

NatWest Yorkshire & Humber PMI®

Yorkshire & Humber activity growth slumps to 18-month low as demand weakens

Yorkshire & Humber Business Activity Index



Key findings

Business activity rises only mildly as demand conditions deteriorate

First fall in new orders since January 2021 amid cost-of-living crisis

Business confidence slides to 27-month low

The headline 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 – fell to 51.1 in July, its lowest mark in a year-and-a-half and a notable drop from 54.2 in June. While the headline index was still indicative of growth, it signalled an expansion that was only mild and the weakest seen across the current sequence of increase which began in February 2021.

Richard Topliss, Chair of NatWest North Regional Board, commented:

"The Yorkshire & Humber private sector registered a notable slowdown in growth at the start of the third quarter as the cost-of-living crisis, subdued client confidence, ongoing supply issues and rapid energy price inflation all weighed on the economy. Overall, July's expansion was the softest in a year-and-a-half and only mild overall.

"Of concern will be the decline in private sector order books, highlighting the damaging impact that high inflation is having on demand. Confidence in the outlook has deteriorated, with business optimism slumping to its lowest level since the early stages of the COVID-19 pandemic in 2020.

"If any positives are to be gleaned from the latest survey, it could be on the prices front, where input cost and output price inflation cooled further."

Yorkshire & Humber Business Activity Index

sa, >50 = growth since previous month



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About the Yorkshire & Humber PMI® report

The NatWest Yorkshire & Humber PMI® is compiled by S&P Global from responses to questionnaires sent to Yorkshire & Humber 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

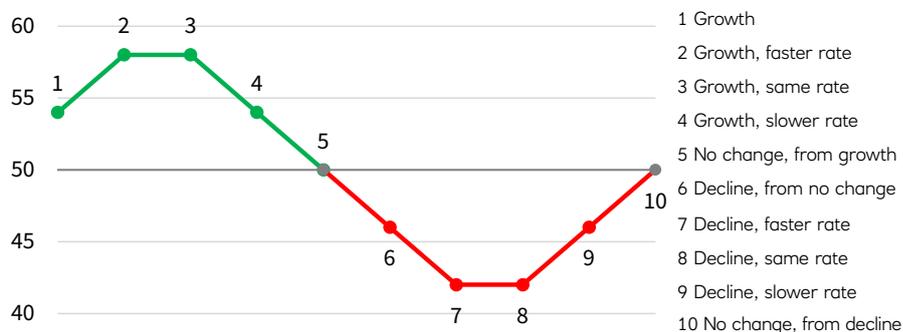
Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Yorkshire & Humber Business Activity Index is comparable to the UK Composite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

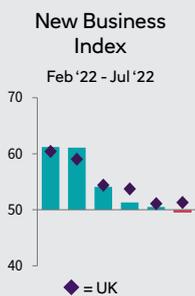
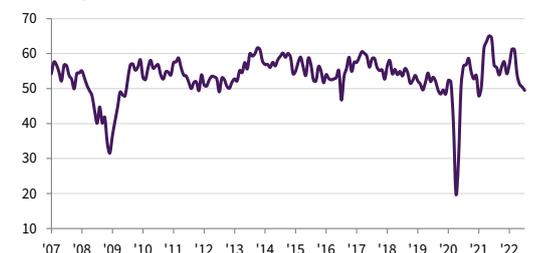


Demand and outlook

New orders decline for first time since January 2021

July survey data signalled the first drop in demand for Yorkshire & Humber goods and services for almost a year-and-a-half. Both manufacturers and services firms registered lower intakes of new work. Supply issues, order cancellations, high prices and sufficient stock levels at clients were all noted as reasons for weaker demand.

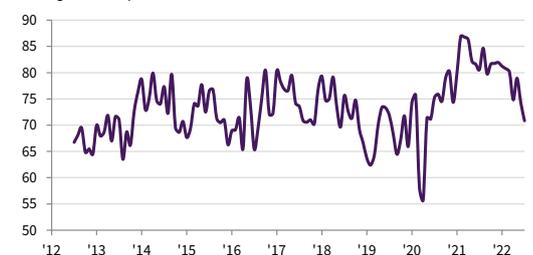
New Business Index
sa, >50 = growth since previous month Jul '22



Business confidence slides to 27-month low in July

The Future Activity Index slumped to its lowest level since April 2020 during July, signalling weaker business confidence among firms in Yorkshire & Humber. While more firms were expectant of growth over the next 12 months than those anticipating a drop, the level of positive sentiment dipped below its long-run average (since July 2012).

Future Activity Index
>50 = growth expected over next 12 months Jul '22



Nevertheless, firms in Yorkshire & Humber were the most optimistic when compared to the 11 other monitored UK regions.

Exports

Export climate improves at weakest pace in over two years

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

Export Climate Index
sa, >50 = growth since previous month Jul '22



The Export Climate Index fell to 50.4 in July, down from 52.1 in June. While still above the crucial 50.0 mark that separates improvement from deterioration, it marked an expansion that was only marginal overall and the weakest in just over two years.

The slower improvement was largely a reflection of trends across the US and Germany (which account for 20% of goods exports), as economic activity across these two nations declined in July.

Top export markets, Yorkshire & Humber

Rank	Market	Weight	Output Index, Jul' 22
1	USA	10.9%	47.7
2	Netherlands	9.6%	51.7
3	Germany	9.1%	48.1
4	Ireland	8.2%	52.9
5	France	6.5%	51.7

Business capacity

Employment rises strongly, but at slowest pace in six months

Private sector businesses across Yorkshire & Humber added to their payroll numbers once again in July, extending the current sequence of jobs growth to 18 months. Moreover, the expansion was strong and well in excess of its historical average. According to survey respondents, staffing levels were raised to boost operating capacities.

That said, the increase in employment was the slowest in six months as some companies cut the headcount due to falling demand.

Backlogs of work fall for first time since February 2021

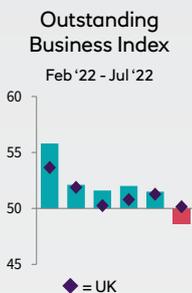
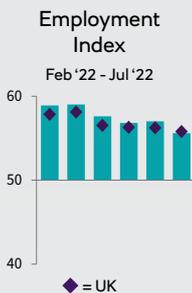
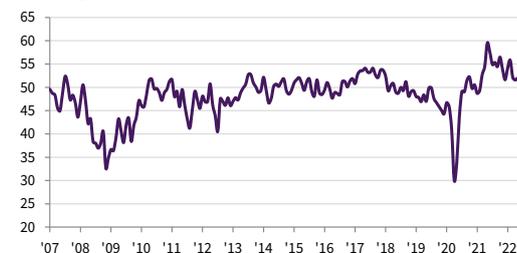
The seasonally adjusted Outstanding Business Index fell below the 50.0 no-change mark in July, signalling the first reduction in backlogs of work for 17 months. According to sub-sector data, the drop was centred on services companies as manufacturers recorded a further, albeit weaker, increase in work-in-hand.

According to anecdotal evidence, surveyed firms were able to catch up on outstanding business due to lower demand.

Employment Index
sa, >50 = growth since previous month
55.6
Jul '22



Outstanding Business Index
sa, >50 = growth since previous month
48.6
Jul '22



Prices

Input Prices Index



Input cost inflation cools to 14-month low

Latest survey data signalled sharply rising input costs faced by private sector companies in Yorkshire & Humber. Higher energy, transport and raw material prices were accompanied by reports of wage pressures, according to panel comments.

However, the rate of inflation cooled to a 14-month low. Compared to the 11 other monitored UK regions, only firms in the West Midlands recorded a softer rise in operating expenses during July.

Input Prices Index

sa, >50 = inflation since previous month

75.7

Jul '22



Prices Charged Index



Output prices rise sharply, but at slowest pace in 10 months

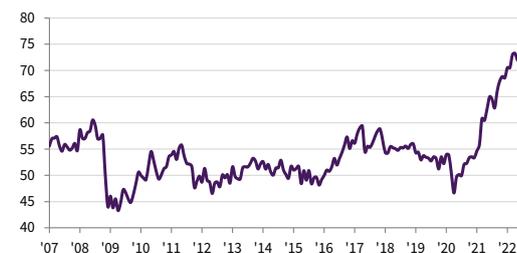
Another rapid increase in prices charged for goods and services in Yorkshire & Humber was registered in July. The rise in selling charges was frequently linked to greater costs. That said, the rate of inflation was the slowest in ten months. Softer output price pressures were seen at both manufacturers and service providers in July.

Prices Charged Index

sa, >50 = inflation since previous month

67.5

Jul '22



UK Sector PMI

Sector specialisation: Yorkshire & Humber

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 Yorkshire & Humber, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

Yorkshire & Humber specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Jul 22 ⁺
1	Other Manufacturing	1.54	50
2	Basic Metals	1.46	50
3	Textiles & Clothing	1.32	45
4	Food & Drink	1.22	45
5	Chemicals & Plastics	1.09	45
6	Timber & Paper	1.08	45
7	Mechanical Engineering	0.97	50
8	Electrical & Optical	0.50	55
9	Transport	0.26	50

Yorkshire & Humber specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul' 22 ⁺
1	Transport & Communication	1.29	45
2	Hotels, Restaurants & Catering	1.12	45
3	Personal & Community Services	1.07	50
4	Business-to-business Services	0.99	50
5	Financial Intermediation	0.82	50
6	Computing & IT Services	0.62	50

UK sector focus

Financial Intermediation

The UK's Financial Intermediation sector saw an increase in business activity in the three months to July. However, having been solid throughout the opening half of the year, the rate of growth slowed sharply and was among the softest seen since the current sequence of expansion began in the spring of last year.

The loss of momentum reflected a deepening decline in inflows of new work across the sector, with reports from surveyed firms highlighting the influence market and economic uncertainty, high inflation and rising interest rates. Expectations towards future activity deteriorated accordingly, dropping to their lowest in over two years.

On the price front, Financial Intermediation firms raised charges at a near-record rate in the three months to July, with underlying cost pressures close to the highest seen in over 25 years of data collection.

Output Index

sq, >50 = growth since previous month (3mma)⁺



⁺3-month moving average



UK Regional PMI overview

Business Activity

Eight of the 12 monitored UK regions recorded higher business activity in July, the lowest number since February 2021 (four). London saw by far the strongest growth, but even here the rate of expansion slowed, as was the case in six other areas. Northern Ireland* remained at the bottom of the rankings, while lower output was also seen in the North East, East of England and East Midlands.

Employment

Rates of job creation generally remained robust across the UK in July. In fact, four regions even saw slightly faster increases in employment than the month before, including the South East which moved to the top of the rankings. The North East once again went against the broader trend, registering another marginal decline in workforce numbers, its third in the past four months.

Future Activity

Firms' expectations for future activity remained positive for the most part in July, with only those in Northern Ireland anticipating a decline in output over the next 12 months. Businesses in Yorkshire & Humber were the most optimistic about the outlook, despite confidence in the region have weakened from the previous month. Expectations also fell in the West Midlands, South East, East Midlands and South West.

Business Activity Index

sa, >50 = growth since previous month, Jul '22



Employment Index

sa, >50 = growth since previous month, Jul '22



Future Activity Index

>50 = growth expected over next 12 months, Jul '22



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



Index summary

Yorkshire & Humber

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
Feb '22	63.1	61.2	55.1	80.8	58.9	55.8	81.2	70.5
Mar '22	64.3	61.1	54.5	80.1	59.0	52.1	82.4	73.0
Apr '22	58.2	54.1	54.7	74.8	57.6	51.6	83.0	73.3
May '22	52.1	51.3	53.6	78.9	56.8	52.0	85.6	71.9
Jun '22	54.2	50.5	52.1	74.3	57.0	51.5	84.4	71.6
Jul '22	51.1	49.5	50.4	70.9	55.6	48.6	75.7	67.5

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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.

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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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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