

NatWest Yorkshire & Humber PMI®

Yorkshire & Humber business activity growth quickens to eight-month high in May

Key Findings

New business rises at fastest pace since September 2018

Input cost inflation at 35-month low

Business confidence strongest in seven months

Yorkshire & Humber Business Activity Index



Last six months YH v UK



Business activity in Yorkshire & Humber's private sector economy increased at the fastest pace in eight months during May, according to the latest NatWest PMI® data. Underpinning the quicker output growth was an upturn in new business, which grew at the strongest pace since September 2018.

On the cost front, despite being sharp, the rate of input price inflation eased to a 35-month low. Meanwhile, the faster growth in activity coincided with stronger business confidence, which reached a seven-month high in May.

The headline NatWest Yorkshire & Humber Business Activity Index is a seasonally adjusted index that measures month-on-month changes in the combined output of the region's manufacturing and service sectors. The index rose to 53.4 in May from 52.4 in April. The latest reading was the highest recorded in eight months and compared favourably with a UK-wide figure of 50.9.

By sector, May saw increases in business activity at both manufacturers and service providers.

Demand

Growth in new orders placed with Yorkshire & Humber companies was a significant factor driving the upturn in business activity during May. New business has now risen for two consecutive months, with the latest increase the fastest since September 2018. Anecdotal evidence from panellists stated that they had observed an improvement in demand conditions during May.

Capacity

With demand for the region's goods and services rising solidly, firms in Yorkshire & Humber expanded capacity by taking on additional staff. The rate of job creation was solid and the fastest in six months.

The level of unfinished orders among Yorkshire & Humber firms, meanwhile, declined for the eighth consecutive month, as companies sought to reduce their backlogs of work. The rate of backlog depletion quickened from April.

Prices

Input cost inflation in Yorkshire & Humber softened to a 35-month low, but remained historically sharp in May. Panellists cited increases in staffing costs and raw materials (notably steel and fuel) as behind the latest rise in operating expenses. Cost burdens among Yorkshire & Humber companies have grown on a monthly basis since April 2016.

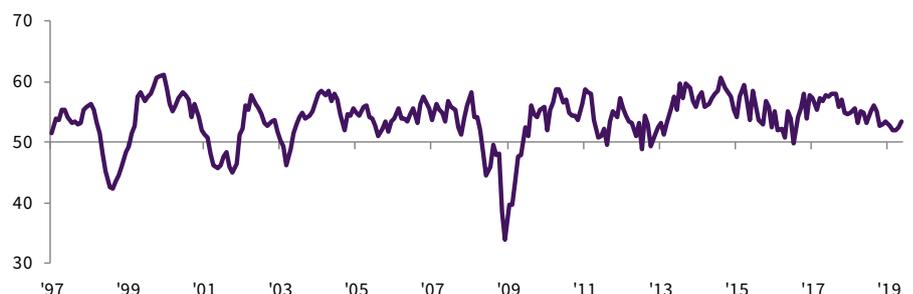
Greater cost burdens were partly passed on to clients in the form of higher output charges. That said, the rate of charge inflation eased slightly from April.

Outlook

Latest data showed a further improvement in local firms' confidence for output over the coming year, with sentiment increasing to a seven-month high. Investments in new technologies and expectations of greater customer orders were just some of the key factors cited by panellists as reasons to be optimistic.

Yorkshire & Humber Business Activity Index

sa, >50 = growth since previous month



New Business Index



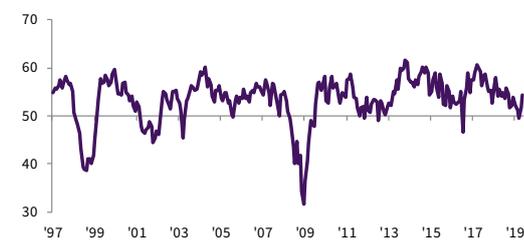
New business growth fastest in eight months

For the second consecutive month, businesses in Yorkshire & Humber reported an increase in the level of new orders during May. The rate of growth was solid and the fastest in eight months. Moreover, higher inflows of new business were recorded by both manufacturers and service providers.

Yorkshire & Humber's performance compared favourably with the UK, which recorded only a marginal increase in new business in May after four consecutive monthly declines.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index

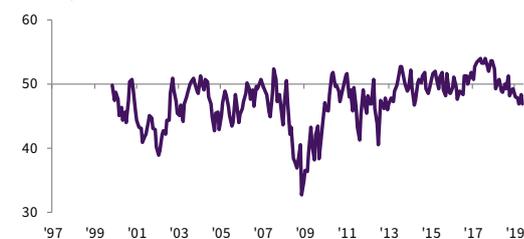


Backlogs fall for eighth month in a row

For the eighth successive month, work outstanding among Yorkshire & Humber firms declined, providing evidence of ongoing spare capacity in the region. Despite quickening from April, the rate of backlog depletion was less marked than that observed across the UK as a whole. Both manufacturers and service providers recorded a fall in the level of outstanding business.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



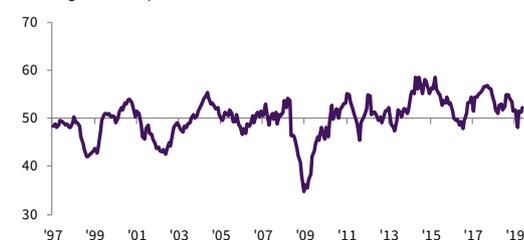
Employment growth quickens to six-month high

Increased business activity led firms in Yorkshire & Humber to add to their payrolls for the third month in a row during May. The rate of job creation was solid and the fastest in six months. Anecdotal evidence from panellists indicated that they had taken on additional staff to bolster capacity.

Manufacturers and service providers in the region signalled greater employment during May, with the latter registering the steeper rate of expansion.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



Input price inflation at 35-month low

Adjusted for seasonal factors, the Input Prices Index remained well above the neutral 50.0 level to signal a further sharp rise in operating expenses in May. This was despite the rate of inflation easing to the slowest since June 2016.

Respondents linked higher cost burdens to a combination of increased staff wages and greater prices for raw materials with steel and fuel mentioned in particular.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Output charge inflation eases slightly

Latest data signalled that average selling prices set by Yorkshire & Humber firms continued to rise in May. Despite being solid, the rate of charge inflation eased slightly from April. According to anecdotal evidence, companies raised their selling prices to reflect higher input costs.

At the sector level, manufacturing factory gate charges increased solidly and at a faster pace than average service sector charges.

Prices Charged Index

sa, >50 = inflation since previous month



Future Business Activity Index



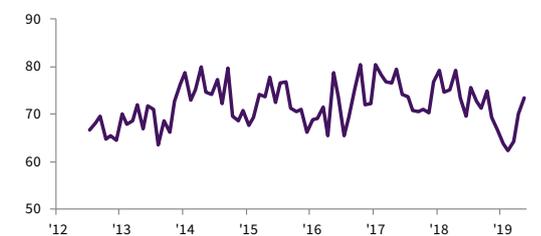
Business confidence highest in seven months

Sentiment among firms in the Yorkshire & Humber region regarding output over the coming year was positive in May. Investments in new equipment and expectations of greater sales were cited by panellists as reasons to be optimistic.

Business confidence in the region was also higher than that observed for the UK as a whole. Additionally, manufacturers were more optimistic than service providers.

Future Business Activity Index

>50 = growth expected over next 12 months



Yorkshire & Humber Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Export conditions improve to weakest degree in almost six years

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.

The Yorkshire & Humber Export Climate Index fell to 52.0 in May from 52.3 in April, signalling the weakest improvement in the region's export markets in almost six years.

This was largely as a result of slower growth in the US*, where the rate of expansion eased from April. This outweighed a strengthening of demand conditions in Germany and France, with the latter seeing output growth pick up to the fastest in six months. The Netherlands's economic output increased solidly and at the same rate as observed in April.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, Yorkshire & Humber

| Rank | Market | Weight | Output Index, May-19 |
|------|-------------|--------|----------------------|
| 1 | Netherlands | 14.0% | 53.6 |
| 2 | USA | 11.4% | 50.9* |
| 3 | Germany | 10.6% | 52.6 |
| 4 | France | 9.2% | 51.2 |
| 5 | Ireland | 7.9% | 53.4^ |

*based on Flash data
^April 2019 Figure

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-19 (3mma) |
|------|------------------------------|------|--------------------------------|
| 1 | Textiles & Clothing | 1.45 | |
| 2 | Other Manufacturing | 1.38 | |
| 3 | Metals & Metal Products | 1.27 | |
| 4 | Food & Drink | 1.26 | |
| 5 | Wood & Paper | 1.14 | |
| 6 | Machinery & Equipment | 1.07 | |
| 7 | Chemicals, Rubber & Plastics | 1.06 | |
| 8 | Electrical & Electronic | 0.58 | |
| 9 | Transport Equipment | 0.25 | |

45 50 55 60

Services specialisation: Yorkshire & Humber

| Rank | Sector | LQ | UK Business Activity Index, May-19 (3mma) |
|------|------------------------------------|------|---|
| 1 | Transport & Communication Services | 1.23 | |
| 2 | Other personal/consumer Services | 1.08 | |
| 3 | Hotels, Restaurants & Catering | 1.07 | |
| 4 | Business-to-business Services | 0.98 | |
| 5 | Financial Intermediation | 0.90 | |
| 6 | Computing & IT Services | 0.56 | |

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

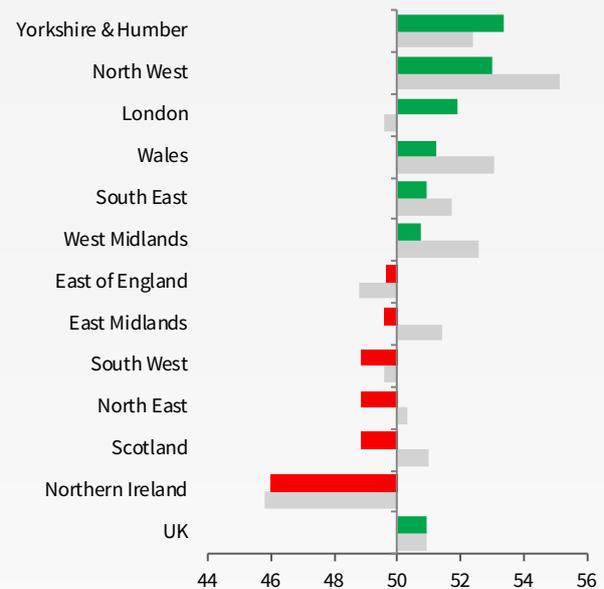
Yorkshire & Humber moved to the top of the rankings for business activity growth in May, as the region's firms reported the strongest rise in output for eight months. Last month's leader, the North West, dropped to second place, having seen growth slow to a six-month low. London was the biggest climber, 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 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

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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