

NatWest UK Regional PMI[®]

Regional economies hit by rise in COVID-19 cases and tougher restrictions in October

UK Regional PMI



Key findings

Business activity increases across most English regions, but at notably slower rates

Activity in Wales and Scotland curbed by stricter rules

Further broad-based fall in employment as business confidence falls

Latest Regional PMI[®] data from NatWest showed a loss of momentum across the UK economy in October, with some areas seeing setbacks to activity amid tighter restrictions to tackle the spread of coronavirus disease 2019 (COVID-19).

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.

Eight out of the nine monitored English regions recorded a rise in business activity in October. That said, growth slowed in all cases. The South East (business activity index: 57.1) recorded the steepest increase, followed by the East of England (54.9). The South West (49.7) was the only exception, registering a marginal fall in output after three months of growth. This was also the case for Northern Ireland* (49.9).

Scotland (43.2) and Wales (44.1) both saw marked falls in activity in October, though the declines were notably slower than seen during the initial lockdown in the spring.

*Northern Ireland coverage includes construction and retail. For all other areas, coverage is confined to manufacturing and services.



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About the UK Regional PMI® report

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

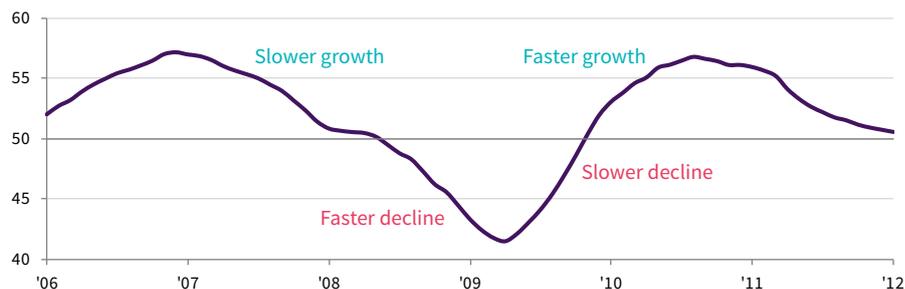
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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:

"There was a clear downswing in momentum across all regional economies in October, as rising coronavirus cases led to new restrictions on activity and increased uncertainty.

"Tougher rules in Scotland in October and a "firebreak" in Wales led to marked decreases in business activity during the month, and we can expect similar patterns across England in November as the new lockdown restrictions come into effect.

"A drop in expectations across most regions shows that businesses are anticipating a tough end to the year, yet still they remain strongly confident of being able to turn things around once the worst of the pandemic has passed.

"For now, many businesses are in survival mode, which has unfortunately meant further job cuts. The extension of the furlough scheme and other measures announced by the Government will be critical to limiting the impact through winter."

Demand and outlook

Just half of regions record higher new orders in October

Only six of the 12 monitored UK regions registered a rise in new business in October, down from ten in September. The strongest growth was seen in Yorkshire & Humber, followed by the North East and South East, respectively. There were renewed declines in the West Midlands, Wales, London and the South West, while both Northern Ireland and Scotland saw accelerated rates of contraction.

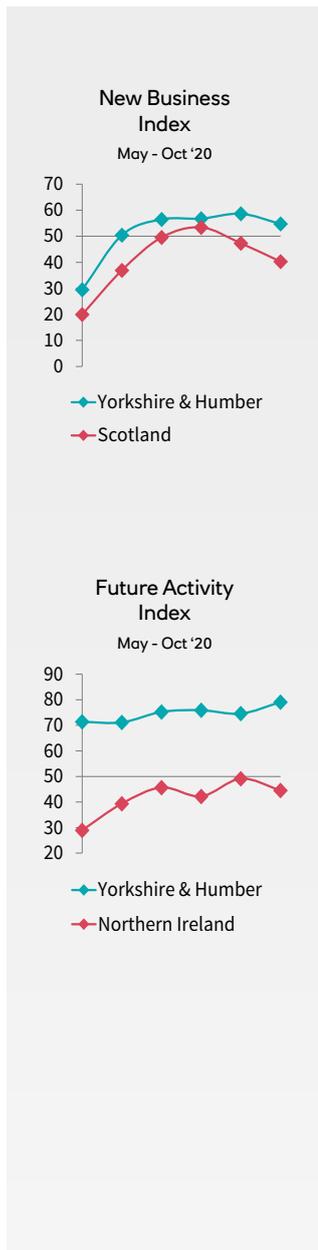
New Business Index
sa, >50 = growth since previous month, Oct '20



Expectations remain positive but ease across most areas

The majority of regions recorded a drop in business confidence towards future output in October. For Northern Ireland, expectations turned more pessimistic. Elsewhere, firms generally remained hopeful of a rise in activity over the next 12 months. Yorkshire & Humber registered the strongest optimism, followed by the South West. London, which was ranked third overall, saw the biggest improvement since September.

Future Activity Index
>50 = growth expected over next 12 months, Oct '20



Business capacity

Further widespread drop in payroll numbers

Employment fell across all parts of the UK in October, the eighth month in a row in which this has been the case. For the second month running, the sharpest drop in payroll numbers was in the West Midlands. The next-steepest decreases were seen in Scotland, Wales and London, respectively. At the other end of the rankings, the East of England recorded the least marked fall in workforce numbers.

Yorkshire & Humber, Wales see the only rises in backlogs

A general lack of pressure on business capacity was reflected in a drop in backlogs of work across ten of the 12 monitored UK regions in October. The steepest falls were seen in Scotland, the North East and West Midlands. Only two areas recorded increases in backlogs, namely Yorkshire & Humber and Wales. For the former, the rate of accumulation was the quickest for more than two-and-a-half years.



Employment Index
sa, >50 = growth since previous month, Oct '20



Outstanding Business Index
sa, >50 = growth since previous month, Oct '20



Prices

Costs continue to rise in all areas bar London

Input prices rose across almost all regions in October, and at a faster rate in most cases. The strongest overall cost pressures were recorded in Northern Ireland, with the North East and East of England close behind. London saw the only decrease in operating expenses, linked to lower staff and travel costs, though the rate of decline eased from the previous survey period and was only modest.

Stark contrast in output price trends across regions

Eight of the 12 monitored UK regions recorded higher average output prices in October, led by a solid rate of inflation in the West Midlands – its fastest in just over two years. Yorkshire & Humber was ranked second, and the North West third. London recorded the most marked fall in selling prices for the fifth month running, while the East Midlands and South West both saw accelerated declines.



Input Prices Index
sa, >50 = inflation since previous month, Oct '20



Prices Charged Index
sa, >50 = inflation since previous month, Oct '20



Index summary

UK regions

sa, 50 = no change over previous month / *50 = no change over next 12 months, Oct '20

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	51.4	47.2	69.6	43.0	49.2	48.4	45.6
South East	57.1	53.9	68.2	45.4	49.1	55.0	50.4
South West	49.7	46.1	72.7	45.9	45.8	58.7	48.7
East of England	54.9	51.8	63.5	46.3	48.6	59.7	52.6
East Midlands	52.3	50.4	67.1	45.8	45.5	54.5	47.5
West Midlands	51.2	49.9	64.8	40.2	45.3	57.4	53.9
Yorkshire & Humber	53.9	54.7	79.1	44.4	52.2	57.6	53.4
North West	52.0	51.7	64.6	45.7	47.4	56.9	52.8
North East	52.4	54.1	56.7	45.5	44.8	59.9	52.3
Scotland	43.2	40.2	59.0	42.2	42.9	56.0	49.6
Wales	44.1	48.2	68.0	42.8	50.5	57.0	52.1
Northern Ireland	49.9	48.1	44.5	43.9	47.4	60.0	51.8

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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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IHS Markit (NYSE: 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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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.

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