

NatWest North West PMI®

Business activity continues to grow in September but at a slightly slower pace

North West Business Activity Index



Key findings

Upturn in output remains strong despite losing some momentum

Firms report further recovery in demand for goods and services...

...but continue to make job cuts

Latest UK regional PMI® data from NatWest showed a further strong rise in business activity across the North West in September, as the region's private sector continued to recover from the shock to demand and the widespread lockdown caused by the coronavirus disease 2019 (COVID-19) pandemic earlier in the year.

The headline North West Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – came in at 56.8 in September. This was well above the 50.0 no-change mark and therefore indicative of a strong rate of growth. That said, it was down slightly from 57.2 in August and further below July's recent high. The performance in the North West was similar to the UK as a whole, which likewise saw activity improve for the third month running, but at a slightly slower rate.

Richard Topliss, Chair, NatWest North's Regional Board, commented:

"The good news is that business activity in the North West continued to rise in September, with local firms seeing some further improvement in demand for goods and services. Less positive are the signs that growth has waned slightly, with the 'Eat Out to Help Out' scheme having ended and local lockdowns posing some further downside risks to the outlook. It's discouraging to see more job losses, but firms are having to make redundancies simply to survive. With backlogs rising we'd ordinarily expect this to lead to higher employment, but the impending transition to the new job support scheme makes the immediate outlook for the job market less clear. Manufacturing in the region remains a bright spot, with output in this sector continuing to rise sharply."

North West Business Activity Index

sa, >50 = growth since previous month



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About the North West PMI® report

The NatWest North West PMI® is compiled by IHS Markit from responses to questionnaires sent to North West companies that participate in IHS Markit's UK manufacturing and services PMI surveys.

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 is the Business Activity Index. This is a diffusion index

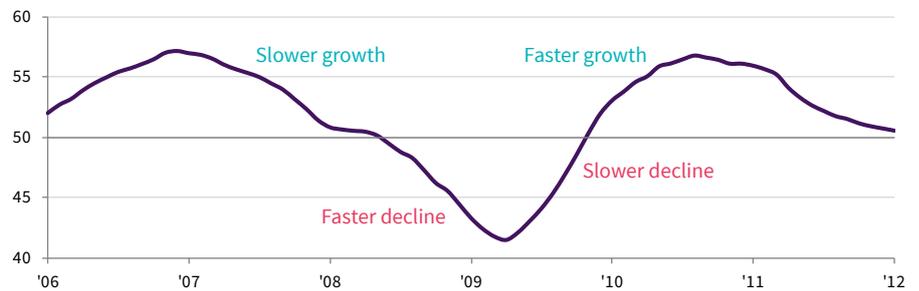
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'North West PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index interpretation

50.0 = no change since previous month



Demand and outlook

Demand for goods and services continues to improve

The volume of new business received by firms in the North West was up for the third month in a row in September, pointing to a sustained recovery in demand for goods and services following the record downturn induced by the COVID-19 lockdown in the second quarter. Amid reports of more customers returning, the rate of growth in new work reached the strongest for two years.

At the sector level, manufacturers continued to enjoy a steeper increase in new work than their services counterparts.

Optimism towards future activity eases slightly

On the whole, firms in the North West remained optimistic about the outlook for business activity over the next 12 months, citing hopes for the effects of COVID-19 to subside. That said, amid concerns about rising unemployment and Brexit uncertainty, expectations eased slightly from August's three-and-a-half year high to the lowest since June. Confidence in the region was still higher than the UK-wide average, however.

Exports

September sees further steady improvement in export climate

The North West Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the North West. This produces an indicator for the economic health of the region's export markets.

At 51.8 in September, the North West Export Climate Index pointed to a further steady improvement in demand conditions across the region's export markets. This partly reflected solid growth in the US, Germany and the Netherlands. However, the latest reading was down from August's 52.3, as output across both Ireland and France returned to contraction amid rises in COVID-19 cases in the respective countries.

New Business Index
sa, >50 = growth since previous month
55.5
Sep '20



Future Activity Index
>50 = growth expected over next 12 months
71.6
Sep '20

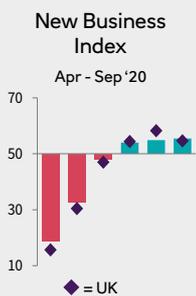


Export Climate Index
sa, >50 = growth since previous month
51.8
Sep '20



Top export markets, North West

Rank	Market	Weight	Output Index, Sep '20
1	USA	12.9%	54.3
2	Germany	11.5%	54.7
3	Ireland	6.6%	46.9
4	Netherlands	6.4%	55.9
5	France	6.1%	48.5



Business capacity

Employment continues to fall, albeit at a slower rate

Firms in the North West remained in retrenchment mode in September, reducing payroll numbers for the eighth month in a row. A number of surveyed firms reported redundancies, linked to company restructuring and cost-cutting efforts. The rate of decline eased to the weakest since March, although it was still marked by historical standards.

Underlying data pointed to notable job losses across both the manufacturing and service sectors over the third quarter.

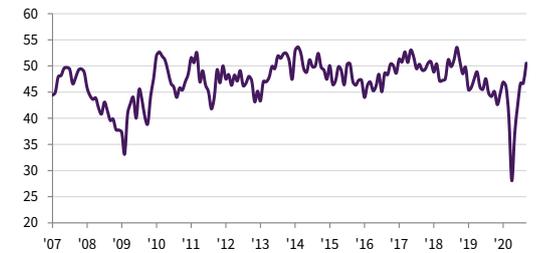
Backlogs of work rise for first time in almost two years

Following a sustained increase in incoming new work, firms operating in the North West reported the first – albeit marginal – rise in outstanding business since October 2018. The result was consistent with the picture for the UK private sector as a whole.

Employment Index 45.0
sa, >50 = growth since previous month Sep '20



Outstanding Business Index 50.5
sa, >50 = growth since previous month Sep '20



Prices

Input price inflation creeps higher in September

Latest data showed a fourth straight monthly increase in input prices faced by firms in the North West, following the declines observed at the height of lockdown in the spring. The rate of inflation inched up since August and was the highest for seven months. Where an increase in input prices was reported, some firms linked this to supply shortages and higher transportation costs.

Input Prices Index

sa, >50 = inflation since previous month

55.1

Sep '20



Input Prices Index

Apr - Sep '20



Further modest rise in output charges

As was the case in each of the previous three months, average prices charged for goods and services by firms in the North West rose in September. Though the rate of inflation ticked up slightly since August, it remained only modest and below the historical series average. Still, the rise in output prices in the region contrasted with a renewed decrease across the UK as a whole.

Prices Charged Index

sa, >50 = inflation since previous month

51.6

Sep '20



Prices Charged Index

Apr - Sep '20



UK Sector PMI

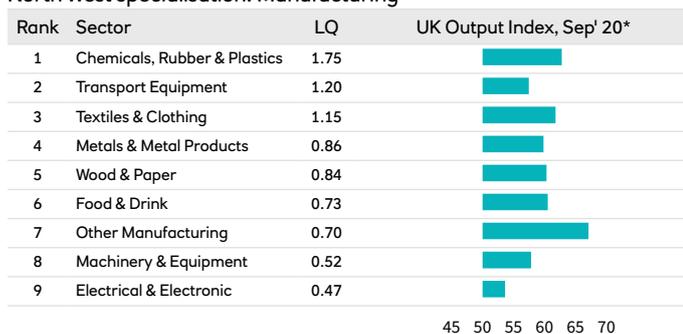
Sector specialisation: North West

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

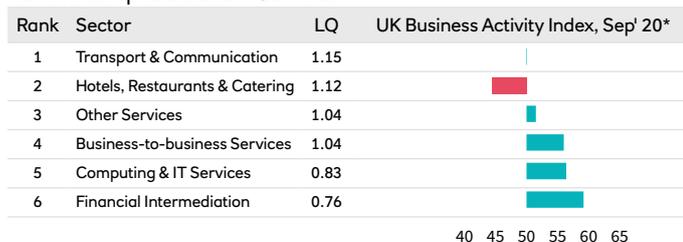
Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the North West, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

North West specialisation: Manufacturing



North West specialisation: Services



UK sector focus

Business-to-business services

The UK's business-to-business services sector saw a solid rebound in activity during the third quarter, buoyed by an uplift in new work as demand started to recover from the most severe impacts of the pandemic in the spring. Latest data showed activity growth accelerating to the quickest for over three-and-a-half years.

Though business-to-business service providers reported strong optimism towards the outlook for activity in a year's time, the absence of any real capacity pressures and an immediate need to cut costs led to further job losses across the sector in the three months to September. That said, the rate of staff cuts showed signs of easing and was weaker than seen in most other service sectors.

Prices charged by business-to-business service providers were meanwhile closer to stabilising, having shown an unprecedented decline earlier in the year.

Output Index

sa, >50 = growth since previous month (3mma)*



UK Regional PMI overview

Business Activity

Business activity rose across all areas of the UK in September, albeit at varying speeds. The best performance was seen in the North East where output rose sharply over the month. At the other end of the spectrum, Scotland moved to the bottom of the rankings having seen growth slow sharply since August. In fact, nine of the 12 monitored regions saw rates of increase in business activity lose momentum.

Employment

The picture for employment contrasted with that of output, with payroll numbers continuing to fall on a broad-based basis in September. Though rates of job shedding generally eased since August, data still showed sharp decreases in staffing levels in some regions such as the West Midlands and Yorkshire & Humber. The slowest fall in employment was seen in the North East.

Future Activity

Business confidence towards future output remained positive in all regions except Northern Ireland. Even here, however, the degree of pessimism receded sharply to the weakest for seven months. Yorkshire & Humber was the most optimistic region. That was despite expectations softening since August, as was the case in five other areas, namely London, East of England, North West, Scotland and Wales.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '20



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



Index summary

North West

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Apr '20	19.7	18.8	23.6	51.7	32.5	28.1	47.6	45.3
May '20	33.0	32.8	35.0	59.6	37.3	36.9	48.0	49.9
Jun '20	48.4	48.2	47.6	67.6	43.7	42.3	50.4	50.2
Jul '20	57.4	54.0	52.4	72.1	43.8	46.6	54.3	51.9
Aug '20	57.2	54.9	52.3	75.2	40.4	46.7	55.0	51.2
Sep '20	56.8	55.5	51.8	71.6	45.0	50.5	55.1	51.6

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About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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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