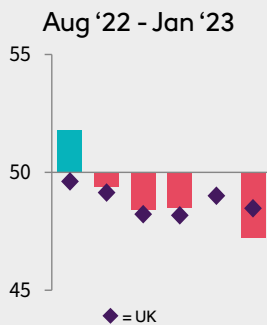




NatWest North West PMI®

Falling business activity signals a challenging start to the year for North West firms, but outlook brightens

North West Business Activity Index



Key findings

Business activity decreases for fourth time in five months in January

Cost pressures slowly ease from last year's highs

Jobs market remains resilient as year-ahead outlook brightens

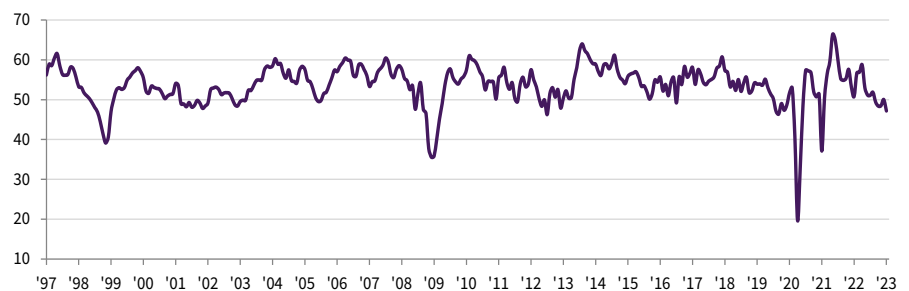
A renewed decline in business activity in January signalled a difficult start to the new year for firms across the North West, latest Regional PMI® data from NatWest showed. However, amid further signs that cost pressures had passed their peak, local businesses reported increased optimism towards the year-ahead outlook and continued to take on additional staff.

The headline North West PMI 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 – slipped back into sub-50 contraction territory in January, dropping from 50.0 in December to 47.2. The latest reading marked the fourth decrease in business activity in the past five months, and a rate of decline that was the quickest for two years. The downturn was led by weakness in manufacturing output, underlying data showed.

Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"January's PMI survey results were somewhat of a mixed bag, revealing both positive and negative developments across the North West economy at the start of the new year. Starting with the not-so-good news, we saw business activity return to contraction after briefly stabilising in December, with demand continuing to be strained by a combination soaring prices and tightening financial conditions. However, whilst remaining elevated, businesses' cost pressures continue to subside, boding well for the prospect of lower inflation in the coming months. Positively, local firms have grown in confidence about the outlook, which has in turn led to resilience in the labour market as firms continue to fill vacancies."

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 S&P Global from responses to questionnaires sent to North West companies that participate in S&P Global'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

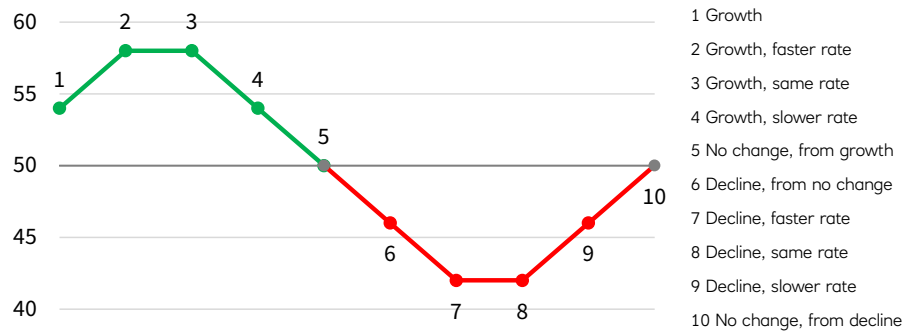
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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

New orders fall further as demand remains under pressure

January data indicated that demand for goods and services across the North West remained under pressure from soaring prices, tightening financial conditions and market uncertainty. Inflows of new business fell for the seventh month in a row, and at a quicker rate than in December.

Underlying data showed decreases in new orders across both manufacturing and services, with the former recording the sharper rate of decline by far.

Business confidence rises strongly to eight-month high

There was a notable improvement in business confidence across the North West private sector at the start of the year. Expectations rebounded further from last October's recent low to the highest for eight months, and were even slightly stronger than the UK-wide average. Those firms that reported optimism towards the outlook commented on new product development and hopes of a turnaround in demand.

Exports

Signs of improvement in export demand conditions

The North West Export Climate Index (ECI) 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. A reading above 50 signals an improvement in export conditions.

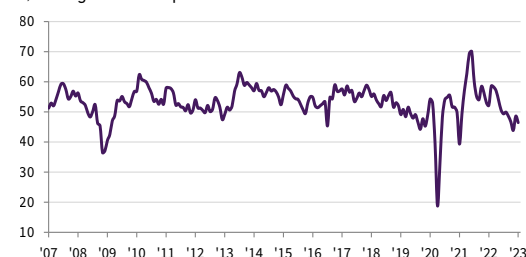
The ECI moved back above the neutral 50.0 level for the first time in six months in January. That said, at 50.2, it indicated only a marginal improvement in export demand conditions. Underlying data indicated that growth in markets such as the Netherlands, Ireland and China was partly offset by a continued downturn in activity in the region's top export destination, the US.

New Business Index

sa, >50 = growth since previous month

46.5

Jan '23

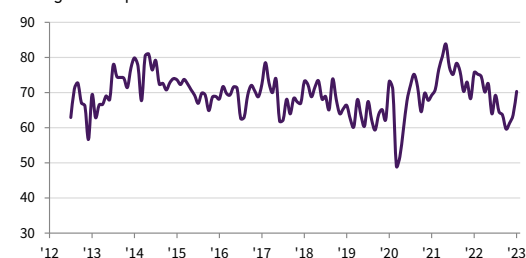


Future Activity Index

>50 = growth expected over next 12 months

70.3

Jan '23

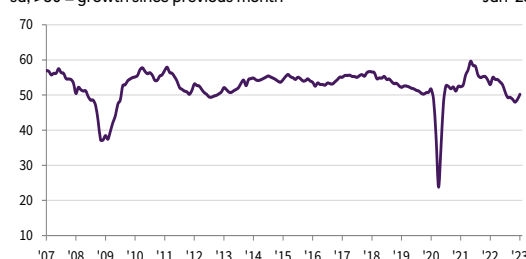


Export Climate Index

sa, >50 = growth since previous month

50.2

Jan '23

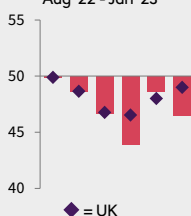


Top export markets, North West

Rank	Market	Weight	Output Index, Jan '23
1	USA	13.7%	46.8
2	Netherlands	10.0%	50.7
3	Germany	9.9%	49.9
4	Ireland	6.5%	52.0
5	China	5.8%	51.1

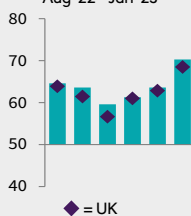
New Business Index

Aug '22 - Jan '23



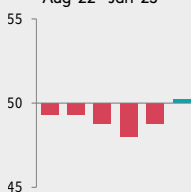
Future Activity Index

Aug '22 - Jan '23



Export Climate Index

Aug '22 - Jan '23

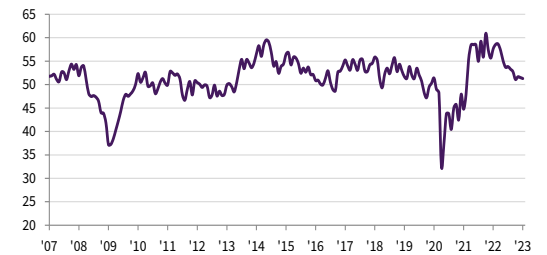


Business capacity

Local employment continues to creep higher

Despite lower business activity levels in January, firms across the North West continued to take on additional staff during the month, citing the filling of vacancies and efforts to drive growth. The rate of job creation was only modest, however, and the second-weakest in the current 23-month sequence of expansion in employment. The result also masked a sustained decline in manufacturing workforce numbers.

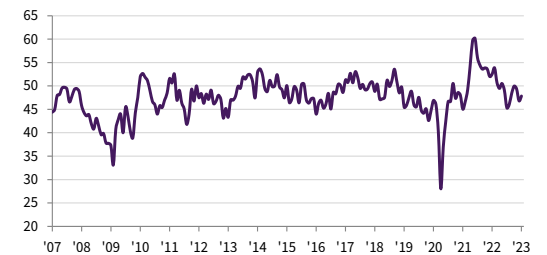
Employment Index 51.3
sa, >50 = growth since previous month Jan '23



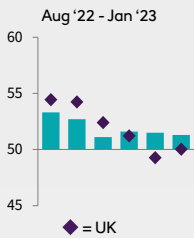
Further decline in backlogs of work

A lack of incoming new business, combined with a continued expansion in staff numbers, resulted in less pressure on business capacity across the North West private sector in January. Local firms were able to reduce backlogs of work for an eighth successive month, with manufacturers noting a particularly sharp rate of depletion. The decline in outstanding business broadly matched the trend for the UK as a whole.

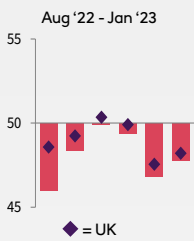
Outstanding Business Index 47.8
sa, >50 = growth since previous month Jan '23



Employment Index



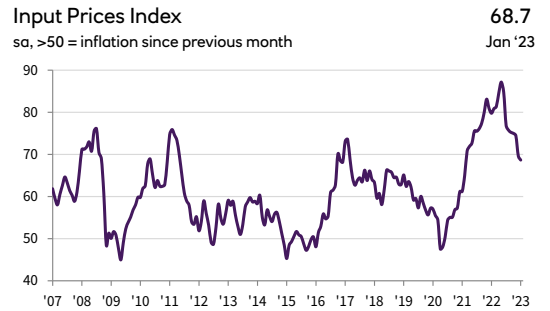
Outstanding Business Index



Prices

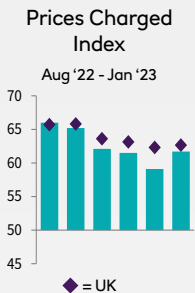
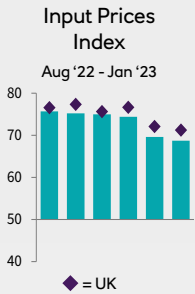
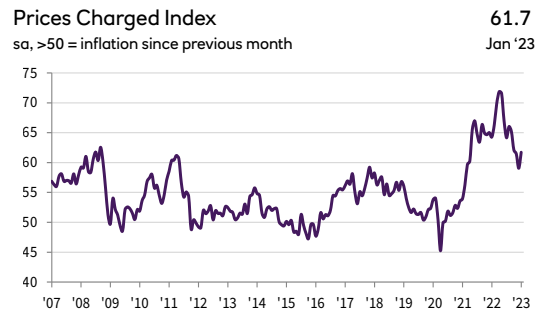
Input price inflation maintains steady slowdown

The rate of input price inflation faced by firms in the North West remained elevated by historical standards in January, amid reports of ongoing pressure from high energy costs and wage demands. That said, having eased for the eighth month in a row, it was the weakest since February 2021 and the slowest among the 12 nations and regions monitored by the survey.



Sharp and accelerated rise in prices charged

Many firms sought to pass on at least part of the burden of higher costs during January, resulting in a further steep rise in average prices charged for goods and services. The rate of output price inflation even ticked up slightly, after having reached a 22-month low in December, although it was still some way below the record highs observed in 2022. Underlying data showed similar rates of increase in both factory gate prices and charges set by services firms.



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

Rank	Sector	LQ	UK Output Index, Jan '23*
1	Chemicals & Plastics	1.72	48
2	Transport	1.25	48
3	Textiles & Clothing	1.18	48
4	Timber & Paper	0.91	40
5	Basic Metals	0.84	48
6	Food & Drink	0.79	55
7	Other Manufacturing	0.72	48
8	Mechanical Engineering	0.56	52
9	Electrical & Optical	0.51	48

North West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '23*
1	Transport & Communication	1.18	48
2	Hotels, Restaurants & Catering	1.10	52
3	Business-to-business Services	1.03	52
4	Personal & Community Services	1.03	50
5	Computing & IT Services	0.81	52
6	Financial Intermediation	0.76	48

UK sector focus

Personal & Community Services

After seeing activity levels decline in the latter stages of last year, the UK's Personal & Community Services sector started 2023 on a more stable footing. Key to this was a renewed, albeit marginal, upturn in inflows of new businesses in the three months to January.

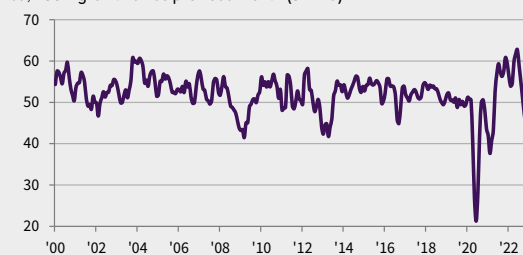
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

On the cost front, the rate of input price inflation eased only slightly and remained close to the record highs seen in 2022. Of the services sub-sectors mentioned, it was second only to that recorded by Hotels, Restaurants & Catering. Prices charged by Personal & Community Services firms meanwhile rose to the greatest extent since mid-2022.

Positively, expectations towards the year ahead improved, although they remained subdued by historical standards.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital remained only marginal, however. There were renewed downturns in output in both Wales and the North West, while the steepest decrease in activity was once again recorded in Northern Ireland.

Employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

Future Activity

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was recorded in the West Midlands, which also saw the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.

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

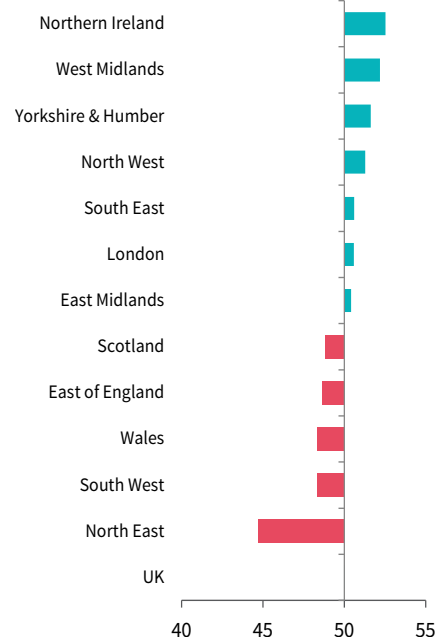
Business Activity Index

sa, >50 = growth since previous month, Jan '23



Employment Index

sa, >50 = growth since previous month, Jan '23



Future Activity Index

>50 = growth expected over next 12 months, Jan '23



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
Aug '22	51.8	49.9	49.3	64.6	53.3	46.0	75.7	66.0
Sep '22	49.4	48.6	49.3	63.6	52.7	48.4	75.2	65.2
Oct '22	48.4	46.7	48.8	59.6	51.1	49.9	75.0	62.1
Nov '22	48.5	43.9	48.0	61.3	51.6	49.4	74.4	61.5
Dec '22	50.0	48.6	48.8	63.6	51.5	46.8	69.6	59.1
Jan '23	47.2	46.5	50.2	70.3	51.3	47.8	68.7	61.7

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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.

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