



NatWest North West PMI®

Activity growth eases as new business declines slightly in May

Key Findings

Output rises at softest rate in six months

New orders fall for third time in 2019 so far

Input price inflation at 13-month low

North West Business Activity Index



Last six months NW v UK



According to the latest NatWest PMI® report, businesses in the North West of England saw a renewed fall in new orders in May, leading to a softer rise in activity and employment levels. Input prices increased at the weakest rate since April 2018, encouraging firms to raise their selling prices only modestly.

The headline NatWest North West Business Activity Index – a seasonally adjusted index that measures the change in the combined output of the region’s manufacturing and service sectors – fell from 55.2 in April to 53.0 in May, signalling a solid but softer expansion of output at North West firms.

The rate of growth was the weakest in six months, as some firms eased back on activity due to falling new business levels. Nevertheless, the upturn was still notably stronger than the average seen across the UK as a whole.

Demand

Demand for goods and services in the North West fell in May. As a result, the latest survey data recorded the third monthly drop in new orders in the year-to-date, albeit the softest seen so far.

A number of manufacturing firms found that customers decided to use up stockpiles rather than increase their purchases. Meanwhile, services firms that reported a fall attributed this to further uncertainty harming business investment.

Capacity

With new orders declining, North West firms expanded their workforce numbers only slightly in May. The rate of growth dipped to the joint-lowest in the past 13 months and fell in line with the UK average. Some panellists hired new workers to increase their market share, whereas others reduced labour because of less demand. Nevertheless, rising output and staff levels meant that backlogs fell solidly during the month.

Prices

Again, businesses reported a sharp increase in overall input costs in May, specifically noting higher fuel charges and a weaker exchange rate. That said, the rate of inflation eased to the softest since last April.

Concurrently, panel members raised their output prices midway through the second quarter. The pace of increase was modest and one of the slowest seen across the UK, but slightly stronger than in the previous month.

Outlook

Looking ahead, future output expectations dipped in May, albeit still projecting a positive outlook in the region. Firms based their positivity on improving market shares amid weaker investment from competitors. At the same time, some businesses continued to note a drag from Brexit uncertainty on sentiment.

North West Business Activity Index

sa, >50 = growth since previous month



New Business Index



Sales decline for third time this year

May data recorded a slight drop in the amount of new work at North West private sector firms. It was the third monthly fall seen in 2019 so far, albeit the softest in this period.

Demand was subdued across both manufacturing and service firms. Producers often commented that past stockpiling led to reduced orders during the month, while service providers noted a lack of investment amid continued political uncertainty.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index

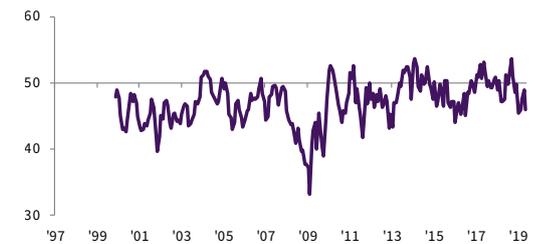


Solid clearance of backlogs in May

As output continued to rise amid a marginal fall in new work, businesses in the North West of England reported a solid reduction of backlogs in May. This extended the current run to seven months. Moreover, the seasonally adjusted index moved further below the 50.0 no-change mark to signal the fastest rate of clearance since February.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



Employment growth falls broadly in line with UK

The rate of job creation eased midway through the second quarter, dipping to the joint-weakest in the current 13-month run of growth. Moreover, the increase was broadly similar to the UK-wide trend, after having outperformed the national average for the past year.

While some panellists expanded their workforce to reportedly increase their market share, others reported job losses due to weaker demand and company restructuring.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



Input price inflation at 13-month low

Input costs faced by companies in the North West increased at a sharp rate again in May. However, the uptick was weaker than in April and the softest for just over a year. Moreover, the region saw a slower rise in costs than across the UK as a whole.

According to panel members, inflationary pressure was influenced by rising supplier prices, higher fuel charges and a weakening exchange rate.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Modest increase in selling charges

Businesses reported a moderate rise in their selling charges during May. The rate of inflation accelerated for the first time in five months, but was still below the UK-wide trend. Moreover, the region saw one of the weakest increases across the 12 monitored areas (ahead of only London and Northern Ireland). Firms that raised their prices generally linked this to higher input costs.

Prices Charged Index

sa, >50 = inflation since previous month



Future Business Activity Index



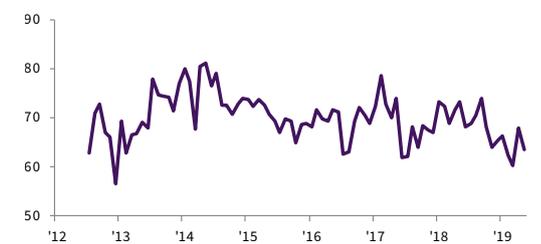
Business sentiment towards future activity weakens

North West private sector firms projected a weaker outlook for output over the next 12 months in May. Whilst still positive overall, expectations dropped from April's six-month high and were below the series average.

Panellists giving a positive outlook cited growing market share and a lack of investment among competitors. At the same time, some firms tempered their forecasts due to continued uncertainty around the Brexit outcome.

Future Business Activity Index

>50 = growth expected over next 12 months



North West Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Export Climate Index drops to near six-year low

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

May survey data saw the North West Export Climate Index fall to the lowest in nearly six years, registering 52.1. Overall this represented a modest increase in activity at the region's export destinations.

USA*, the region's top export country, notably recorded a slower upturn in private sector output. By contrast, Germany and France registered faster expansions of activity than in April, while the Netherlands' output growth was unchanged.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, North West

Rank	Market	Weight	Output Index, May-19
1	USA	12.9%	50.9*
2	Germany	11.5%	52.6
3	Ireland	6.6%	53.4^
4	Netherlands	6.4%	53.6
5	France	6.1%	51.2

* based on flash data
^ data up to April 2019

North West 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 North West, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: North West

Rank	Sector	LQ	UK Output Index, May-19 (3mma)
1	Chemicals, Rubber & Plastics	1.75	█
2	Transport Equipment	1.13	█
3	Textiles & Clothing	1.02	█
4	Wood & Paper	0.83	█
5	Metals & Metal Products	0.80	█
6	Food & Drink	0.73	█
7	Other Manufacturing	0.70	█
8	Electrical & Electronic	0.55	█
9	Machinery & Equipment	0.48	█

45 50 55 60

Services specialisation: North West

Rank	Sector	LQ	UK Business Activity Index, May-19 (3mma)
1	Hotels, Restaurants & Catering	1.14	█
2	Transport & Communication Services	1.14	█
3	Other personal/consumer Services	1.04	█
4	Business-to-business Services	1.02	█
5	Financial Intermediation	0.81	█
6	Computing & IT Services	0.79	█

45 50 55 60

UK Sector Focus: Business-to-Business Services

Output Index



Last six months*



*3mma

Business-to-business services provides timely boost to UK employment

With recent PMI surveys having shown a reduced appetite among UK firms to hire new staff amid ongoing political uncertainty, an uptick in the pace of job creation across the large business-to-business (B2B) services sector has provided a timely boost to employment.

Workforce growth in B2B services in the three months to May was the fastest recorded since Q3 2017, outstripping hiring in all other parts of the services economy except for the fast-growing computing & IT services.

The improved trend in job creation in B2B services partly reflected a renewed increase in new work across the sector and stronger optimism towards future activity.

Latest data meanwhile showed growth in overall business activity picking up slightly but remaining close to the weakest since 2012.

Output Index

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



Employment Index

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



UK Regional Rankings

Business Activity

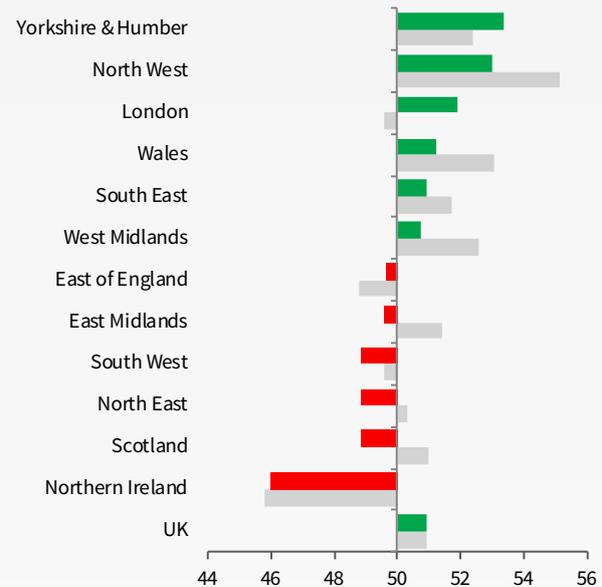
Yorkshire & Humber moved to the top of the rankings for business activity growth in May, as the region's firms reported the strongest rise in output for eight months. Last month's leader, the North West, dropped to second place, having seen growth slow to a six-month low. London was the biggest climber, up from joint-ninth position in April to third, as output in the capital rose for the first time five months and to the greatest extent since last September. At the other end of the scale, Northern Ireland recorded another marked drop in activity to sit at the foot of the table for a second straight month. Five other areas saw a fall in business activity. Notably, the East Midlands recorded a contraction for the first time since 2012.

Employment

Regional job creation continued to be led by the West Midlands in May, ahead of Yorkshire & Humber and the East of England. The latter was the biggest climber in the rankings, followed by London. The steepest fall in employment was recorded in the North East, followed by Northern Ireland. Workforce numbers also dipped across the East Midlands, albeit falling only fractionally overall.

Output Index by region

sa, >50 = growth since previous month, May-19 (Apr-19)



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Methodology

The NatWest North West PMI® is compiled by IHS Markit from responses to questionnaires sent to North West 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 North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'North West 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.

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.

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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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