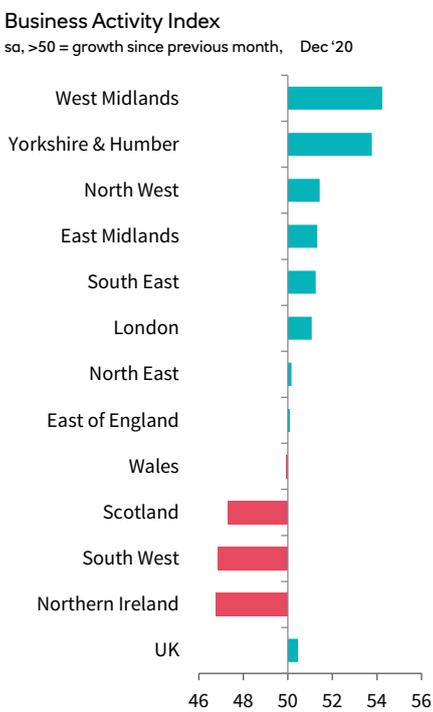


NatWest UK Regional PMI[®]

Some bright spots for UK regional business activity in December, but downturns continue in other areas

UK Regional PMI



Key findings

Business activity rises in majority of UK regions in December, but only modestly in most cases

West Midlands leads growth, while Northern Ireland sees sharpest fall

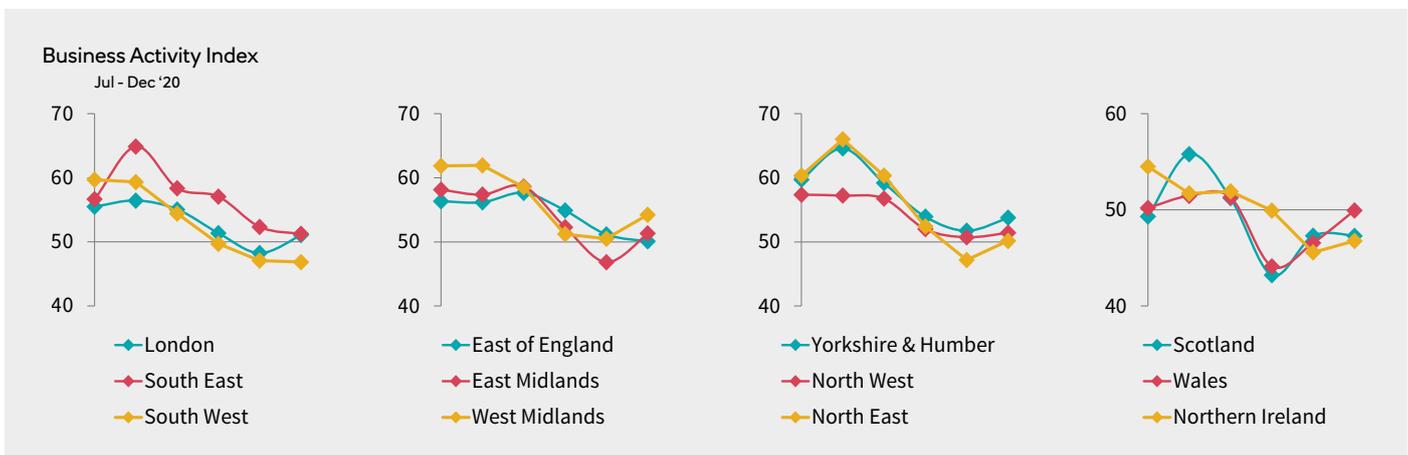
First, albeit marginal, increases in employment since February 2020

December's PMI[®] data from NatWest showed a mixed picture for regional business activity, with solid growth in the West Midlands and Yorkshire & Humber contrasting with continued downturns in Northern Ireland, the South West and Scotland. Meanwhile, for the first time since last February, employment rose in some areas, albeit marginally.

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.

The West Midlands topped the regional rankings for business activity growth in December (index at 54.2), ahead of Yorkshire & Humber (53.8). At the same time, the North West (51.4), East Midlands (51.3), South East (51.3) and London (51.1) each recorded modest increases in output. In the North East (50.2), East of England (50.1) and Wales (49.9), business activity was little-changed since November. Further notable contractions were meanwhile registered in Northern Ireland* (46.8), the South West (46.9) and Scotland (47.3).

*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).

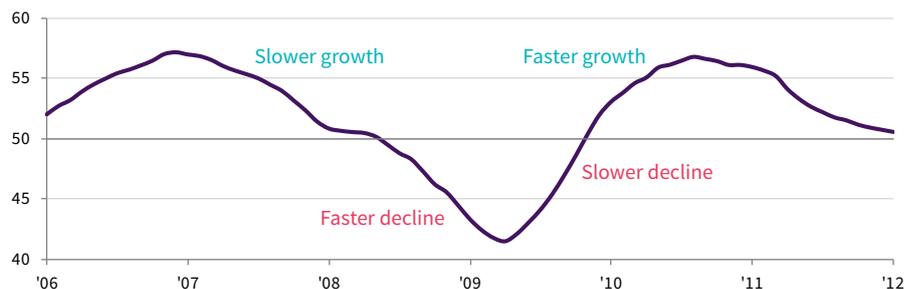
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

"While December was a slightly better month than November for business activity in many regions, ongoing restrictions meant that growth in most cases was only modest and there were even instances of a loss of momentum and sustained downturns.

"The West Midlands and Yorkshire & Humber were the standouts in terms of business activity, having managed to regain some momentum in December and also benefitting from good performances from their respective manufacturing sectors.

In Scotland, Northern Ireland, Wales and the South West, where the travel and tourism industries play such an important role to the local economies, the data for business activity remained weakest.

"There looked to be steady progress being made on the labour market front at the end of last year, with data indicating generally slower rates of job losses and even the first instances of higher employment. However, the imposition of tougher restrictions threatens to put paid to this, and we can expect another tough period for the regional economies in the weeks, and perhaps months, ahead."

Demand and outlook

Half of regions record a rise in new business in December

There were divergent trends in new business in December, with half of the 12 monitored regions recording a rise and the rest seeing a decline. The best-performing areas for new work were Yorkshire & Humber and Wales respectively, with the latter seeing its first increase for three months. Scotland recorded the steepest overall rate of decline, albeit its weakest since September.

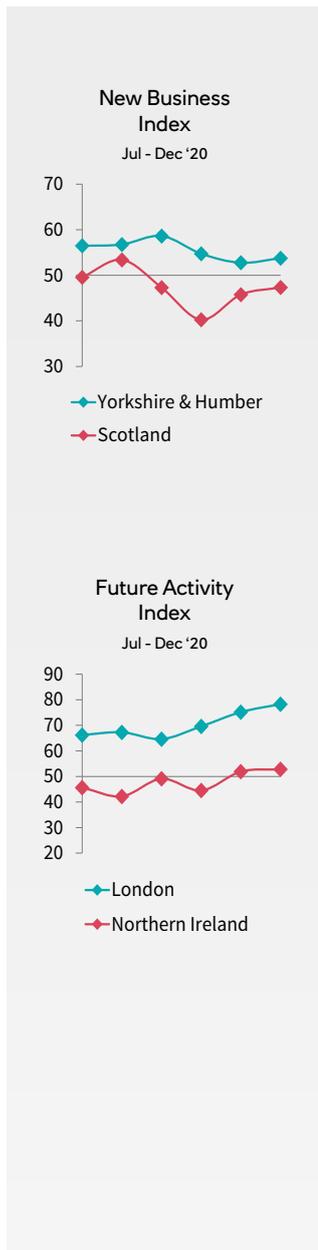
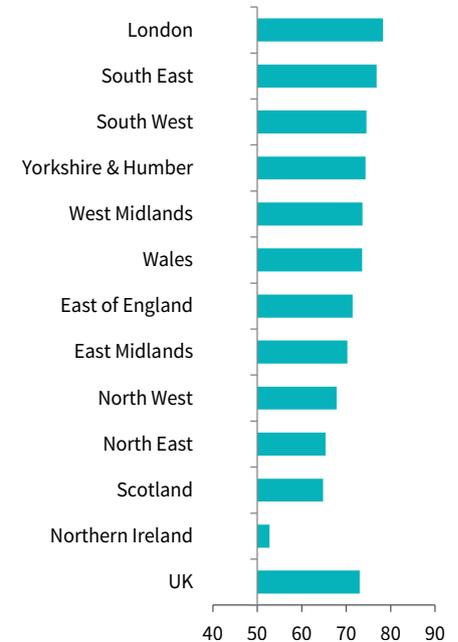
New Business Index
sa, >50 = growth since previous month, Dec '20



Confidence towards future activity highest in London

Firms in all UK areas remained upbeat about the year-ahead outlook for activity in December. Businesses in London reported the highest degree of optimism, closely followed by those in the South East. Northern Ireland* continued to record the lowest overall expectations, although business confidence did strengthen slightly to the highest for ten months. The West Midlands saw the biggest improvement in sentiment since November.

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



Business capacity

Trends in employment show signs of improvement

There were marginal increases in employment across both Yorkshire & Humber and the East of England in December, the first time any of the regions have recorded a rise in workforce numbers since last February. Elsewhere, rates of job shedding slowed in almost all other areas. The only exception was a slightly quicker decrease in staffing levels in Scotland, which dropped to the bottom of the regional rankings.

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



Backlogs rise in five regions, the most since September

Five of the six regions that recorded higher inflows of new work in December also saw an increase in backlogs during the month, the sole exception being Wales. The East Midlands registered the steepest rise, though even here the rate of accumulation was only modest. At the other end of the scale, the lowest pressure on business capacity was seen in Scotland, where work-in-hand fell at a sharp and accelerated rate.

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



Prices

December sees a general build-up in cost pressures

Firms in all but one of the 12 monitored regions recorded a faster rise in input prices in December. The North East, West Midlands and Northern Ireland registered the strongest rates of cost inflation respectively. Businesses in London, by contrast, saw their operating expenses decline for a fifth straight month, albeit only marginally and at the slowest rate in this sequence.

Northern Ireland continues to see fastest output price

Northern Ireland recorded the steepest increase in average charges for goods and services for the second month running in December, with the rate of inflation accelerating to a near two-year high. Next in the rankings were the West Midlands (27-month high), North East (19-month high) and North West (ten-month high). The only decreases in output prices were seen in London and the South West.



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



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



Index summary

UK regions

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

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	51.1	49.1	78.3	46.0	47.6	49.8	46.1
South East	51.3	51.0	76.8	48.3	50.4	56.8	51.9
South West	46.9	47.9	74.6	46.5	46.1	64.0	48.4
East of England	50.1	51.1	71.5	50.2	50.8	64.0	51.4
East Midlands	51.3	51.9	70.3	49.1	51.7	62.6	50.8
West Midlands	54.2	52.3	73.6	48.8	51.1	67.1	54.2
Yorkshire & Humber	53.8	53.8	74.3	50.3	50.5	65.8	53.4
North West	51.4	49.8	67.8	47.9	48.0	61.1	53.6
North East	50.2	47.4	65.4	45.4	43.7	67.2	53.6
Scotland	47.3	47.3	64.8	45.1	41.9	57.3	52.0
Wales	49.9	53.0	73.6	46.4	46.3	62.5	52.1
Northern Ireland	46.8	48.2	52.8	47.1	45.7	66.7	56.5

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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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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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