



NatWest Yorkshire & Humber PMI[®]

Yorkshire & Humber business activity continues to rise faster than UK average

Key Findings

Regional output shows sustained solid pace of growth

Rate of job creation picks up to four-month high

Rising costs continue to drive up selling prices

Yorkshire & Humber Business Activity Index



Last six months YH v UK



Business activity in Yorkshire & Humber continued to grow faster than the national rate in May, according to the latest NatWest PMI survey data. Companies in the region reported rising demand for goods and services, with the improvement in business conditions feeding through to an increase in private sector employment. However, local businesses continued to contend with strong cost pressures, which resulted in prices charged for goods and services being raised to protect margins.

The headline NatWest Yorkshire & Humber Business Activity Index – a seasonally adjusted index that measures month-on-month changes in the combined output of the region’s manufacturing and service sectors – stayed at 55.0 in May, unchanged from its reading in April. The rate of business activity growth signalled by the index was slightly quicker than seen across the UK as a whole (54.5), continuing the trend seen throughout the year so far.

Business activity levels rose across both the manufacturing and service sectors, with the former recording the slightly stronger growth performance.

Demand

Driving the expansion in business activity in the region was stronger demand for goods and services. May saw inflows of new work rise for the twenty-second successive month, albeit at a slightly slower rate than in April.

Capacity

On the labour market front, May’s survey data showed a pick-up in the rate of job creation in Yorkshire & Humber to the quickest seen since January. The increase in employment was steeper than that seen across the UK as a whole, though the pace of employment growth remained well below the highs in 2017.

This extra staffing capacity enabled businesses to make progress on their backlogs of work, which fell in May for only the second time since July 2016.

Prices

Average prices charged by businesses operating in Yorkshire & Humber increased in May. The rate of inflation was at a three-month low but still strong in the context of the historical trend. A steep rise in factory gate prices compared with a more modest increase in prices charged by services firms.

Behind the rise in selling prices was a steep increase in firms’ input costs. Survey respondents reported higher prices paid for raw materials and fuel, as well as ongoing salary pressures.

Outlook

Yorkshire & Humber continued to top the regional rankings for business confidence in May. That was despite the level of optimism towards the outlook for activity having waned to the lowest in six months.

Yorkshire & Humber Business Activity Index

sa, >50 = growth since previous month



New Business Index



New business rises at slightly slower rate

Demand for goods and services continued to rise across Yorkshire & Humber in May, with businesses in the region recording higher inflows of new work for the twenty-second month in a row. That said, although remaining solid, the rate of new order growth eased from the month before and was among the slowest seen in the current sequence of expansion. At the sector level, manufacturers recorded a more marked rise in order books than their services counterparts, with some mentions among the former of higher interest from clients abroad.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Firms make inroads into backlogs of work in May

May survey data showed a renewed decline in the level of outstanding business (i.e. work in progress but not yet completed) at Yorkshire & Humber private sector firms, following modest growth in backlogs in each of the previous two months. The respective seasonally adjusted index recorded its lowest reading since July 2016, albeit one that was indicative of only a modest rate of depletion overall. Anecdotal evidence indicated that higher staffing numbers had helped firms to make inroads into their backlogs of work during the month.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



Rate of employment growth ticks up to four-month high

Businesses in Yorkshire & Humber remained in hiring mode in May, recording a rise in staffing levels for the twenty-first month in a row. Moreover, having picked up further from March's recent low, the rate of job creation was the fastest in four months and in excess of that observed across the UK as a whole. However, despite the recent rebound, employment growth in the region remained well below the highs in 2017, with the survey finding evidence of some firms trying to control salary costs.

Employment Index

sa, >50 = growth since previous month



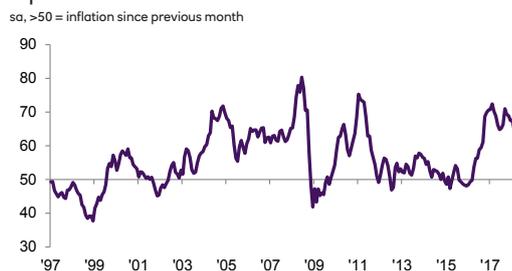
Input Prices Index



Input prices rise steeply across both manufacturing and service sectors

May saw the continuation of strong cost pressures in Yorkshire & Humber's private sector. Although the rate of inflation was only marginally quicker than April's 19-month low, it was well above that recorded on average over the series' 21-year history. Surveyed manufacturers highlighted raw materials such as metals and wood products as some of the key drivers of higher costs, whereas services firms made special mention of salary pressures. Higher fuel prices were shown to have been a factor in both sectors.

Input Prices Index



Prices Charged Index



May sees further marked increase in firms' selling prices

Higher costs continued to be partly passed on by businesses in Yorkshire & Humber in the form of increased selling prices. May's increase in average prices charged for goods and services was marked, albeit with the rate of inflation softening to the lowest for three months. As has been the case in each month since March, the rise in output charges seen in Yorkshire & Humber was steeper than that recorded across the UK as a whole.

Prices Charged Index



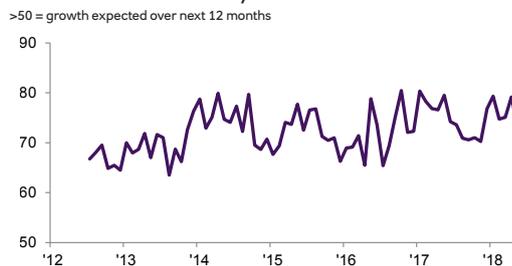
Future Business Activity Index



Optimism towards future business activity softens but remains strong

The Future Business Activity Index remained well above the neutral 50.0 level in May, indicating strong optimism among Yorkshire & Humber firms towards the year-ahead outlook for activity. Moreover, the degree of confidence remained greater than that recorded in any other UK region, to continue the trend observed throughout the past six months. The Index did, however, move to its lowest level since November 2017, to indicate an appreciable softening of optimism from the previous survey period.

Future Business Activity Index



Yorkshire & Humber Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Export climate continues to improve amid sustained global growth

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

At 55.2, little-changed from April's 55.3, the Yorkshire & Humber Export Climate Index showed another marked improvement in the overall health of the region's export markets in May. This partly reflected strong and accelerated growth in both the USA and the Netherlands, Yorkshire & Humber's two most important goods export destinations. Demand conditions also continued to improve in both Germany and France, which together account for more than 16% of export volumes, but did so at a slower rate.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, Yorkshire & Humber

Rank	Market	Weight	Output Index, May-18
1	USA	11.1%	56.6
2	Netherlands	9.4%	59.4
3	Germany	8.4%	53.4
4	France	7.9%	54.1
5	Ireland	6.3%	57.7

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

Manufacturing specialisation: Yorkshire & Humber

Rank	Sector	LQ	UK Output Index, May-18 (3mma)
1	Textiles & Clothing	1.41	█
2	Food & Drink	1.29	█
3	Other Manufacturing	1.29	█
4	Metals & Metal Products	1.20	█
5	Wood & Paper	1.14	█
6	Machinery & Equipment	1.13	█
7	Chemicals, Rubber & Plastics	1.12	█
8	Electrical & Electronic	0.53	█
9	Transport Equipment	0.24	█

40 45 50 55 60 65 70

Services specialisation: Yorkshire & Humber

Rank	Sector	LQ	UK Business Activity Index, May-18 (3mma)
1	Transport & Communication Services	1.25	█
2	Hotels, Restaurants & Catering	1.10	█
3	Other personal/consumer Services	1.05	█
4	Business-to-business Services	0.97	█
5	Financial Intermediation	0.90	█
6	Computing & IT Services	0.60	█

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UK Sector Focus: Hotels, Restaurants & Catering

Output Index



Last six months*



*3mma

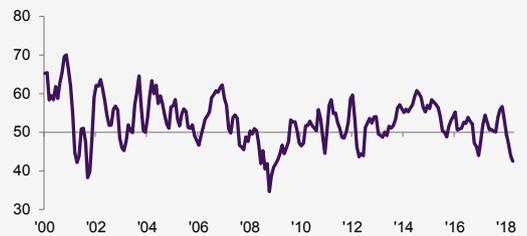
Subdued consumer demand continues to weigh on hotels, restaurants & catering sector

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

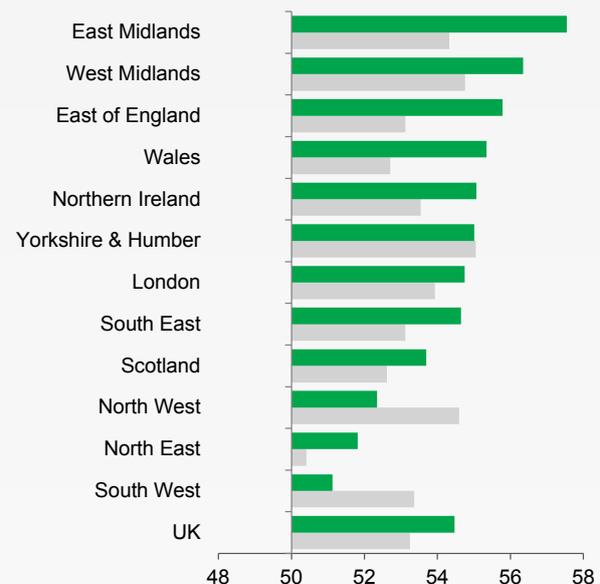
May saw business activity increase across all UK regions, led by strong and accelerated growth in the East and West Midlands. The former was the best-performing region for the fourth time in the past five months, re-taking the top position from Yorkshire & Humber. East of England and Wales also climbed 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 Yorkshire & Humber PMI® is compiled by IHS Markit from responses to questionnaires sent to Yorkshire & Humber 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 Yorkshire & Humber Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Yorkshire & Humber 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

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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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