

NatWest UK Regional PMI[®]

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Wales outperforms all other UK regions for business activity growth in third quarter

Key Findings

- Quarterly growth performance led by Wales, ahead of East of England
- North West and Wales top business activity growth rankings in September
- Sustained drop in employment in the North East amid deteriorating business conditions

The North West and Wales jointly led regional business activity growth in September, according to the latest NatWest Regional PMI[®] report, with the latter enjoying the strongest performance across the third quarter as a whole.

Both regions recorded a Business Activity Index reading of 55.6 in September. The Index measures changes in the combined output of 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. In the case of the North West, this was the highest reading since February. However, for Wales it signalled a slight slowdown in growth from the seven-month seen high in August.

Last month's top performers, Yorkshire & Humber (55.2) and East of England (54.8), saw rates of business activity growth ease slightly and slipped to third and fifth in the rankings, respectively. Sandwiched between them was West Midlands (55.1), where output rose the most since June.

The South East (52.9) and South West (53.9) were the only other regions where business activity growth accelerated, although both continued to underperform relative to the UK as a whole (54.1).

Slower rates of growth were recorded in the East Midlands (54.7; two-month low), London (54.3; two-month low), Scotland (53.4; five-month low) and Northern Ireland (52.1; 23-month low). The North East (48.4), however, saw the only outright drop in business activity.

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Demand

Firms in the North West recorded the steepest monthly rise in new business inflows in September, followed by those in Wales and the South West, respectively. At the other end of the scale, order book growth eased for the second month running in both Scotland and Northern Ireland, and was only modest overall. The North East saw the only outright fall in new work – the steepest in the region since July 2016.

Capacity

Outstanding business rose in eight of the 12 regions monitored by the survey, led by strong growth in the North West. Companies operating in the East Midlands and South West also recorded solid rises in backlogs of work. The most marked drop in outstanding business was seen in the North East, where a decline has been recorded in every month since April 2015, followed by Northern Ireland.

Employment increased in all monitored regions in September except the North East, where staffing numbers fell for the third month running and at the quickest rate in over two years. The North West led job creation ahead of Yorkshire & Humber and the West Midlands, respectively. The South East continued to underperform on the jobs front, seeing employment rise only marginally and for the first time since June.

Prices

Firms in the North East faced the steepest monthly rise in average costs in September, with the rate of input price inflation being among the highest seen in the region over the past seven-and-a-half years. Northern Ireland had topped the rankings in August, but saw its rate of cost inflation ease for the third month running to the lowest in over a year. Scotland's rise in input prices was the least marked of the 12 regions, albeit still sharp.

Northern Ireland recorded the steepest increase in average prices charged for goods and services in September, as has been the case throughout most of 2018. The rate of inflation here was at a four-month low, but still notably quicker than in the region ranked second, Yorkshire & Humber. London again saw the weakest rate of output charge inflation, in line with trend observed in every month since April.

Outlook

The strongest optimism towards the outlook for output in the year ahead was in the North West, where confidence picked up to the highest since February 2017. In fact, sentiment improved in nine of the 12 areas monitored. The most notable exception was Northern Ireland, which recorded its lowest degree of business confidence in the short series history since March 2017.

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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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Comment

Sebastian Burnside, NatWest Chief Economist, commented:

“Although the North West stole the show in September, recording the steepest monthly rises in business activity, new orders and employment, looking at the bigger picture it was Wales that was the most consistent performer throughout the third quarter. Businesses in Wales have seen growth revive after a disappointing second quarter, which has had the knock-on effect of lifting the rate of job creation up to the highest for a year.

“In most regions employment rose at a faster rate in September. The most notable exception to this was the North East, where particularly challenging business conditions have led to a sustained decline in private sector workforce numbers in recent months.

“Businesses up and down the country reported a steep rise in their costs in September, due in part to the recent upturn in oil prices and a subsequent increase in the cost of fuel.”

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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

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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