed East Midlands. At the other end of the scale, cost inflation slowed sharply in Yorkshire & Humber and the North West to the weakest for three and 44 months respectively.

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## Outlook

The majority of regions registered an improvement in business confidence towards future output in February. The biggest gain was in the East Midlands, which topped the rankings ahead of Yorkshire & Humber and the South West. Northern Ireland was one of four areas (alongside Wales, the West Midlands and North West) to see a drop in expectations since January, and returned to the foot of the table.

## Comment

**Sebastian Burnside**, NatWest Chief Economist, commented:

*“The number of UK regions reporting growth of business activity reached the highest for 16 months in February, in what was a further sign of a post-election recovery in demand. London in particular has seen a turnaround in fortunes over the past year and continued to see the greatest improvement in terms of output, but solid growth was also seen across the likes of Wales and the North West.*

*“The post-election bounce in hiring lost some momentum in February, with the number of region’s recording higher employment dropping from 11 in January to just six. This tallies with the evidence from the surveys that, in most regions, firms appear to be already operating below full capacity.*

*“It’s important to note that the results from February’s survey, which included an improvement in business confidence across the majority of UK areas, show the state of affairs prior to the escalation of the coronavirus in Europe [February data were collected 12-26 February]. How the spread of the virus has affected businesses at a regional level will be highlighted by the PMI surveys over the coming months.”*

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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](mailto: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](http://ihsmarkit.com/products/pmi.html).

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