



# NatWest North West PMI®

## Business activity growth softens to 22-month low

### Key Findings

Renewed slowdown in activity growth as new orders rise at weaker pace

Employment rises, following decline in April

Input costs increase at steeper pace

### North West Business Activity Index



Last six months NW v UK



According to the NatWest North West PMI, business activity increased at a softer pace across the region's private sector in May. Notably, activity and new orders both expanded at the weakest rates in 22 months. Despite growth momentum softening in May, optimism towards the 12-month business outlook improved, which contributed to a renewed increase in employment. Average input costs meanwhile rose sharply, which led companies to hike their selling prices again.

The headline Natwest North West Business Activity Index – a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors – posted 52.3 in May, down from 54.6 in April. The reading signalled a modest increase in business activity that was the weakest recorded since the current sequence of growth began in August 2016. Furthermore, the rate of expansion was slower than that seen across the UK as a whole.

### Demand

In line with the trend for activity, total new business expanded at the softest rate for 22 months during May. A number of companies indicated that client demand was relatively subdued in the latest survey period. Notably, growth in new orders was slower than that seen at the national level. Weaker increases in new business were seen across both the manufacturing and service sectors in the North West.

### Capacity

After a slight drop in April, payroll numbers increased at North West private sector firms in May. Anecdotal evidence indicated that some firms hired additional workers as they anticipated activity to increase in the coming months. Though modest, the rate of job creation was the quickest recorded since February, and similar to that seen across the UK as a whole.

Relatively muted growth in new orders and higher workforce numbers contributed to a further decline in backlogs of work. The rate of depletion moderated since April but remained solid and quicker than the UK average.

### Prices

Average input costs continued to increase sharply in May, with the rate of inflation picking up to a four-month record. Companies commonly linked higher prices to rising utility, fuel and salary payments.

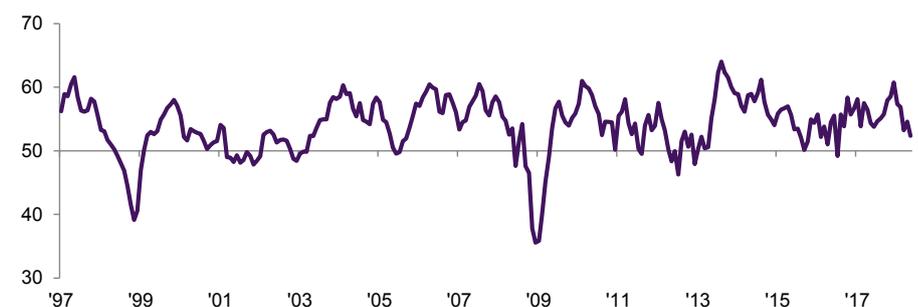
As part of efforts to help protect margins, firms raised their prices charged again in May. Though solid, the rate of inflation was the slowest seen for nine months.

### Outlook

Despite the renewed slowdown in activity growth, companies remained optimistic towards the 12-month outlook for output. Notably, sentiment reached a one-year high.

### North West Business Activity Index

sa, >50 = growth since previous month



## New Business Index



### New orders expand at softer pace

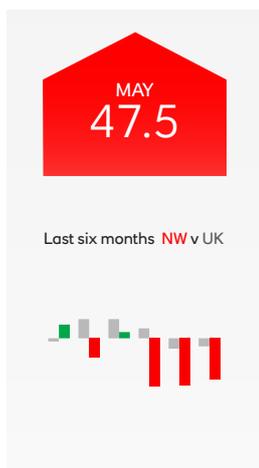
Adjusted for seasonal factors, the New Business Index pointed to a sustained rise in the amount of new orders placed with private sector firms in the North West in May. That said, the rate of expansion was the weakest seen in the current 22-month sequence of growth. Furthermore, the increase was slower than that seen at the national level for the second month in a row. Data broken down by sector indicated that new orders rose at softer rates across both the manufacturing and service sectors in the North West.

### New Business Index

sa, >50 = growth since previous month



## Outstanding Business Index

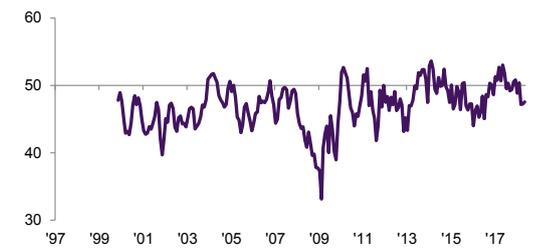


### Unfinished workloads continue to decline markedly

May survey data signalled a lack of pressure on the operating capacities of North West private sector companies, as backlogs fell across the region for the third month in a row. Notably, the rate of depletion was similar to those seen in the prior two months and marked. Outstanding workloads also fell across the UK as a whole, albeit at only a marginal pace. Manufacturers in the region registered a further decline in the amount of incomplete work at their units, while services companies noted a slight increase.

### Outstanding Business Index

sa, >50 = growth since previous month



## Employment Index



### Payroll numbers expand in May following drop in April

After a marginal drop in April, staffing levels across the North West private sector increased midway through the second quarter. Though modest, the rate of job creation was the quickest since February and slightly stronger than the UK average. Encouragingly, both manufacturers and service providers in the region added to their payrolls in the latest survey period.

### Employment Index

sa, >50 = growth since previous month



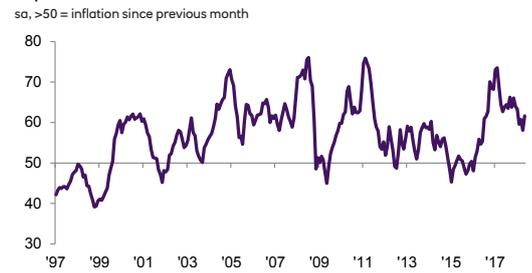
## Input Prices Index



### Input prices rise at sharper rate

As has been the case in each month since February 2016, average input costs faced by North West private sector businesses increased during May. Furthermore, the rate of cost inflation accelerated to a four-month record that was slightly above that registered for the UK as a whole. Steep increases in input prices were seen in both the manufacturing and service sectors in the North West.

### Input Prices Index



## Prices Charged Index



### Prices charged increase again, albeit at slower pace

Private sector companies operating in the North West continued to increase their average prices charged during May, thereby extending the current period of inflation to 27 months. The rate of increase remained solid and stronger than the UK average, despite softening to the least marked since August 2017. Data broken down by sector revealed that manufacturers raised their selling prices at a steeper rate than service providers.

### Prices Charged Index



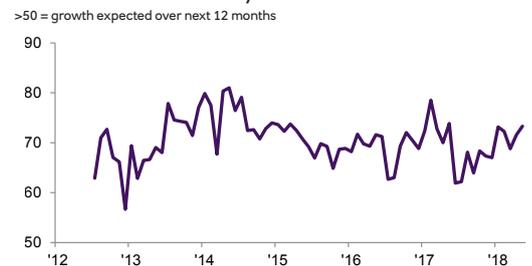
## Future Business Activity Index



### Optimism towards future activity hits one-year high

Optimism towards the 12-month outlook for activity across the North West private sector improved to a one-year high in May. Notably, the degree of confidence was also stronger than that seen across the UK as a whole. Manufacturers and service providers in the region both expressed positive sentiment towards the year ahead, with some firms linking confidence to marketing activities, new product launches and company investments.

### Future Business Activity Index



## North West Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



### Export climate continues to improve in May

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.

The North West Export Climate Index posted comfortably above the neutral 50.0 level at 54.8 in May, unchanged from April. This signalled a further solid improvement in conditions for the region's exporters. Quicker growth in the USA, the region's number one export market, helped to offset slowdowns in Germany and France. Meanwhile, rates of expansion in Ireland and China (which complete the list of the top five exporting destinations) were unchanged from April.

### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, North West

Rank	Market	Weight	Output Index, May-18
1	USA	13.6%	56.6
2	Germany	11.8%	53.4
3	Ireland	6.4%	57.7
4	China	6.2%	52.3
5	France	6.1%	54.1

## 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-18 (3mma)
1	Chemicals, Rubber & Plastics	1.63	
2	Textiles & Clothing	1.01	
3	Transport Equipment	1.00	
4	Wood & Paper	0.95	
5	Metals & Metal Products	0.84	
6	Food & Drink	0.71	
7	Other Manufacturing	0.67	
8	Electrical & Electronic	0.49	
9	Machinery & Equipment	0.48	

40 45 50 55 60 65 70

### Services specialisation: North West

Rank	Sector	LQ	UK Business Activity Index, May-18 (3mma)
1	Hotels, Restaurants & Catering	1.20	
2	Transport & Communication Services	1.11	
3	Other personal/consumer Services	1.03	
4	Business-to-business Services	1.02	
5	Financial Intermediation	0.81	
6	Computing & IT Services	0.78	

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## UK Sector Focus: Hotels, Restaurants & Catering

### Output Index



### Last six months\*



\*3mma

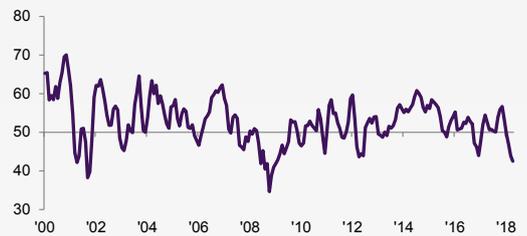
### Subdued consumer demand continues to weigh on hotels, restaurants & catering sector

The consumer-focussed hotels, restaurants & catering sector was the UK economy's weakest-performing industry in the three months to May, having seen a further sharp decline in business activity. Furthermore, the rate at which activity fell continued to gather pace, reaching the quickest in nine years amid a decline in inflows of new work.

Latest data meanwhile showed sustained pressure on gross margins in the sector. The rate of input cost inflation was faster than anywhere else in the services economy in the three months to May, but a lack of pricing power meant that output charges rose far less by comparison. With higher costs often a reflection of wage pressures, firms in the sector continued to pare back staffing numbers, in line with the trend observed throughout the year-to-date.

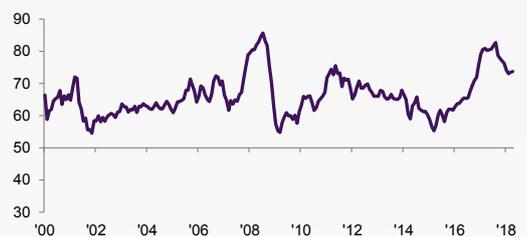
### Output Index

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



### Input Prices Index

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



## UK Regional Rankings

### Business Activity

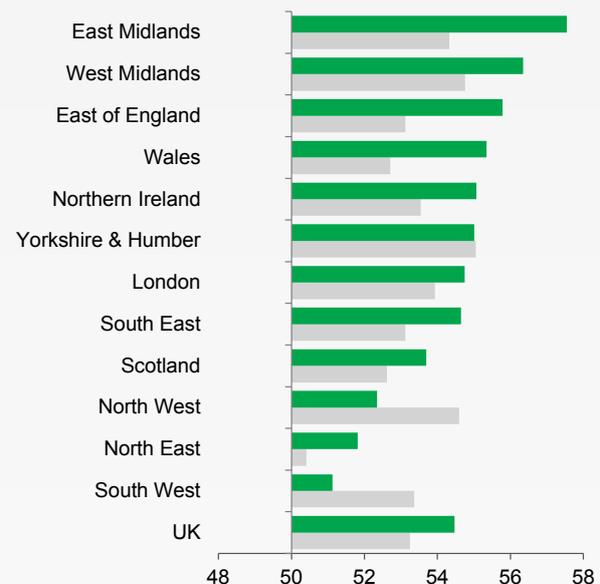
May saw business activity increase across all UK regions, led by strong and accelerated growth in the East and West Midlands. The former was the best-performing region for the fourth time in the past five months, re-taking the top position from Yorkshire & Humber. East of England and Wales also climbed the rankings in May having seen rates of expansion accelerate sharply from the previous month. At the other end of the table were the South West and North East, which both saw only modest increases in business activity.

### Employment

Employment rose in 11 out of the 12 areas of the UK monitored by the survey in May, the only exception being the South West where staffing numbers fell for the first time in almost two years. The steepest rises in workforce numbers were recorded in Northern Ireland and Scotland respectively, with the latter recording the strongest rate of job creation for almost three-and-a-half years.

### Output Index by region

sa, >50 = growth since previous month, May-18 (Apr-18)



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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](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.

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