



NatWest UK Regional PMI[®]

Lockdowns lead to broad-based contraction in business activity in January, but vaccine rollout buoys optimism

UK Regional PMI

Business Activity Index
sa, >50 = growth since previous month, Jan '21



Key findings

All regions see steepest falls in business activity since last May

Labour markets impacted by latest restrictions, albeit to a lesser extent than during first lockdown

Expectations towards future activity remain universally positive

January saw a broad-based decrease in business activity across all regions and nations of the UK amid the reintroduction of lockdown measures, latest PMI[®] data from NatWest showed. Still, businesses generally remained optimistic about the outlook, reflecting progress in the rollout of coronavirus disease 2019 (COVID-19) vaccines and hopes for the easing of restrictions in the months ahead.

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.

Scotland saw the steepest drop in output of goods and services in January. Nevertheless, its business activity index reading of 33.3 was still above the record low seen during the first lockdowns last spring (10.7). At the other end of the scale, London (44.9) and Yorkshire & Humber (44.4) recorded the shallowest contractions, though in both cases – and indeed across all other areas – the rates of decline were the quickest since May last year and marked by historical standards.



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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).

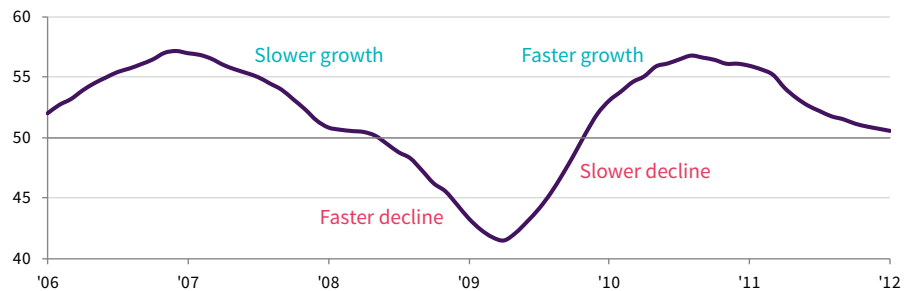
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

"The latest round of national lockdowns was a significant setback in the recovery of business activity across all regions and nations of the UK.

"However, whilst we must acknowledge the severe impact these fresh restrictions have had on business activity and the knock-on effects on labour markets, the results don't come as a surprise given the past experiences during this crisis and the picture certainty isn't as bleak as it was last spring.

"Business activity fell not nearly as steeply as it did during the first lockdowns in any part of the UK, with firms better prepared this time around, and demand not drying up to the extent it did in the second quarter of last year.

"Despite the challenges at hand, which for businesses in several regions also includes strong and even growing cost pressures, we're still seeing broad-based optimism about the outlook for activity in the coming year. The vaccine rollout is

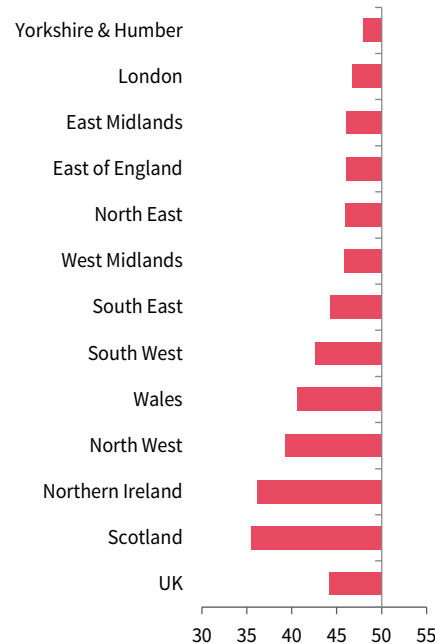
giving hope to businesses that the recovery can quickly get back on track as and when restrictions are lifted in the coming months."

Demand and outlook

National lockdowns lead to widespread drop in new work

There were notable decreases in new business across all 12 monitored areas in January. Although rates of contraction varied, in all cases bar London they were the fastest since May last year. That said, even in the worst-performing region, Scotland, the decline in new work was far shallower than at the height of the initial COVID-19 shutdowns last April. Firms in Yorkshire & Humber saw the greatest resilience in order book volumes.

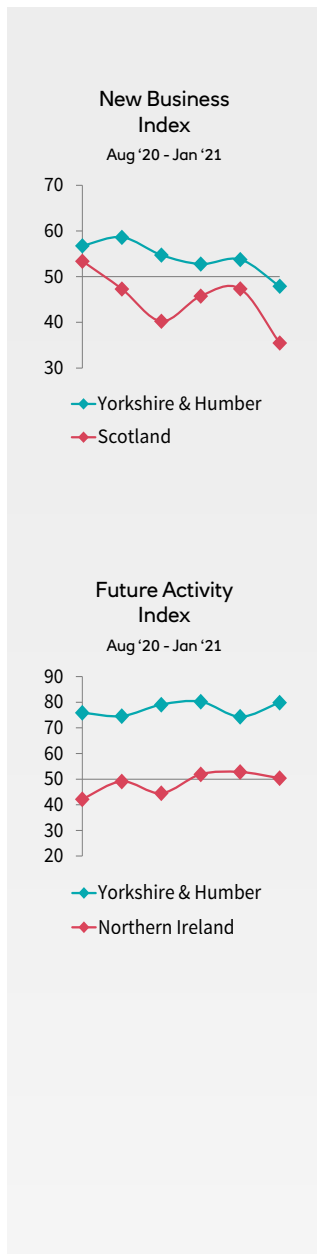
New Business Index
sa, >50 = growth since previous month, Jan '21



Businesses remain upbeat about year-ahead outlook

Regional business expectations towards future activity remained positive across the board in January. Firms in Yorkshire & Humber recorded the highest overall optimism, having also seen the biggest improvement since December. Next in the rankings were London and the West Midlands respectively. Sentiment in Northern Ireland retreated from a ten-month high in December and was only just inside positive territory.

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



Business capacity

Labour market trends worsen in January

Employment fell across all 12 monitored areas of the UK in January. For the East of England and Yorkshire & Humber, this meant renewed declines in payroll numbers after slight increases in December. Rates of job shedding accelerated in all other cases except in Scotland, where the latest fall – though still notable by historical standards – was the least marked since last February. The South East saw the slowest overall drop in employment during January.

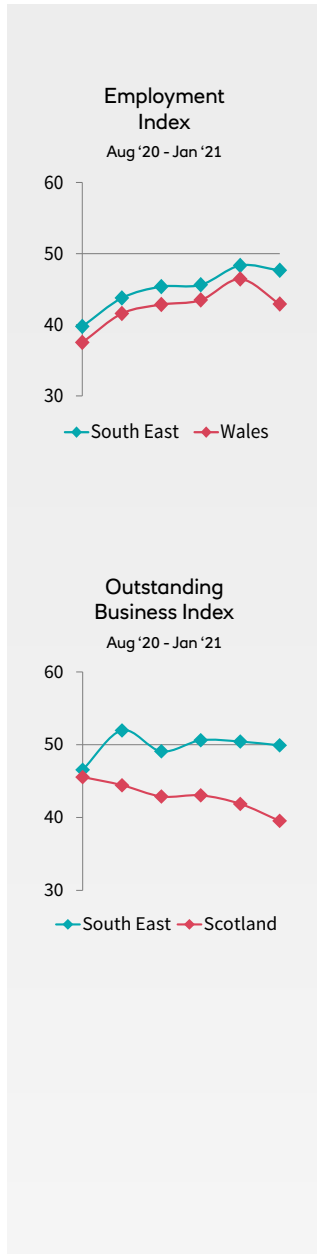
Employment Index
sa, >50 = growth since previous month, Jan '21



Lack of new work results in generally lower backlogs

There was a universal reduction in backlogs of work at the start of the new year. For the second successive month, businesses operating in Scotland recorded the steepest overall rate of decline. It was followed closely by that registered in Northern Ireland. At the other end of the scale, the South East and East Midlands both saw only fractional decreases in backlogs of work.

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



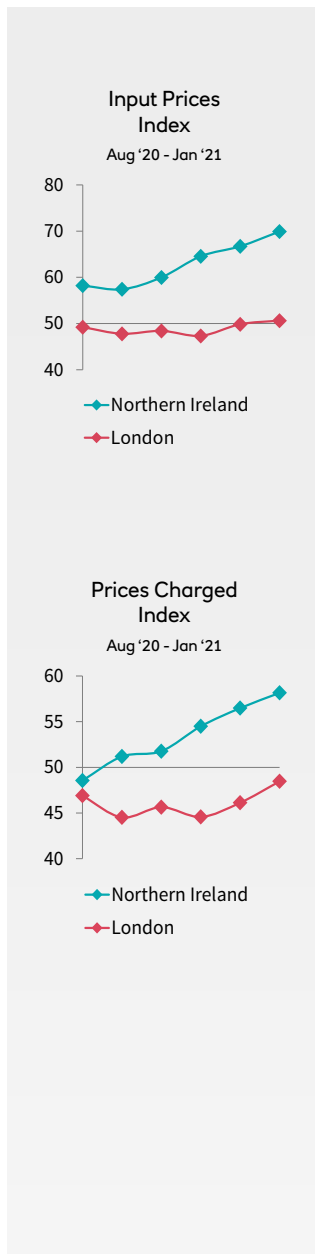
Prices

Rates of cost inflation exceed series averages in most areas

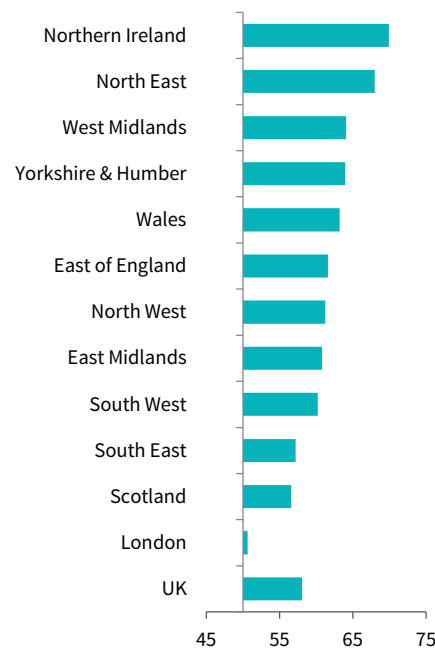
January saw steep increases in firms' input prices across most parts of the UK, with rates of cost inflation exceeding their respective historical series averages in all but two cases. The exceptions were Scotland and London, with the capital seeing operating expenses rise only marginally and for the first time in six months. Northern Ireland recorded the sharpest overall rise, its fastest for 31 months.

Only London firms report lower output prices

Average prices charged for goods and services rose in 11 out of the 12 UK areas monitored by the survey in January. The fastest rate of inflation by some margin was in Northern Ireland, where it was at a 27-month high. London recorded the only decrease in charges, the eleventh in as many months. That said, the rate of decline eased to a modest pace that was the weakest in the aforementioned sequence.



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



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



Index summary

UK regions

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

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	44.9	46.7	78.2	45.2	47.2	50.6	48.5
South East	41.5	44.3	76.9	47.7	49.9	57.2	52.6
South West	38.5	42.6	68.5	46.1	47.8	60.2	50.6
East of England	43.5	46.1	75.1	46.7	48.9	61.6	53.8
East Midlands	43.4	46.1	66.6	46.0	49.9	60.8	52.5
West Midlands	41.5	45.9	77.5	45.7	49.6	64.1	54.8
Yorkshire & Humber	44.4	47.9	79.9	47.0	48.7	64.0	54.7
North West	37.1	39.3	69.3	44.8	45.0	61.2	54.0
North East	39.8	45.9	66.5	44.2	45.0	68.0	55.2
Scotland	33.3	35.5	67.8	46.6	39.5	56.6	52.0
Wales	40.8	40.6	72.5	42.9	48.0	63.2	50.3
Northern Ireland	38.3	36.2	50.4	46.3	39.8	69.9	58.2

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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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