NatWest UK Regional PMI®

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English regions lead recovery in UK business activity

Key Findings
- All nine English regions see notable increases in output in July
- Northern Ireland also returns to growth as economy reopens
- Scotland and Wales lag behind

According to the latest NatWest Regional PMI® data, growth of the UK economy in July was primarily driven by rising levels of business activity across England, which remained ahead of the other parts of the country in reopening from the lockdowns related to the coronavirus disease 2019 (COVID-19) pandemic.

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 growth, and the further above the 50 level the faster the expansion signalled.

July saw increases in business activity across all nine English regions and Northern Ireland*. There were especially strong rates of growth recorded in the West Midlands (Business Activity Index at 61.9), North East (60.4), Yorkshire & Humber (59.7) and South West (59.7).

Scotland (49.3) continued to lag behind the rest of the UK, though the downturn here was the weakest seen during the crisis so far. Wales meanwhile saw business activity broadly stabilise (50.2) after four months of decline, but this nevertheless represented an underperformance compared with the UK as a whole.

Demand

All nine English regions and Northern Ireland recorded an increase in new business in July. The West Midlands saw the strongest upturn in demand, followed by the North East. At the other end of the scale, both Wales and Scotland saw the recent
declines in new work continue into the second half of the year, albeit with the respective rates of contraction easing to the weakest during the crisis so far.

Capacity

Latest data showed a further broad-based decrease in employment across the UK regions. London recorded the steepest overall decline and was one of six areas where the rate of job losses accelerated since June. Northern Ireland topped the rankings having seen the rate of staff cuts ease for the third month running, though even here employment still fell markedly overall.

Though backlogs of work continued to fall in all regions during July, in a sign of under-utilised capacity across the country, rates of decline slowed in almost all cases. In fact, in the West Midlands, the latest decrease was only marginal. Wales displaced Scotland at the bottom of the rankings in July, having been the only area to record a quicker decline in outstanding business than in June.

Prices

Cost pressures generally picked up across the UK in July, with most regions recording either a renewed increase in input prices or a quicker rate of inflation. Firms in Wales noted the steepest overall increase in costs, followed by those in the East of England. The most modest rise in operating expenses was seen in London, while the only slower rate of inflation was registered by last month's leader, Northern Ireland.

Half of the 12 monitored regions saw increases in average prices charged for goods and services in July, namely the East of England, North West, South East, Wales, West Midlands and East Midlands. Firms in the South West and Yorkshire & Humber recorded no change in output prices, while London, Scotland, Northern Ireland and the North East each saw a decline.

Outlook

Expectations towards future activity were generally positive in July. Only firms in Northern Ireland were downbeat about the outlook, albeit to the least extent for five months. Confidence improved in most regions, including Yorkshire & Humber and the West Midlands, which recorded the joint-highest overall optimism. Only in London and Wales did sentiment weaken since June.

* Coverage in Northern Ireland includes construction and retail.

Continued...
Comment

Sebastian Burnside, NatWest Chief Economist, commented:

"The PMI data suggest that a two-speed recovery has emerged across the UK, which is closely associated with the pace at which lockdowns have been lifted. England has had a head-start in its recovery and is reaping some economic benefit of a quicker reopening, with Scotland and Wales playing catch up.

"Renewed local lockdowns – which we’ve already started to see across areas of England, and now also in Aberdeen – mean we can expect further divergences in regional performances going forward.

"July’s survey provided some eye-catching numbers, not least the near-record growth of business activity in the West Midlands, but it’s important to remember that what we’re seeing is merely a ‘technical’ rebound as businesses resume and ramp up operations following the lockdown. There’s still a long way to go in the recovery, but it does seem to be a case of so far, so good.

"However, the latest data did little to relieve the angst surrounding the labour market, with all regions seeing further marked – and sometimes faster – declines in employment in July. And unfortunately, it seems there’s still no end in sight to COVID-19 related redundancies, given the large number of workers on furlough and the still-significant gap to pre-crisis output levels."

-ENDS-
Business Activity Index, Jul '20

sa, >50 = growth since previous month

- West Midlands: 61.9
- North East: 60.4
- Yorkshire & Humber: 59.7
- South West: 59.7
- East Midlands: 58.1
- North West: 57.4
- South East: 56.7
- East of England: 56.3
- London: 55.5
- Northern Ireland: 54.5
- Wales: 50.2
- Scotland: 46.3
- UK: 57.0

Source: NatWest, IHS Markit

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts to buying their first home, setting up a business, and saving for retirement.

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.
News release

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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 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 Junewere collected 13 – 29 July 2020.
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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