

13 August 2024

NatWest North West Growth Tracker

Growth softens across North West private
sector in July



NatWest

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by **S&P Global**

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Key findings

July 2024

Business Activity Index slips to six-month low of 51.5

Growth expectations increase to near three-year high

Rates of input cost and output price inflation tick up

The NatWest North West Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Growth softens across North West private sector

The latest NatWest Growth Tracker report showed a slowdown in the rate of expansion of business activity across the North West.

Although the total output of goods producers and service providers in the region increased in July, as has been the case throughout the year to date, the pace of expansion slowed to the weakest for six

months.

The headline North West Business Activity Index slipped from 53.2 in June to 51.5, its lowest reading since January. The region trailed behind the UK as a whole, which saw output growth tick up slightly (52.8).

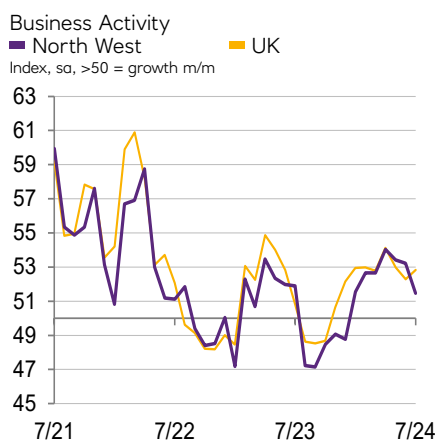
Of the local firms that recorded a rise in business activity, many linked this to stronger inflows of new work.

NatWest North West Business Activity Index July 2024

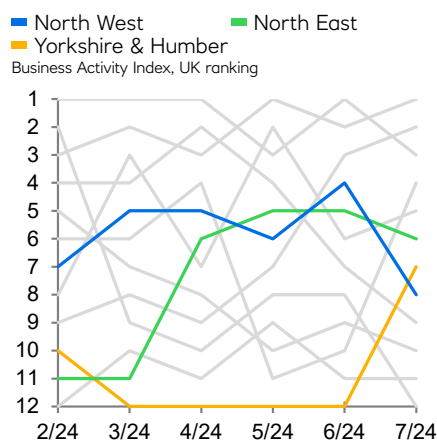
51.5

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 11-29 July



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Comment

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

"Business activity growth softened across the North West in July, although there are reasons to believe this might be just a blip. Strong pipelines of new work and a notable improvement in business confidence bode well for growth prospects for the remainder of the year.

"Optimism towards the outlook is supporting jobs growth in the region, with local businesses often taking the initiative by expanding their marketing and sales efforts.

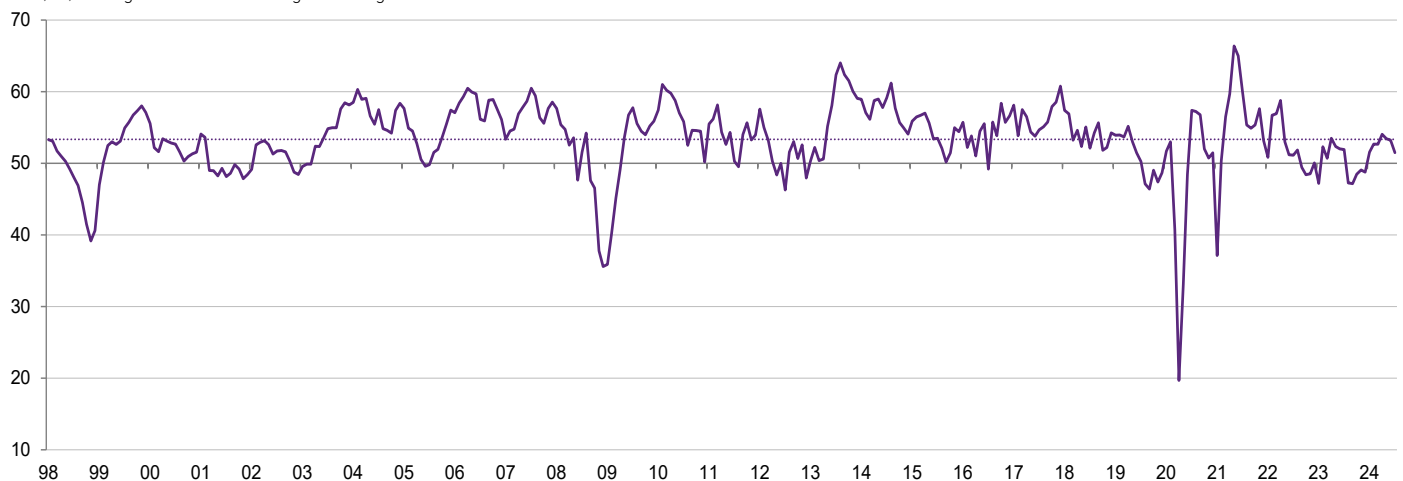
"Firms were able to raise output prices at a faster rate than on average over the series history, in a further sign that they are confident about demand conditions. However, cost inflation also picked up, which policymakers will be keeping an eye on as they consider when to cut interest rates next."

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Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



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Demand and outlook

Business growth expectations at near three-year high, as firms report sustained strong upturn in new work

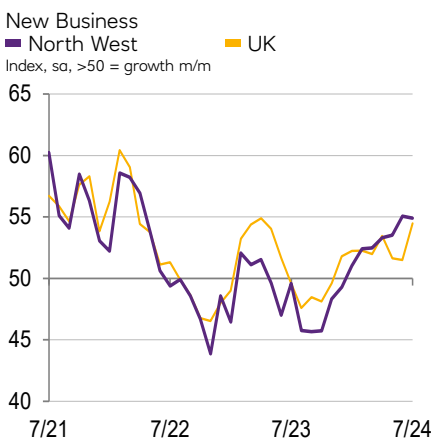
Firms operating in the North West continued to report a healthy inflow of new work at the start of the second half of the year. The rate of new business growth remained close to June's 26-month high and slightly outpaced the UK average.

Companies commented on successful marketing campaigns,

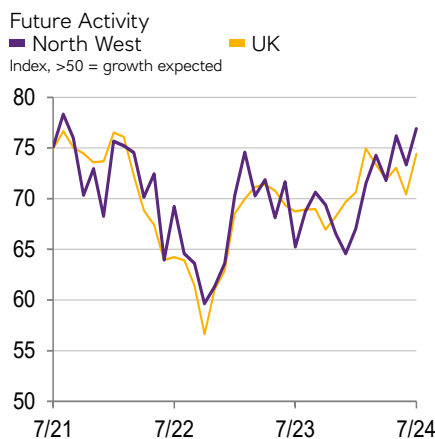
but also the influence of stronger underlying demand.

At the same time, July saw a notable improvement in confidence among local businesses towards their growth prospects in the coming year. Expectations were the highest since August 2021, reflecting hopes of more favourable market conditions and an increasing appetite for investment. Only firms in the South East, South West and West Midlands recorded higher optimism.

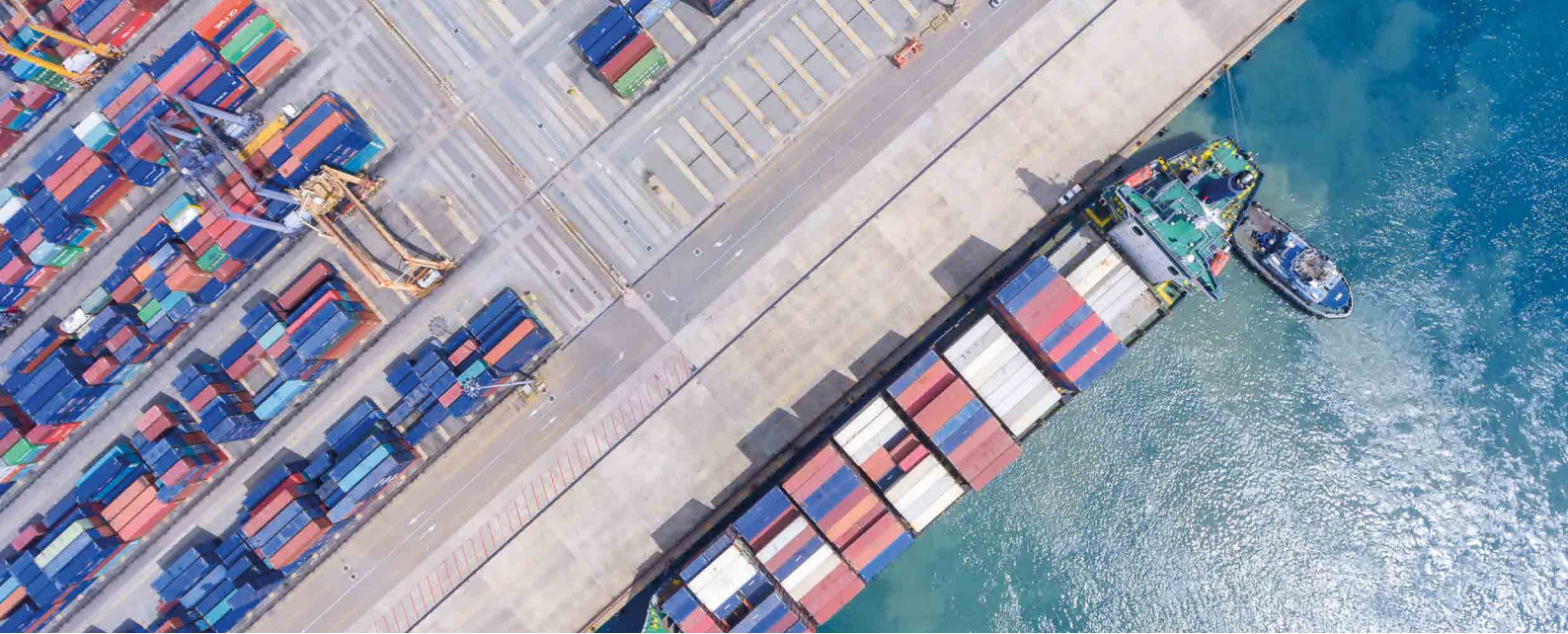
"Strong pipelines of new work and a notable improvement in business confidence bode well for growth prospects for the remainder of the year"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

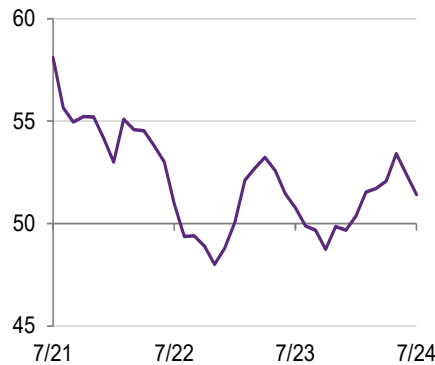


Export markets

Further – albeit slower – improvement in export conditions

The North West Export Climate Index slipped to a six-month low in July. The region's largest export destination, the US, continued to see robust growth. The upturn in the Eurozone stalled, however, with key markets such as Germany and the Netherlands seeing downturns in activity in July. On top of this, China's economy lost some momentum.

Export Conditions
Index, sa, >50 = growth m/m

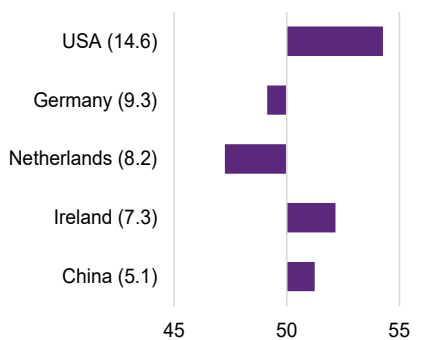


Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

The North West Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the North West. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, North West

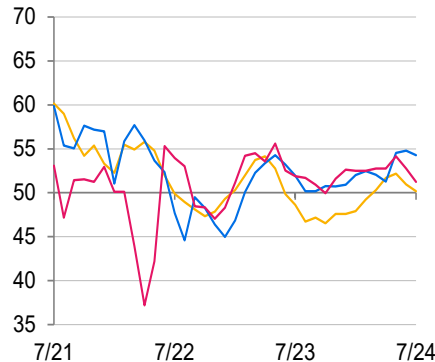
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Output

Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



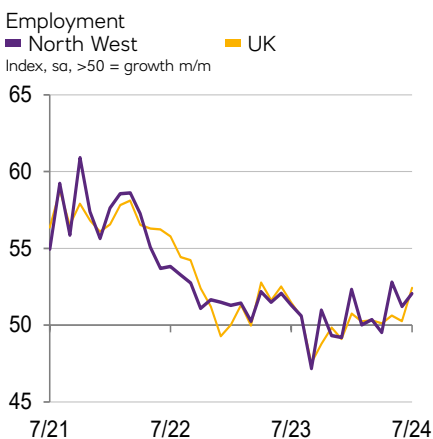
Jobs and capacity

Job creation gathers pace, despite firms still making rapid progress through backlogs

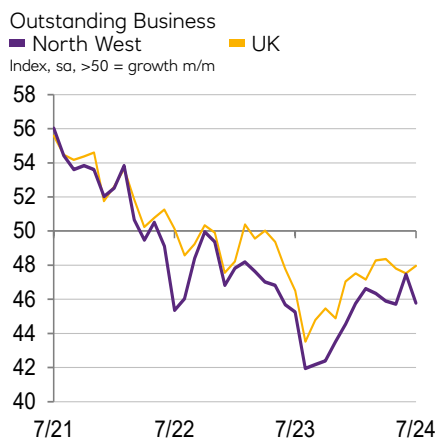
A further notable decrease in backlogs of work in July was an indication that firms in the North West were able to process orders at a faster rate than they received them. Nevertheless, employment levels continued to rise across the private sector, as companies commented on hopes of higher new business in the coming months as well as efforts to drive growth through greater marketing and investment in sales teams.

The rate of job creation in the region was solid and quickened slightly from the month before, although it was slower than the average recorded across the UK as a whole. The rise in local workforce numbers was also centred on the service sector, with manufacturers continuing to scale back staffing level amid signs of a lack of pressure on operating capacity at local factories.

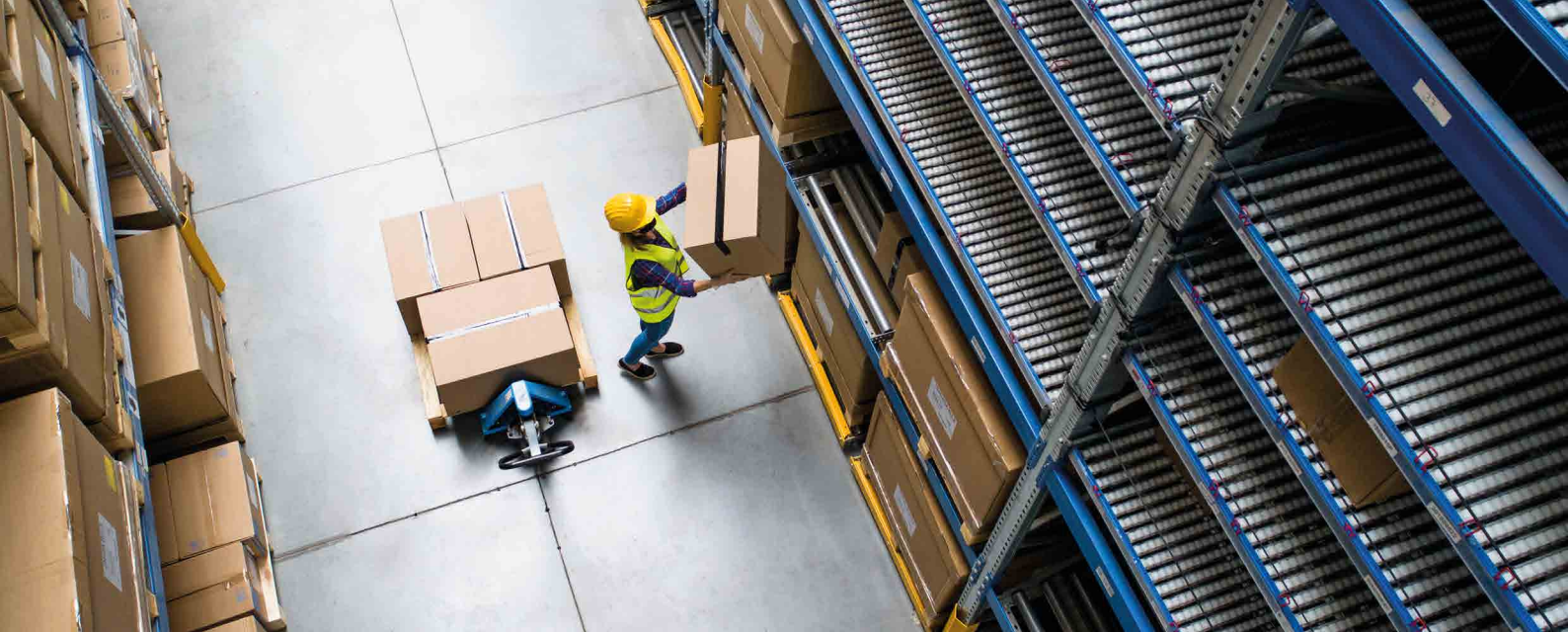
"Optimism towards the outlook is supporting jobs growth in the region, with local businesses often taking the initiative by expanding their marketing and sales efforts"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Inflation

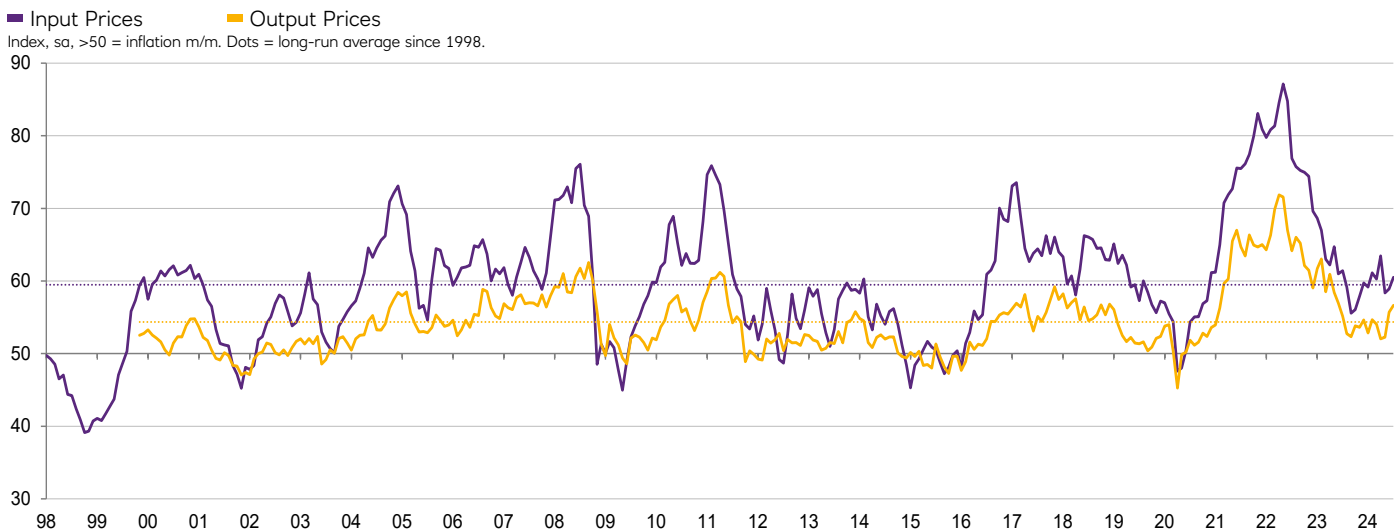
Inflationary pressures tick up, with costs and output prices rising faster than their respective long-run average rates

Average prices charged for goods and services rose more quickly across the North West in July, with the rate of inflation accelerating for the third month in a row and moving further above the long-run series average. Only businesses in the South West recorded a more

marked increase in output prices.

Local firms reported raising charges in line with growing operating expenses, which were in turn driven up by a combination of wage pressures and the higher cost of raw materials and transportation. Input price inflation was back above its long-run average in July, albeit only slightly.

"Firms were able to raise output prices at a faster rate than on average over the series history, in a further sign that they are confident about demand conditions"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

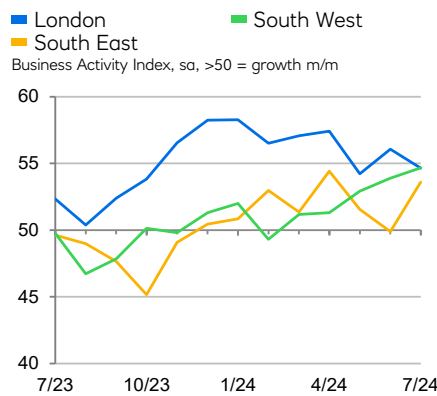
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



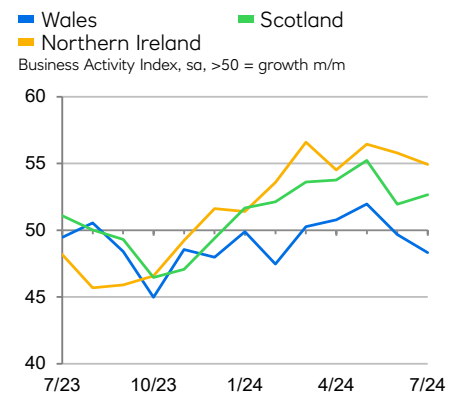
Sources: NatWest, S&P Global PMI. ©2024 S&P



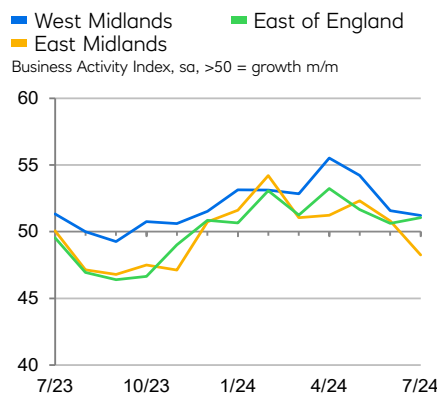
Sources: NatWest, S&P Global PMI. ©2024 S&P



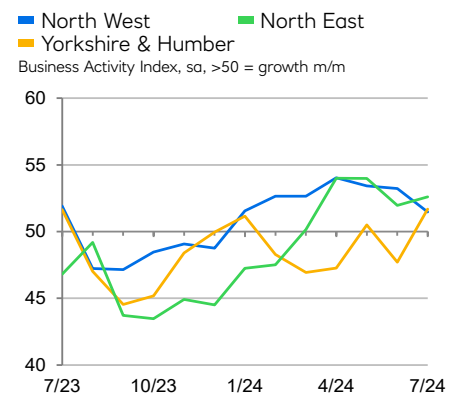
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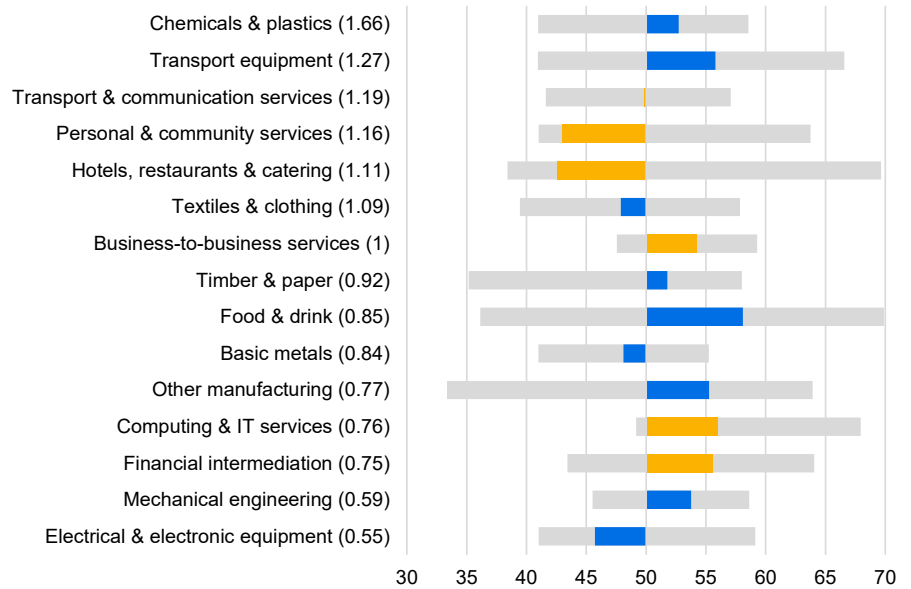
UK sectors

Sector specialisation: North West

The chart shows UK output indices by sector, ranked by location quotients for the North West. Location quotients (LQs) 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.

UK sectors ranked by importance to the North West economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jul '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 Location quotients for the North West are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Financial intermediation

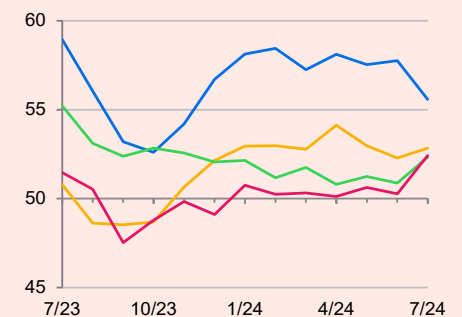
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment
 ■/■ Financial intermediation*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 *Data are smoothed as three-month moving averages (3mma).

Methodology

The NatWest North West Growth Tracker 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

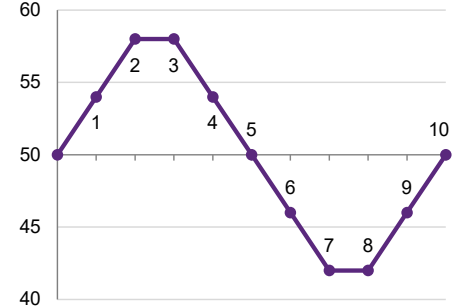
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

North West manufacturing and services
Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
2/24	52.7	52.4	51.5	50.0	46.6	71.5	61.1	54.7
3/24	52.7	52.5	51.7	50.4	46.3	74.3	60.3	54.1
4/24	54.0	53.3	52.1	49.5	45.9	71.8	63.5	52.0
5/24	53.4	53.5	53.4	52.8	45.7	76.2	58.4	52.3
6/24	53.2	55.1	52.4	51.2	47.5	73.3	58.9	55.7
7/24	51.5	54.9	51.4	52.1	45.8	76.9	60.5	56.6

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