

NatWest UK Regional PMI[®]

London continues to outpace all other regions for business activity growth

UK Regional PMI

Business Activity Index
sa, >50 = growth since previous month, May '23



Key findings

11 out of 12 nations and regions record higher business activity in May

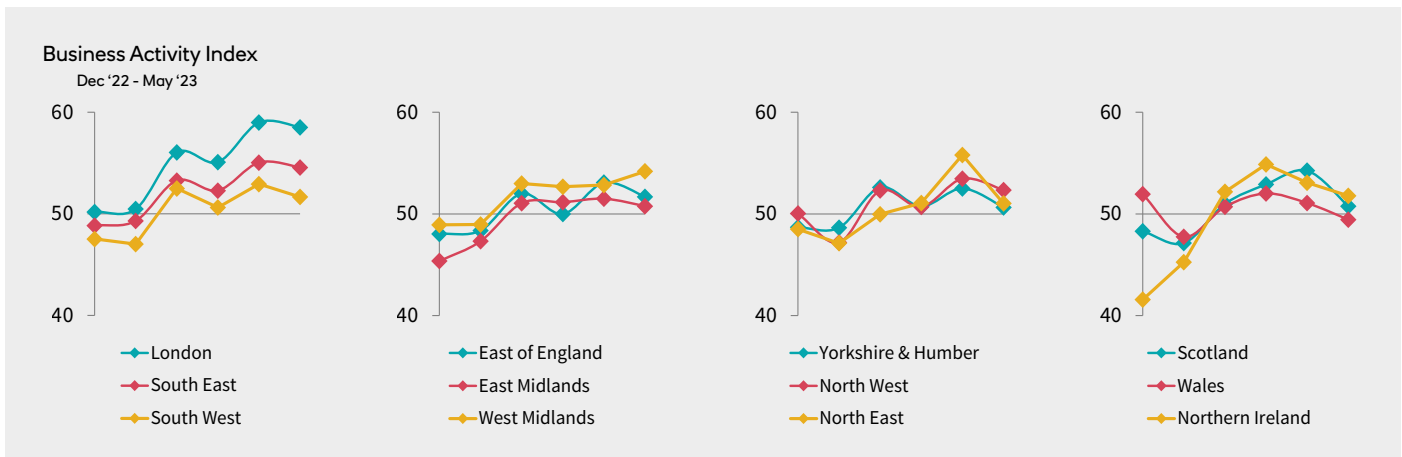
Employment rises in most areas, though job creation generally slows

Rates of output price inflation resume downward trends, but remain high

Business activity growth was sustained throughout most of the UK in May, with London the clear standout performer, according to the latest Regional PMI[®] survey from NatWest. Elsewhere, rates of inflation in prices charged for good and services slowed, although they remained elevated by historical standards due in part to the pass-through of rising wages.

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.

Almost all UK nations and regions monitored by the survey saw a rise in output in May, the only exception being Wales where the Business Activity Index dipped below the 50.0 no-change mark for the first time in four months, albeit marginally at 49.4. London (58.5) once again recorded by far the strongest growth rate, but one that was slightly slower than in April. In fact, only the West Midlands (54.2) saw an acceleration in the rate of expansion in business activity from the month before.



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About the UK Regional PMI® report

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

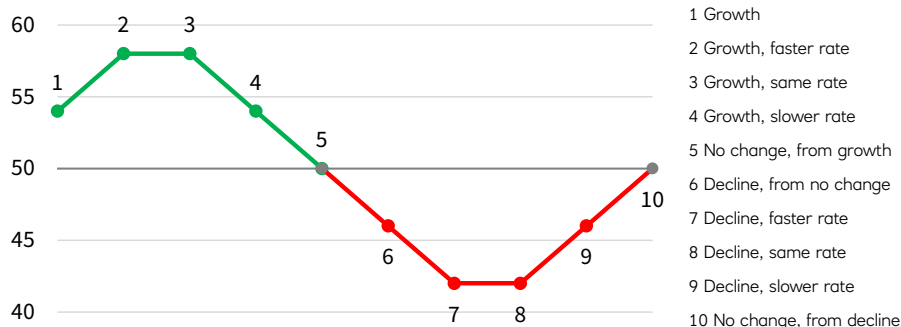
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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 batch of regional PMI data showed business activity rising across almost all parts of the UK in May, but it also indicated that growth has become increasingly uneven. London reaffirmed its status as the fastest-growing region, far outpacing the next-best performer which was the South East.

"Although job markets across the UK have slowed down compared to this time last year, we're still encouraged by the fact that most regions saw a rise in employment during May.

"One of the consequences of the labour market strength is second-round inflation effects. Workers are able to demand higher wages to cope with the rising cost of living, which is in turn leading companies to pass on higher operating expenses through further price increases and thereby keeping inflation higher for longer. And we're seeing this in the data.

"Despite falling fuel prices, average business costs continued to rise at rates well above their historical averages in almost all areas in May, and that's largely down to wage pressures, according to reports

from businesses. It isn't surprising to see London with the highest cost inflation, given its services-dominated economy and relatively smaller exposure to the decline in manufacturing purchase prices we're seeing. Whilst coming down in most areas in May, selling price inflation is still elevated by historical standards as many businesses across the UK are able to push through higher charges for goods and services."

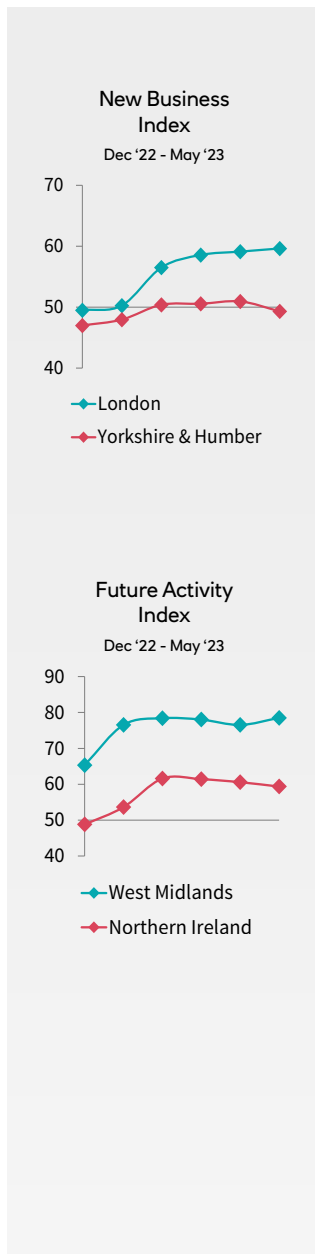
Demand and outlook

New business continues to rise in most areas

May saw an increase in new business in nine of the 12 monitored areas. Growth was strongest in London, where it reached the quickest for 14 months. The rate of expansion in the capital far outstripped anywhere else, including the regions ranked second and third overall – the South East and West Midlands. Yorkshire & Humber, the North West and North East each saw slight falls in inflows of new work.

West Midlands sees highest output expectations

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland* were the least upbeat towards the outlook, with sentiment there at a four-month low.



New Business Index
sa, >50 = growth since previous month, May '23



Future Activity Index
>50 = growth expected over next 12 months, May '23



* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



Business capacity

Employment growth led by Scotland

The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

Backlogs of work fall in all but two regions

Firms across the UK were generally able to keep on top of workloads during May, as highlighted by a decrease in outstanding business in all but two of the 12 monitored regions. The only exceptions were London and the South East, with the former seeing particularly strong pressure on business capacity. Companies in Wales noted the most marked drop in work-in-hand by far.



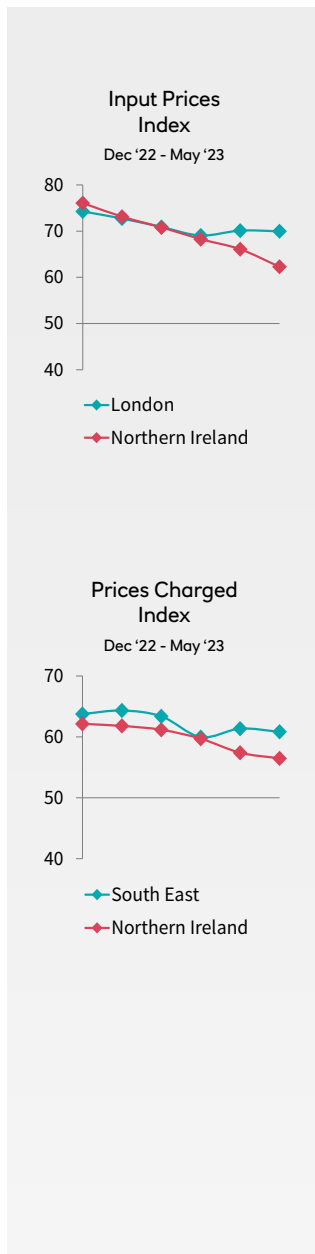
Prices

Cost pressures remain high, despite easing in most cases

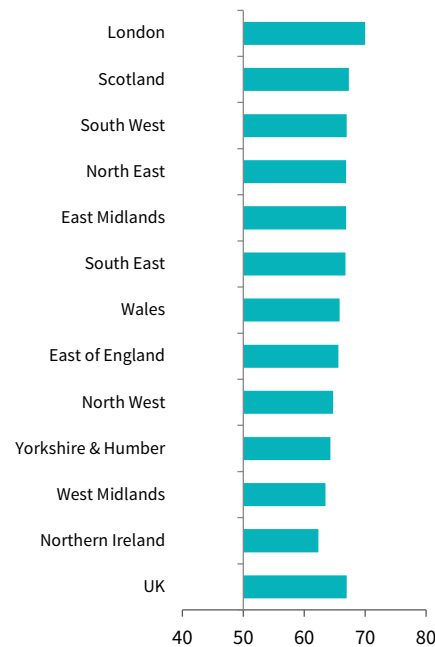
Rates of input price inflation generally remained above their long-run averages in May, in a sign of sustained strong cost pressure across the UK. The only exception was Northern Ireland, which saw operating expenses rise at the weakest rate for over two-and-a-half years and more slowly than in any other area. London saw the steepest rise in costs, but, like in most places, one that was slightly slower than in April.

Rates of output price inflation resume downward trends

After ticking up across almost every region and nation in April, rates of inflation in prices charged for goods and services resumed their downward trends in May. The South West was the only exception and recorded a rate of inflation that was unchanged on the month. Despite the slowdowns, output prices continued to rise sharply by historical standards, increasing fastest in the South East.



Input Prices Index
sa, >50 = inflation since previous month, May '23



Prices Charged Index
sa, >50 = inflation since previous month, May '23



Index summary

UK regions

sa, 50 = no change over previous month / *50 = no change over next 12 months, May '23

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	58.5	59.6	72.9	52.7	53.9	70.0	59.6
South East	54.6	55.1	74.3	50.1	50.4	66.8	60.8
South West	51.7	51.9	63.5	52.5	46.9	67.0	59.3
East of England	51.7	51.8	74.8	52.5	47.5	65.6	57.5
East Midlands	50.8	51.2	71.1	51.4	48.2	66.9	58.9
West Midlands	54.2	53.8	78.5	52.1	46.8	63.5	58.6
Yorkshire & Humber	50.6	49.3	73.9	51.5	46.5	64.3	59.0
North West	52.3	49.6	68.1	51.5	46.8	64.7	58.4
North East	51.0	49.7	61.0	49.0	47.0	66.9	60.1
Scotland	50.7	51.9	63.4	54.1	48.0	67.3	59.2
Wales	49.4	50.7	69.9	49.8	43.2	65.8	60.6
Northern Ireland	51.8	50.5	59.4	53.2	47.8	62.3	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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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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