



NatWest UK Regional PMI[®]

Business activity still in severe decline across UK, but impact of easing lockdowns evident

UK Regional PMI

Business Activity Index

sa, >50 = growth since previous month, May '20



Key findings

Greatest constraints on activity seen in Northern Ireland and Scotland

Further widespread fall in employment, but rates of job losses ease

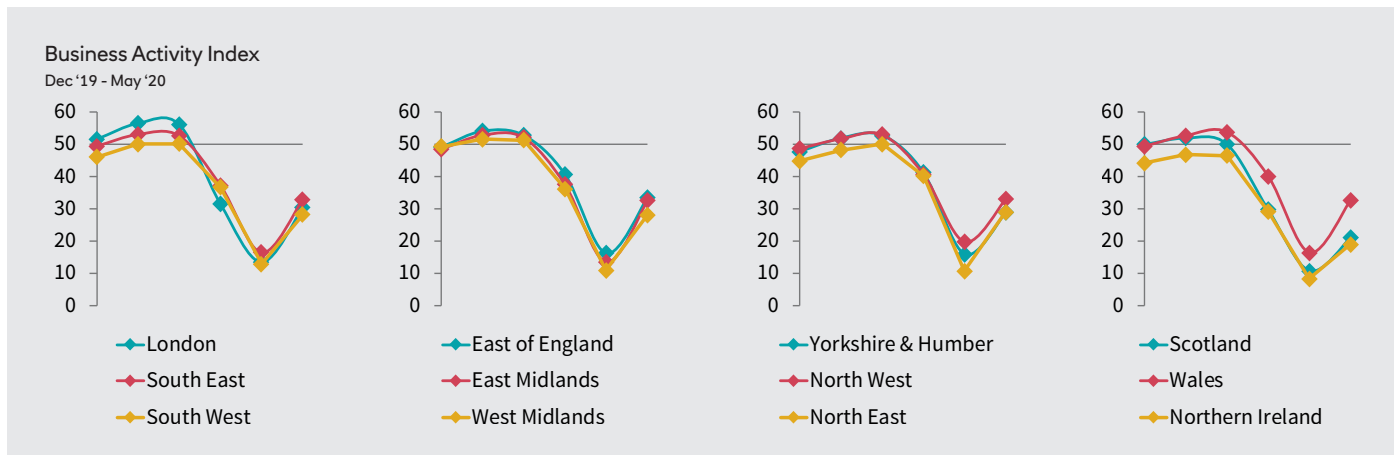
Expectations improve and are now positive in most areas

The coronavirus disease 2019 (COVID-19) crisis continued to weigh heavily on business activity across all parts of the UK in May, latest NatWest Regional PMI[®] data showed. Following record contractions across the board in April, rates of decline eased, though markedly more so in some areas than others.

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 below 50 signals contraction, and the further below the 50 level the faster the decline signalled.

Northern Ireland's Business Activity Index remained the lowest at 18.9 in May. Next was Scotland with a reading of 21.1, its index having shown the smallest rebound since April. The West Midlands (27.9) recorded the steepest contraction of the English regions, followed by the South West (28.1) and then Yorkshire & Humber and the North East (both 28.9), with all four below the UK average.

The highest reading in May was 33.4 for the East of England. Even this, however, was the region's second-lowest since records began in 1997. The biggest index point increase was in the East Midlands, up more than 19 points to 32.6.



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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).

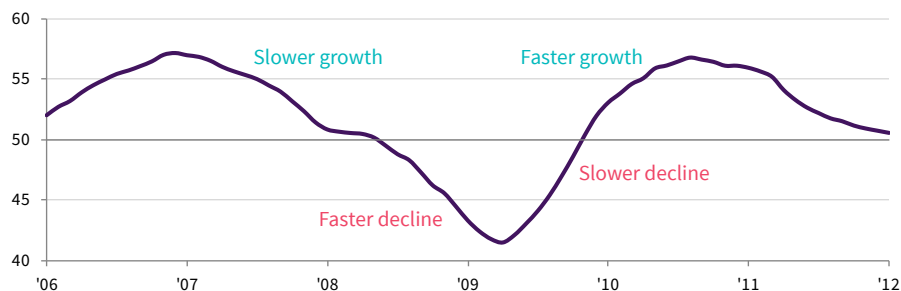
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

"Business activity remained severely inhibited across the UK in May. But what we're seeing from the regional PMIs are perhaps the first signs of the impact of looser lockdown restrictions on regional economic performance.

"Rates of decline have started to ease in all areas, but the most notable slowdowns since April have all been in the regions of England. At the other end of the scale, Scotland and Northern Ireland have not only recorded the deepest slumps in activity, but have also seen the littlest

improvement in their respective rates of decline.

"However, encouragingly for both Scotland and Northern Ireland, so far the data indicate less severe impacts on their respective labour markets in terms of outright job losses. How businesses eventually transition away from the government's job retention scheme is going to be key, but smaller declines in employment now can only boost the chances of a quicker recovery when demand starts to pick up.

"Firms are likely to be more inclined to retain staff if they can begin to see some light at the end of the

tunnel, so it's encouraging to see that business confidence has improved in most areas."

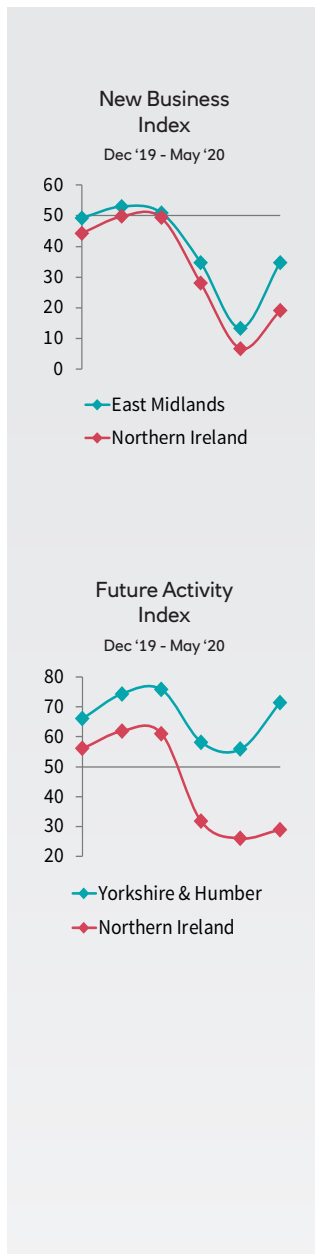
Demand and outlook

Broad-based drop in new business

Business closures, reduced sales operations and general weakness in demand were some of the factors that contributed to a further broad-based decrease in new business in May. Although rates of decline eased in all areas following record contractors in April, they remained marked by historical standards. The sharpest decreases by some margin were in Northern Ireland and Scotland.

Firms in most areas now optimistic towards outlook

Firms in almost all UK areas reported optimism towards the outlook for activity over the coming year. The only exception was Northern Ireland, where expectations improved little from April's record low. The strongest confidence was in Yorkshire & Humber, followed by the South West and North East (the same three also saw the biggest improvements since April).



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



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



Business capacity

Widespread job losses seen again in May

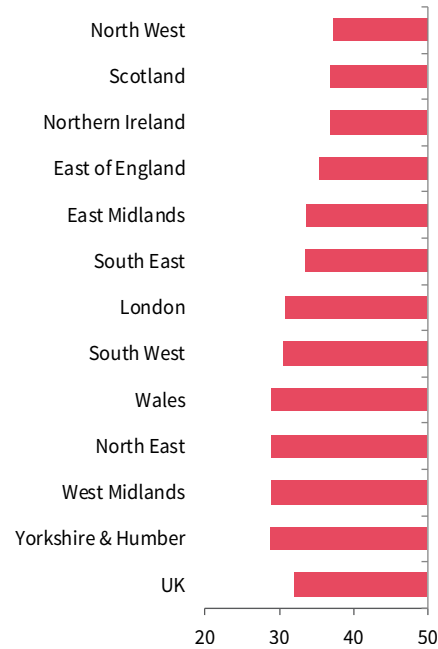
Like output, employment fell sharply again across all regions in May. On the jobs front, however, Scotland and Northern Ireland saw the second- and third-slowest falls respectively, behind the North West. Yorkshire & Humber and the West Midlands fared worst overall, with the North East and Wales also seeing particularly steep declines in workforce numbers during May.

Rapid depletion of backlogs continues across the UK

Having recorded the steepest falls in new business, Northern Ireland and Scotland unsurprisingly saw the most marked declines in backlogs of work during May. Rates of depletion remained sharp in all areas in fact, despite a general slowdown compared to April. The region seemingly operating closest to (albeit still well below) capacity was the North West.



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



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



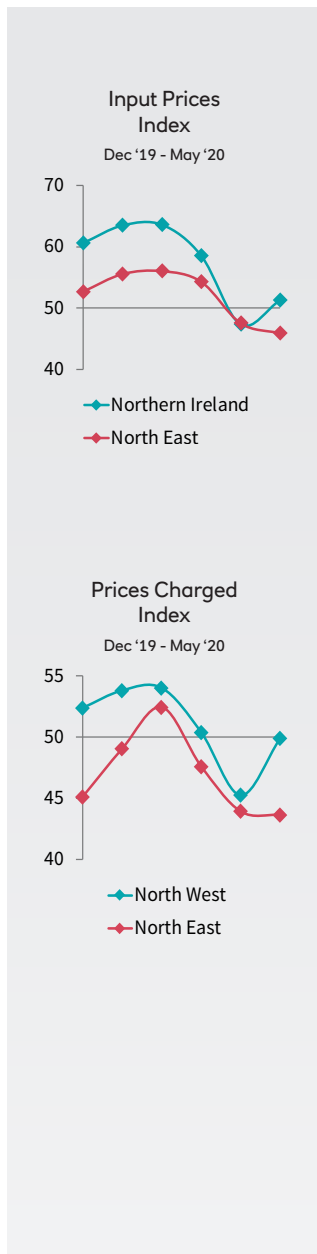
Prices

Cost pressures vary greatly by region

Northern Ireland and Wales were the only two areas to record a rise in firms' input costs in May. Declines across the remaining regions were of varying degrees, ranging from sharp reductions in both the North East and South West, to only modest decreases in the East of England, Yorkshire & Humber and West Midlands. Lower payroll costs were a common theme.

Majority of areas see slower falls in output prices in May

For the second month in a row, all 12 regions saw a decrease in output prices. That said, rates of decline slowed in the majority of cases, with charges barely falling in both the North West and Yorkshire & Humber. At the other end of the scale, however, the North East, London and Scotland each saw further widespread discounting.



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



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



Index summary

UK regions

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

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	30.3	29.7	52.9	30.8	34.9	48.6	43.8
South East	32.8	32.1	65.0	33.5	35.3	49.0	48.1
South West	28.1	28.2	68.6	30.4	33.3	46.3	47.4
East of England	33.4	33.5	58.6	35.4	33.7	49.7	47.1
East Midlands	32.6	34.8	59.4	33.6	33.9	48.9	46.7
West Midlands	27.9	29.6	61.1	28.9	31.8	49.4	48.4
Yorkshire & Humber	28.9	29.5	71.4	28.9	33.9	49.5	49.7
North West	33.0	32.8	59.6	37.3	36.9	48.0	49.9
North East	28.9	32.0	66.8	29.0	29.9	45.9	43.6
Scotland	21.1	20.0	50.6	36.9	25.5	46.3	44.3
Wales	32.7	34.0	64.4	29.0	36.1	50.9	47.9
Northern Ireland	18.9	19.1	29.0	36.8	22.9	51.3	47.3

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About NatWest

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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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

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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.

ihsmarkit.com/products/pmi.html

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