

# NatWest East of England PMI<sup>®</sup>

## Private sector output in East of England contracts for first time in over six years

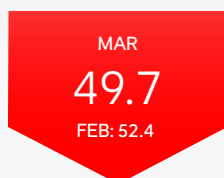
### Key Findings

Business Activity Index falls below 50.0 in March

New business declines for second time in 2019

Third successive month of net job shedding

### East of England Business Activity Index



Last six months EE v UK



The latest PMI<sup>®</sup> survey data from NatWest and IHS Markit revealed an overall decline in private sector business activity in the East of England in March, the first such contraction observed in the region since November 2012. The decline was influenced by a second drop in new business in 2019 so far. With the level of outstanding work falling further, companies cut staff for the third month running.

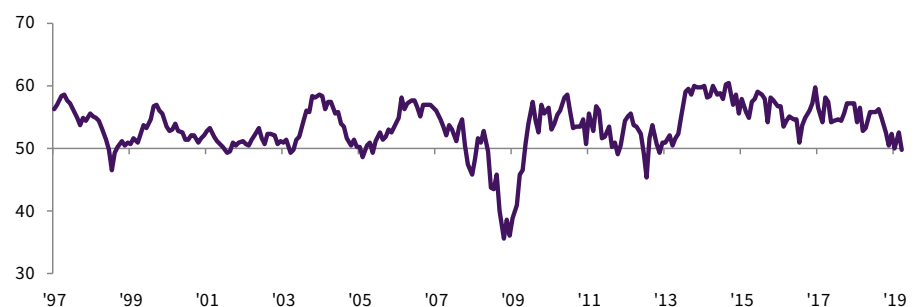
The headline NatWest East of England Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – fell below the no-change mark of 50.0 in March, to 49.7. This signalled the first decline in business activity since November 2012 and a reversal from February's renewed expansion (52.4). Over the first quarter of 2019 as a whole (50.7) the Index signalled the weakest rate of private sector output growth since the fourth quarter of 2012. That said, the rate of decline in the latest month was only fractional.

### Demand

The volume of new business received by private sector companies in the East of England declined for the second time in three months in March. The rate of contraction was only slight and broadly in line with the UK average, but the fastest registered since November 2012. Sector data indicated that the services sector was a key source of weaker demand during the month.

### East of England Business Activity Index

sa, >50 = growth since previous month



### Capacity

The downturn in new work resulted in a further drop in outstanding business in the private sector. Backlogs declined for the fifth month running in March – the second-longest sequence of contraction in over six years – and at the fastest rate since January. Manufacturers continued to clear backlogs at a faster rate than their service sector counterparts.

With falling new work and backlogs, demand for labour was reduced in March. The private sector workforce contracted for the third month running, following a six-year period of uninterrupted growth. The rate of reduction eased slightly since February, however. Job losses were more common at manufacturers than service providers.

### Prices

Average input prices continued to rise at a stronger rate than the long-run series average in March. That said, the rate of inflation was little-changed from February's 31-month low, with the same trend observed for output prices.

### Outlook

Private sector companies in the East of England were confident that output would rise by March 2020, partly linked by respondents to new products and a potential Brexit resolution. That said, the strength of sentiment remained relatively weak.

## New Business Index



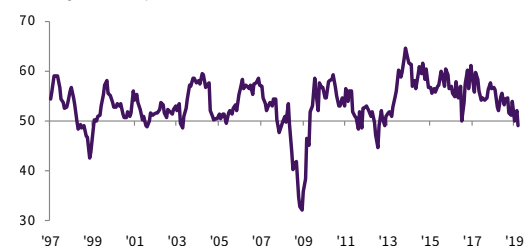
### New business falls for second time in 2019

Firms in the East of England reported a decline in new business in March, marking the second monthly drop in the first quarter of 2019. Moreover, the latest decrease was the quickest since November 2012, as the region broadly matched that seen across the UK.

Anecdotal evidence pointed to Brexit uncertainty and reduced demand from Chinese customers as key factors influencing the fall.

### New Business Index

sa, >50 = growth since previous month



## Outstanding Business Index



### Backlogs drop at faster rate in March

Latest survey data showed backlogs of work dropping for the fifth month running in March and at a stronger rate, as firms were affected by a reduction in new orders.

Both monitored sectors reported falling levels of outstanding business, with the region also seeing a faster decrease than the UK average for the fourth consecutive month.

### Outstanding Business Index

sa, >50 = growth since previous month



## Employment Index

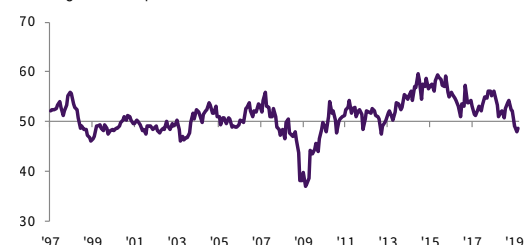


### Employment completes full quarter of decline

Job numbers at firms in the East of England fell again in March, as has been the case since the start of the year. However, the rate of decrease was weaker than in February, and modest overall. Panellists reporting lower employment levels often stated that they did not replace staff who had left because of concerns over future business prospects.

### Employment Index

sa, >50 = growth since previous month



## Input Prices Index



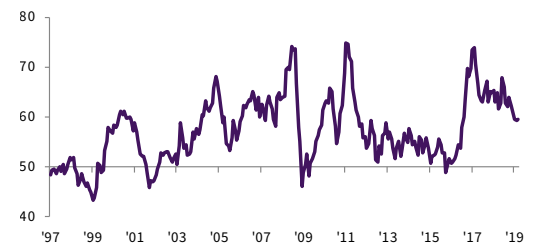
### Input price inflation little-changed from February's low

Input prices saw another relatively weak rise in March compared to those seen over the previous two years. The seasonally adjusted index was little-changed from February's 31-month low, but still above its long-run trend (57.3).

Reasons given for increased costs included higher raw material prices, reduced supply and inflated wages.

### Input Prices Index

sa, >50 = inflation since previous month



## Prices Charged Index



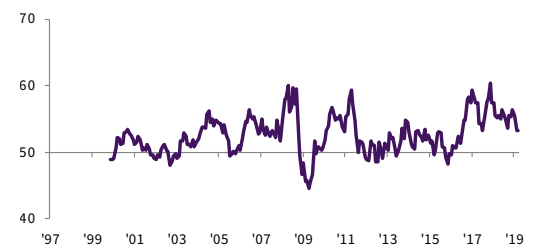
### Output prices rise at solid overall pace in March

Charges set by firms in the East of England grew solidly in March. The rate of inflation was the second-weakest in 20 months, but remained higher than the long-run average since the series began in late-1999.

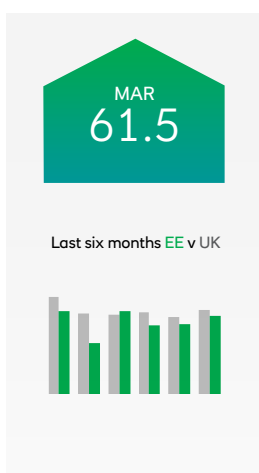
Both manufacturers and services firms increased prices since February, which respondents generally attributed to higher input costs. Selling charges in the East of England continued to rise at a faster overall rate than across the UK as a whole.

### Prices Charged Index

sa, >50 = inflation since previous month



## Future Business Activity Index



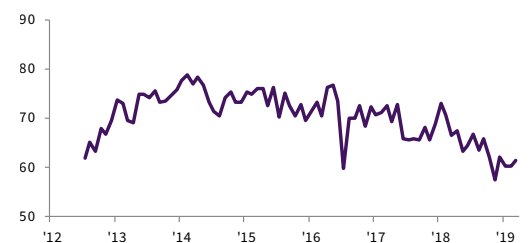
### Future activity sentiment improves in March

The East of England's outlook toward future output improved for the first time in three months during March. A proportion of respondents commented that new products and a potential Brexit resolution would spur demand in the near future.

Nonetheless, sentiment relatively subdued compared to both the region's long-run series average (since 2012) and to UK-wide sentiment in March, with the fall in new orders weighing on some firms' expectations.

### Future Business Activity Index

>50 = growth expected over next 12 months



## East of England Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



### Export conditions continue to improve modestly in March

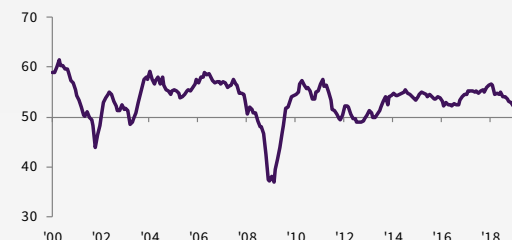
The East of England Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the East of England. This produces an indicator for the economic health of the region's export markets.

Private sector exporters in the East of England saw a further modest improvement in demand conditions in March, as signalled by the Export Climate Index remaining unchanged from February at 52.3.

Of the region's top export destinations, the US still recorded the quickest rate of growth, despite a slowdown since February. Germany and Ireland also reported a weaker rise in activity, while France saw output decline. Of the top five, the Netherlands was the only country to report an improvement in output growth.

### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, East of England

Rank	Market	Weight	Output Index, Mar-19
1	USA	13.1%	54.6
2	Germany	10.6%	51.4
3	Netherlands	6.5%	53.8
4	France	5.8%	48.9
5	Ireland	5.6%	54.1

## East of England Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that

sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the East of England, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

### Manufacturing specialisation: East of England

Rank	Sector	LQ	UK Output Index, Mar-19 (3mma)
1	Machinery & Equipment	1.63	52
2	Electrical & Electronic	1.26	52
3	Wood & Paper	1.16	50
4	Chemicals, Rubber & Plastics	1.02	52
5	Food & Drink	1.00	52
6	Metals & Metal Products	0.99	50
7	Other Manufacturing	0.97	52
8	Transport Equipment	0.66	48
9	Textiles & Clothing	0.43	50

40 45 50 55 60

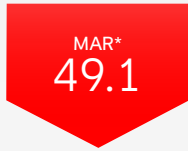
### Services specialisation: East of England

Rank	Sector	LQ	UK Business Activity Index, Mar-19 (3mma)
1	Transport & Communication Services	1.14	50
2	Business-to-business Services	1.11	50
3	Hotels, Restaurants & Catering	1.08	50
4	Computing & IT Services	1.04	52
5	Other personal/consumer Services	0.95	50
6	Financial Intermediation	0.63	48

45 50 55 60

## UK Sector Focus: Hotels, Restaurants & Catering

### Output Index



### Last six months\*



\*3mma

### Hotels, restaurants & catering sector sees fall in output and sharp squeeze on margins in first quarter

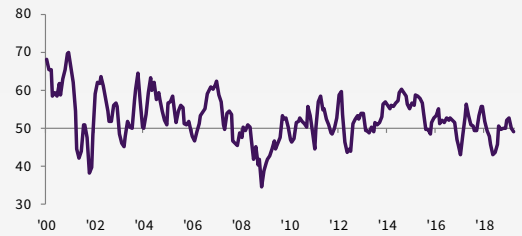
The UK's hotels, restaurants & catering sector struggled during the opening quarter of the year, as Brexit uncertainty weighed on demand and operating costs rose sharply.

Following a brief period of growth around the turn of the year, activity in the sector fell back into contraction in the three months to March, in turn leading to further job losses. Firms' appetite for new hires was further suppressed by a gloomy outlook for activity, with future expectations running at close to the lowest in almost a decade.

Meanwhile, hotels, restaurants & catering saw the sharpest rise in costs of all services sub-sectors monitored by PMI data, linked in part to wage pressures and increases in energy and food prices. However, output charges barely rose as firms struggled to pass higher costs onto customers, pointing to a sharp squeeze on operating margins.

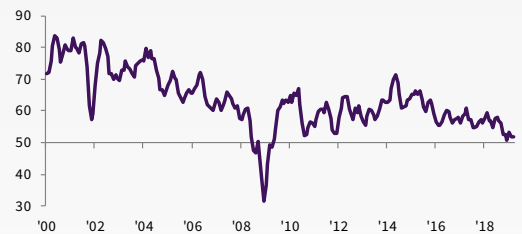
### Output Index

sa, >50 = growth since previous month (3mma)



### Future Business Activity Index

sa, >50 = growth since previous month (3mma)



## UK Regional Rankings

### Business Activity

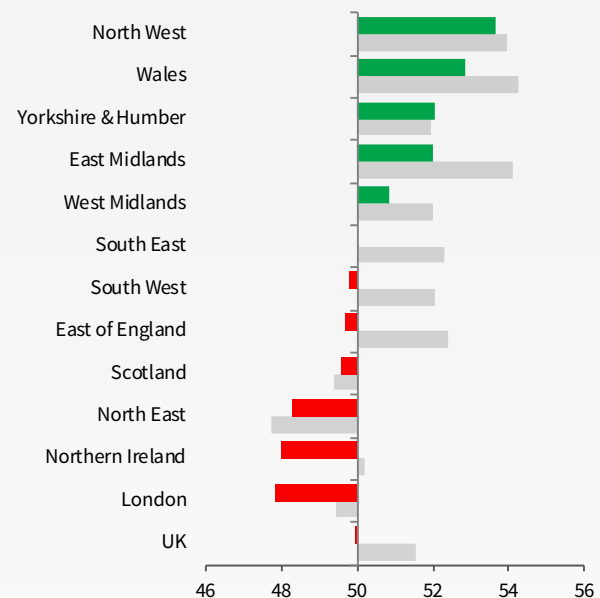
The North West was the UK's fastest-growing area for business activity in March, followed by Wales. However, both recorded slower rates of expansion, as was the case in the East and West Midlands – ranked fourth and fifth respectively. Yorkshire & Humber was ranked third overall, but registered a modest rate of growth that was unchanged since February. Output stagnated in the South East and fell in all remaining areas. London recorded the steepest overall decline – its most marked since July 2016.

### Employment

Employment growth in March was jointly led by the North West and West Midlands, ahead of Yorkshire & Humber and the South East. Of the remaining areas, only Wales and Scotland record an increase in workforce numbers during the month. London, the South West, East of England, East Midlands, Northern Ireland and North East all saw reductions in employment, with the latter seeing a decline for the ninth month in a row.

### Output Index by region

sa, >50 = growth since previous month, Mar-19 (Feb-19)



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### Methodology

The NatWest East of England PMI® is compiled by IHS Markit from responses to questionnaires sent to East of England companies that participate in IHS Markit's UK manufacturing and services PMI surveys.

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 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 East of England Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'East of England 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).

### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers 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.

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.

### About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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