

NatWest UK Regional PMI[®]

Most regions end 2022 in contraction, albeit with some better performances

UK Regional PMI

Business Activity Index
sa, >50 = growth since previous month, Dec '22



Key findings

Business activity falls in nine out of 12 regions and nations in December

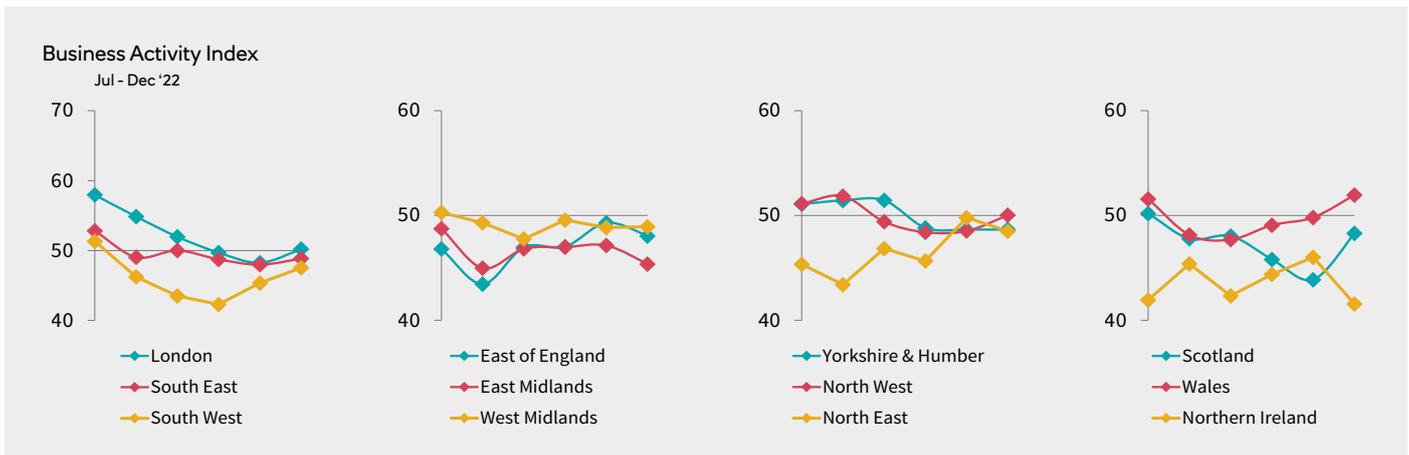
Costs pressures, although still high, retreat to multi-month lows

More regions report falling employment levels

The majority of UK regions and nations saw business activity fall further in December, latest Regional PMI[®] data from NatWest showed, with signs that the economic slowdown was hitting a growing number of local labour markets. More positively, pressure on demand from sharply rising prices eased somewhat, with the survey's measures of inflation retreating further from their recent record highs.

The PMI Business Activity Index is the first fact-based indicator of regional economic health published each month, tracking the monthly change in the output of goods and services across the private sector. A reading above 50 signals growth, and the further above the 50 level the faster the expansion signalled.

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December (indexes at 52.0 and 50.2 respectively), while the North West (50.0) saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland* (41.6) meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.



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About the UK Regional PMI® report

The NatWest UK Regional PMI® data are compiled by S&P Global from responses to questionnaires sent to companies that participate in S&P Global's UK PMI surveys. S&P Global compiles data for nine English regions, Scotland, Wales and Northern Ireland (NUTS 1 definitions).

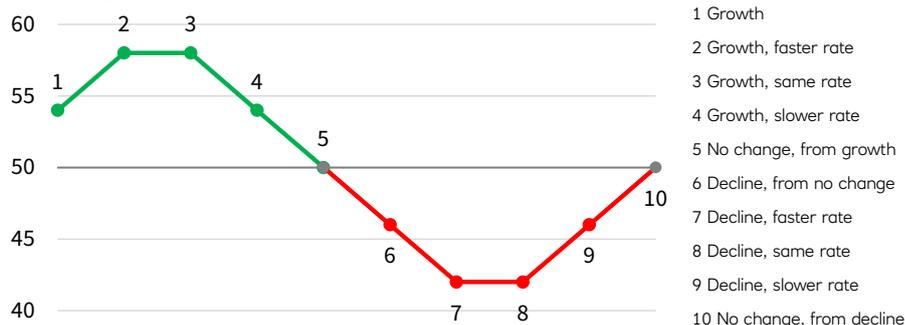
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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 for each region 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 Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Index interpretation

50.0 = no change since previous month



Comment

Sebastian Burnside, NatWest Chief Economist, commented:

"For most regions and nations, 2022 ended disappointingly with a further decrease in business activity. It marked a stark contrast to the situation during the first two months of the year – before the onset of war in Ukraine and the escalation of the cost of living crisis – when we saw broad-based growth and business confidence was sky-high amid the waning impact of the pandemic.

"Price pressures reached new heights in 2022, with every nation and region seeing record increases in average charges for goods and

services at some point during the year. Positively, underlying price pressures have begun to cool, with rates of business cost inflation slowing to multi-month lows in all areas in December.

"Even so, the pace of price increases remains well above what is considered ideal, and a tight labour market is likely to mean that some of this inflationary pressure stays in the system as workers seek higher pay to compensate for the rising cost of living. More and more cracks are starting to appear in the labour market, however, with more regions reporting a fall in employment than

a rise for the first time in almost two years in December.

"After repeated knocks throughout 2022, business confidence looks to have steadied in December. However, business expectations remain historically low across the UK, given what is a challenging outlook for 2023."

Demand and outlook

New orders fall in most cases, albeit often at slower rates

11 out of the 12 regions and nations monitored by the survey recorded lower intakes of new work in December, with the most marked fall seen in Northern Ireland. However, in over half cases, the rate of decline slowed from the previous survey period. Only Wales went against the broader trend and recorded a rise in inflows of new business, its first since last July.

Expectations remain subdued by historical standards

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.



New Business Index
sa, >50 = growth since previous month, Dec '22



Future Activity Index
>50 = growth expected over next 12 months, Dec '22



* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



Business capacity

Job shedding spreads to more areas in December

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

Broad-based fall in outstanding business

December's survey showed a broad-based decline in outstanding business (i.e. orders received but not yet completed). The sharpest decline was in the East Midlands, where the rate of depletion quickened to the fastest in over two-and-a-half years. At the other end of the scale, London recorded only a fractional fall in backlogs, which was its first eight months.



Prices

Cost pressures remain high despite easing across the board

Slower rates of input price inflation were recorded across the board in December. Nevertheless, cost pressures generally remained elevated by historical standard. Even in the North West, which registered at the bottom of the rankings, the rate of input cost inflation remained firmly above its historical series average. Firms in Northern Ireland posted the steepest rise in input prices.

Rates of output price inflation generally maintain slowing trends

Higher costs led to further notable increases in average prices charged for goods and services across all regions and nations in December. However, rates of inflation generally retreated further from their recent record highs. One of the exceptions was the West Midlands, which recorded the steepest overall rise in output prices, with the South West being the other.



Index summary

UK regions

sa, 50 = no change over previous month / *50 = no change over next 12 months, Dec '22

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	50.2	49.5	64.9	49.0	49.5	74.3	61.2
South East	48.8	48.0	68.3	51.2	46.7	73.0	63.8
South West	47.5	47.0	61.9	47.4	49.2	69.8	62.0
East of England	48.0	47.9	60.0	49.1	47.6	69.8	60.7
East Midlands	45.4	42.6	59.8	48.8	42.6	74.8	63.4
West Midlands	48.9	46.9	65.3	50.8	46.0	72.0	65.2
Yorkshire & Humber	48.7	47.0	68.0	48.8	46.3	71.9	62.2
North West	50.0	48.6	63.6	51.5	46.8	69.6	59.1
North East	48.5	49.6	50.8	45.9	48.6	71.2	63.6
Scotland	48.3	46.0	53.6	48.9	47.5	70.0	61.4
Wales	52.0	51.4	61.3	50.1	48.8	71.7	64.3
Northern Ireland	41.6	40.5	48.8	50.0	43.0	76.1	62.1

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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.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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