

NatWest UK Regional PMI[®]

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East Midlands tops UK regions for business activity growth in May

Key Findings

- All 12 UK regions see a rise in business activity in May
- Job creation strongest in Northern Ireland, while employment falls in the South West
- Businesses in London record weakest inflationary pressures

The East and West Midlands led a broad-based increase in UK regional business activity in May, according the latest NatWest Regional PMI[®] report.

The survey data also showed a rise in employment in all areas except the South West, where the private sector workforce contracted for the first time in almost two years.

The East Midlands Business Activity Index climbed to a three-month high of 57.5 in May, up from 54.3 in April. The Index measures changes in the combined output in the region's manufacturing and service sectors, and any reading above 50.0 signifies growth from the previous month. The higher above the neutral 50.0 threshold, the faster the rate of expansion signalled.

Second in the regional business activity growth rankings was neighbouring West Midlands (56.3), where the pace of expansion likewise picked up to the fastest since February. The East of England (55.8), Wales (55.3) and Northern Ireland (55.1) each gained momentum in May and overtook April's strongest performer, Yorkshire & Humber (55.0). The latter was the one region where the rate of business activity growth in May was unchanged from the previous month.

The private sector economies of London (54.7) and the South East (54.6) saw similarly solid rates of growth, and ones that were slightly quicker than in April. Scotland, too, moved up a gear in May, its business activity index rising to a ten-month high of 53.7.

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The South West (51.1), North East (51.8) and North West (52.3) occupied the bottom three positions in the rankings, each recording relatively modest increases in business activity.

Demand for goods and services rose in almost all regions in May. The only exception was the North East, where businesses recorded a fall in inflows of new work for the second time in three months.

With the exception of the South West, all areas of the UK saw an increase in employment in May. The fastest rates of job creation were recorded in Northern Ireland and Scotland respectively.

On price front, rates of inflation varied greatly by region. Average prices charged rose marginally on a monthly basis in London, while in Northern Ireland the corresponding rate of inflation was at an elevated level by historical standards. Firms in Northern Ireland also faced the steepest increase in input costs.

Business optimism with regards to the year-ahead outlook for activity was strongest in Yorkshire & Humber, followed by the North West.

Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“With the UK economy having recently shown signs of slowing down, it was encouraging to see all regions displaying some degree of resilience and recording higher levels of business activity in May.”

“So far in the second quarter the UK’s main engine of growth has been the Midlands, with both East and West moving up a gear in May. The buoyant business environment in the Midlands looks to have spilt over into neighbouring East of England and Wales, which saw the greatest upturns in growth momentum in May.”

“While employers up and down the country continued to take on new staff, rates of job creation in most areas remained below the highs in 2017. There’s now less pressure on capacity, and so a greater focus on controlling costs.”

“The recent upward pressures on wages and fuel prices were borne out by the survey’s gauge of business costs remaining in strong inflation territory in May. Average selling prices, however, generally exhibited a slower rate of increase, to suggest added pressure on profit margins.”

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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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.



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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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