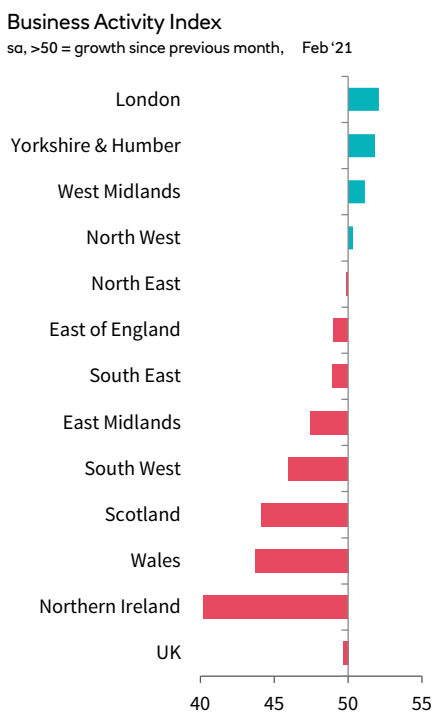


NatWest UK Regional PMI[®]

Regional business activity levels show some divergence in February, but expectations generally improve

UK Regional PMI



Key findings

Some areas see partial recoveries in activity in February, while others record sustained downturns

Business optimism continues to strengthen across most regions

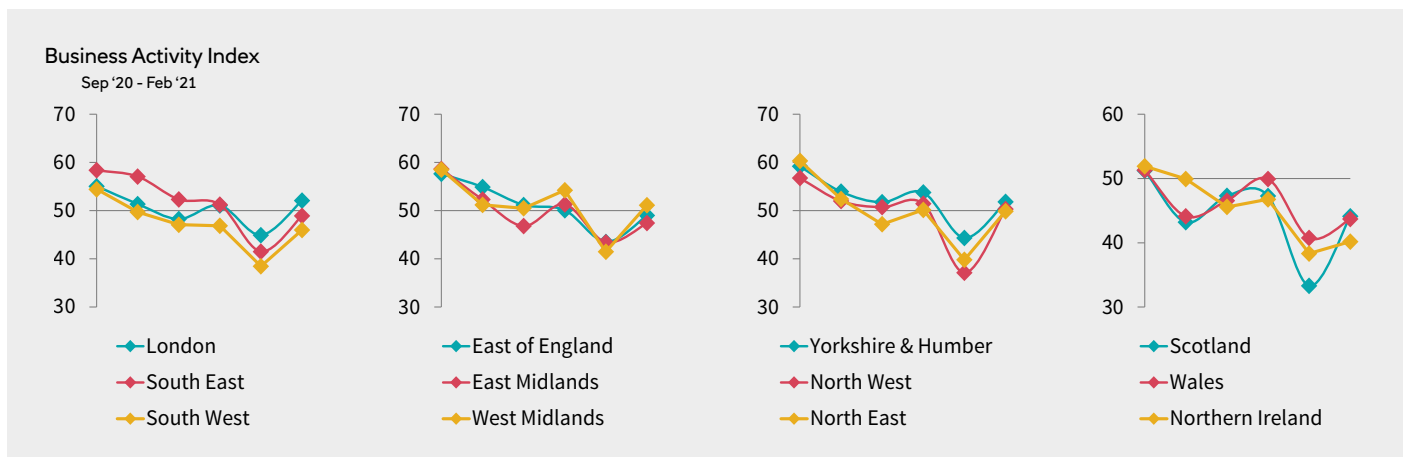
Broad-based acceleration in input cost inflation

While some parts of the UK saw business activity start to pick up in February following the reintroduction of lockdown measures at the start of the year, there were others that continued to struggle amid the ongoing coronavirus disease 2019 (COVID-19) restrictions, latest Regional PMI[®] data from NatWest showed.

One common theme across all regions and nations of the UK in February was growing pressure on firms' margins from rising costs. Nevertheless, business confidence strengthened in the majority of areas.

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 monitored by the survey, just four recorded a rise in business activity in February: London, Yorkshire & Humber, the West Midlands and North West. Downturns did however slow in all other areas, with the North East close to stabilisation and the East of England and South East seeing only modest declines. Northern Ireland recorded the sharpest drop in output, followed by Wales, Scotland and the South West, respectively.



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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).

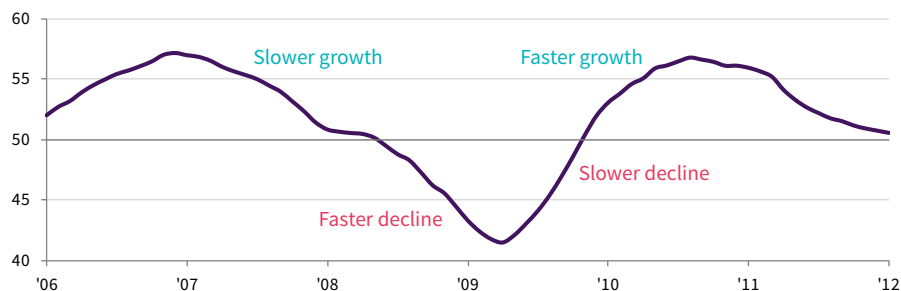
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

"Despite lockdown measures remaining in place in February, some parts of the UK started to see business activity pick up since January, and there were also some positive signs for employment and business confidence as more firms were optimistic about the outlook.

"However, many areas are continuing to struggle amidst ongoing restrictions on travel and temporary business closures, and it's no coincidence to see that the regional economies most under pressure are some of those with the

largest tourism and customer-facing sectors.

"London outperformed in February, as did Yorkshire & Humber where record levels of business optimism were reflected in a renewed upturn in employment. However, labour market trends generally remain subdued, so the extension of the furlough scheme to September is a welcome step forward in protecting jobs until the economy is fully up and running.

"One advantage that the services-dominated London economy has had is less exposure to the rising cost pressures we're currently seeing

from raw materials shortages and transport-related expenses, which have been hitting manufacturing businesses hardest. While prices for goods and services have been rising across every other region, thereby constraining demand, in London the opposite is true as firms continue to use discounting to support new business.

"The variations in regional economic specialisations and the different roadmaps out of lockdown across the four nations of the UK mean we are likely to see varying speeds of recovery over the coming months."

Demand and outlook

Demand remains subdued in February

After a broad-based decline in new business at the start of the year, most regions of the UK saw a further fall in February. That said, new orders generally decreased more slowly, dropping only marginally in the East of England, West Midlands, North East, North West and South East. Better still, firms in London and Yorkshire & Humber even saw partial recoveries in inflows of new work.

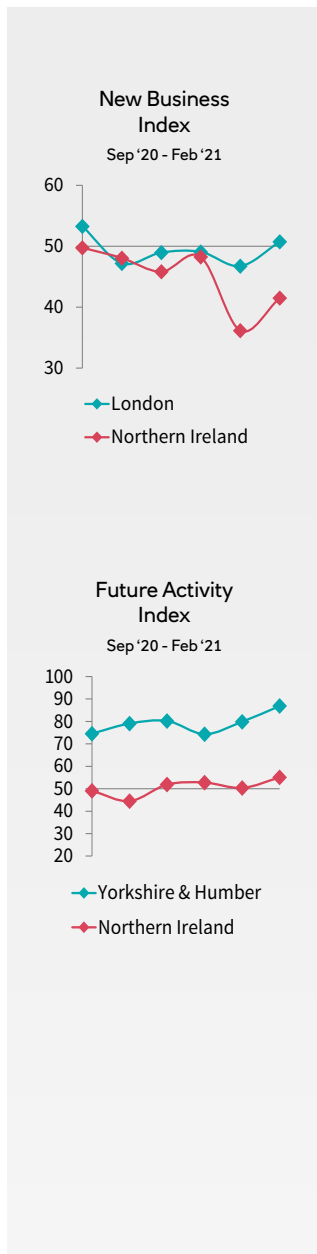
New Business Index
sa, >50 = growth since previous month, Feb '21



Firms generally more optimistic about the outlook

Firms in most regions were more optimistic about the year-ahead outlook for activity in February. This included Yorkshire & Humber, which saw the highest expectations on record. The South West saw the greatest improvement since January and was ranked third overall behind Yorkshire & Humber and the South East. Northern Ireland saw the weakest sentiment. That was despite the outlook being the brightest for 12 months.

Future Activity Index
>50 = growth expected over next 12 months, Feb '21



Business capacity

A quarter of regions see higher employment

Three out of the 12 monitored regions recorded higher employment in February, the most for a year. The strongest rate of job creation was in Yorkshire & Humber, with the East of England and East Midlands also recording increases. As was the case for business activity, the steepest decline in payroll numbers was in Northern Ireland. It was also the only area where the pace of job losses quickened since January.

Backlogs continue to fall across majority of areas

Firms in most areas recorded a decrease in backlogs of work in February, reflecting a general underutilisation of capacity due to subdued inflows of new business. Businesses in the North East recorded the steepest decline, followed closely by those in London and Northern Ireland. The only exception was the East of England, where outstanding business increased for the second time in three months.



Employment Index
sa, >50 = growth since previous month, Feb '21



Outstanding Business Index
sa, >50 = growth since previous month, Feb '21



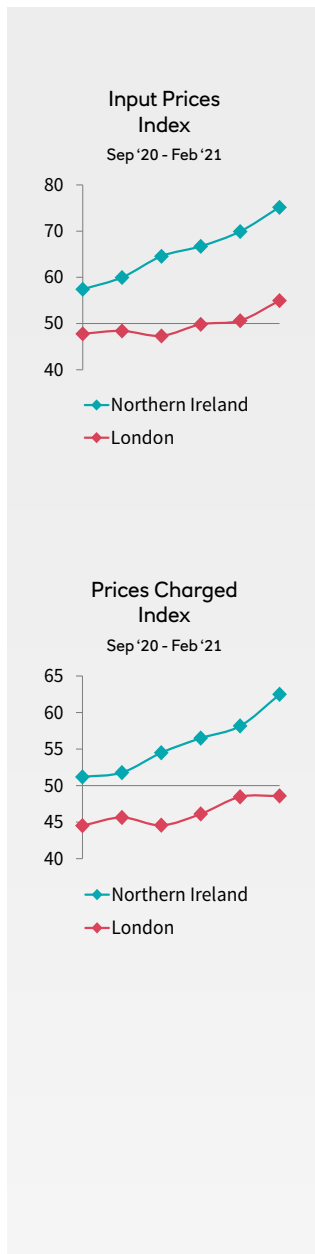
Prices

Cost pressures increase across all parts of the UK

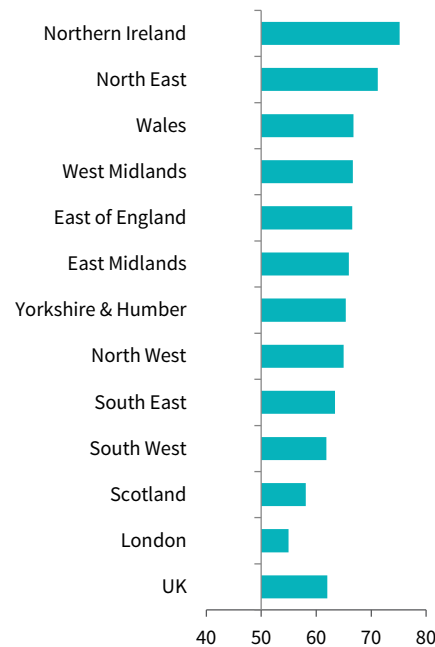
Businesses' input costs rose more quickly across all parts of the UK in February. As was the case in January, the fastest rate of cost inflation was in Northern Ireland, where it was the highest for just over 12-and-a-half years, with the North East remaining second in the rankings. Firms in London saw the slowest overall rise in operating expenses, though even here the rate of increase was robust.

Northern Ireland leads output price inflation

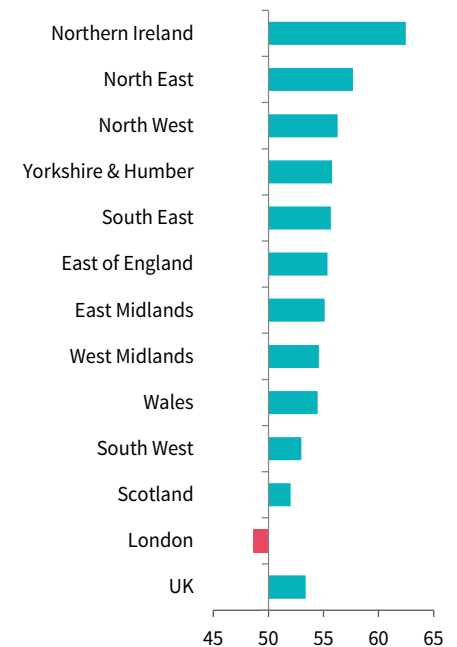
Average prices charged for goods and services rose across nearly all UK regions and nations in February, and at faster rates in most cases. Northern Ireland continued to see by far the quickest rate of inflation, posting a record-high in February. Output prices in London continued to diverge from all other areas, falling for the twelfth month in a row, albeit at the slowest rate in this sequence.



Input Prices Index
sa, >50 = inflation since previous month, Feb '21



Prices Charged Index
sa, >50 = inflation since previous month, Feb '21



Index summary

UK regions

sa, 50 = no change over previous month / *50 = no change over next 12 months, Feb '21

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	52.1	50.7	77.0	49.9	43.7	55.0	48.6
South East	48.9	49.3	82.1	49.3	47.2	63.4	55.7
South West	46.0	48.2	79.8	49.2	46.2	61.9	53.0
East of England	49.0	49.7	76.3	51.5	51.0	66.6	55.4
East Midlands	47.4	45.4	76.8	50.4	46.6	65.9	55.1
West Midlands	51.1	49.7	76.1	48.9	48.3	66.7	54.6
Yorkshire & Humber	51.8	50.5	86.9	52.2	49.3	65.4	55.8
North West	50.3	49.3	70.9	48.0	46.6	65.0	56.3
North East	49.9	49.6	70.4	48.3	42.9	71.2	57.7
Scotland	44.1	44.0	72.6	46.8	46.5	58.1	52.0
Wales	43.7	46.5	74.4	48.6	46.3	66.8	54.5
Northern Ireland	40.2	41.5	55.1	46.0	43.7	75.2	62.5

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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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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.

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