

NatWest UK Regional PMI®

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Slowdown in UK growth in November led by downturn in London business activity

Key Findings

- East Midlands leads regional output growth for second month running
- London and South West record decreases in output for first time in over two years
- North West tops rankings for job creation, ahead of Wales

The latest NatWest Regional PMI® showed markedly different trends in performance across areas of the UK private sector midway through the fourth quarter, with downturns in activity in London, the North East and South West contributing to a slowdown in overall UK growth. A particular bright spot was the East Midlands, which registered the strongest output growth for the second month running.

The East Midlands Business Activity Index read 54.5 in November, ahead of those for Northern Ireland (53.7) and Yorkshire & Humber (52.9). 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. In all three cases, growth was slightly faster than in October. The North West (52.2) was the only other region that enjoyed a quicker pace of expansion, with an unchanged rate of growth seen in the South East (52.7).

Scotland (52.2) and Wales (51.7), two of the best performers in October, each saw a notable loss of growth momentum, as was also the case for both the West Midlands and East of England (both 50.5).

Three regions saw a decrease in activity in November. The North East (46.6) – which saw output fall for the third month running and at a quicker pace – was joined in contraction by London (48.3) and the South West (49.1). In both cases, it was the first fall in output since July 2016 – the month immediately after the EU referendum.

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Demand

There were also contrasting trends across UK regions in terms of new business. While the top four ranked regions for new order growth – the East Midlands, North West, South East and Yorkshire & Humber – all saw faster rises, the remainder (excepting the West Midlands) recorded either slower growth or outright falls in new orders. For London and the South West, the decreases were the first since July 2016.

Capacity

Latest data showed decreases in outstanding business across all monitored regions. Companies in the North East recorded the steepest reduction, as has been the case in each month throughout the past one-and-a-half years, followed by those in Scotland. The fall in the East Midlands was negligible, though it nevertheless ended a record run of growth in backlogs in the region that began in February 2017.

The North West was the top performing region for employment growth in November, having seen job creation re-accelerate to the second-quickest since February. Wales, which was ranked second overall, also enjoyed a pick-up in the pace of hiring, to the quickest in over a year. The North East saw the only decrease in private sector employment, though the rate of decline was the slowest since August.

Prices

The rate of input price inflation slowed in all 12 monitored regions in November. Nevertheless, cost pressures generally remained elevated by historical standards, with businesses operating in the North East seeing the steepest monthly increase for the third time in as many months. At the other end of the scale, Welsh businesses recorded the least marked rise in costs, with the rate of input price inflation at a 28-month low.

November saw a broad-based increase in prices charged for goods and services, led by a steep (albeit slightly slower) monthly rise in Northern Ireland. There were also sharp increases across Yorkshire & Humber and the North East, where rates of inflation accelerated to the highest for 11 and eight months respectively. London again saw the slowest increase, with firms in the capital raising charges only slightly.

Outlook

Firms in Yorkshire & Humber maintained the highest optimism towards future output, despite business confidence in the region having softened to a 28-month low. Sentiment in fact moderated across most regions. One of the exceptions was Northern Ireland where, despite expectations having rebounded from October's recent low, the degree of optimism was still the weakest overall.

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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:

“The picture for the overall UK economy in November was one of slower growth, and the latest NatWest Regional PMI data make it possible to dig deeper to unearth not only the areas driving the slowdown, but also those which are showing the most resilience.

“Though there were a number of regions where November data indicated a drop in economic performance, the one that perhaps stood out most was London, where activity fell for the first time since the wake of the EU referendum. Here, and in most other regions, heightened uncertainty among clients was reportedly acting to undermine demand.

“Only a handful of regions bucked the general slowdown in November, the most notable of these being the East Midlands, where businesses reported stronger demand for goods and services leading to an acceleration in output growth. However, it must be noted that, even for those regions that defied the broader slowdown, the pace of expansion was down on the highs seen early in the year.

“Business confidence has also fallen across the board in recent months, with firms up and down the country reporting that Brexit uncertainty has clouded the outlook.

“It wasn’t all doom and gloom, however: the survey highlighted a re-acceleration in employment growth, particularly in the North West and Wales, and cost pressures were found to have eased across every region.”

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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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