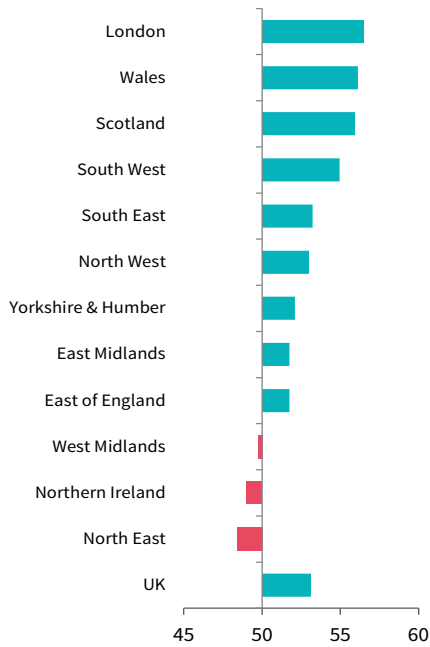


NatWest UK Regional PMI[®]

Sharp inflationary pressures weigh on regional economic growth in May

UK Regional PMI

Business Activity Index
sa, >50 = growth since previous month, May '22



Key findings

Firms across the UK hike output prices amid rampant cost pressures

Nine out of 12 regions record slower growth in output...

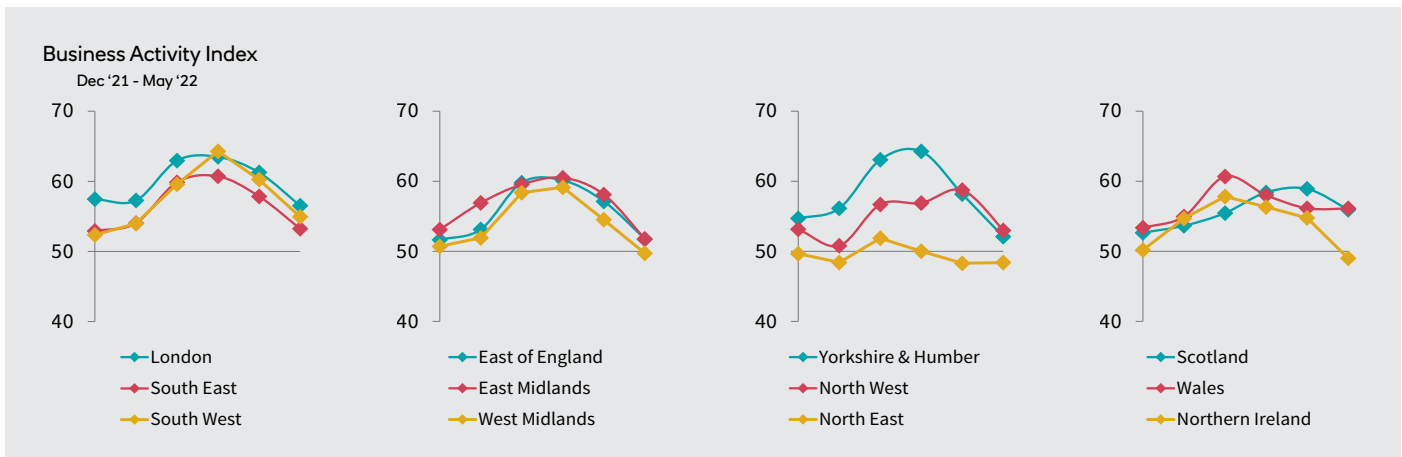
...while the North East, Northern Ireland and West Midlands post declines

Firms across the UK reported a rapid rise in average prices charged for goods and services in May, latest Regional PMI[®] data from NatWest showed, with nearly half of the areas monitored by the survey seeing record output price inflation amid a continued surge in cost pressures. Sharply rising prices in turn acted as a headwind to demand and weighed on regional economic growth.

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.

Nine out of the 12 monitored areas recorded a weaker rise in business activity in May, whilst the West Midlands (index at 49.7), Northern Ireland* (49.0) and the North East (48.4) each registered declines. London (56.5) once again topped the rankings in terms of output growth, ahead of Wales (56.1) and Scotland (55.9).

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



Contents

- [About the report](#)
- [Comment](#)
- [Demand and outlook](#)
- [Business capacity](#)
- [Prices](#)
- [Index summary](#)
- [Contact](#)

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).

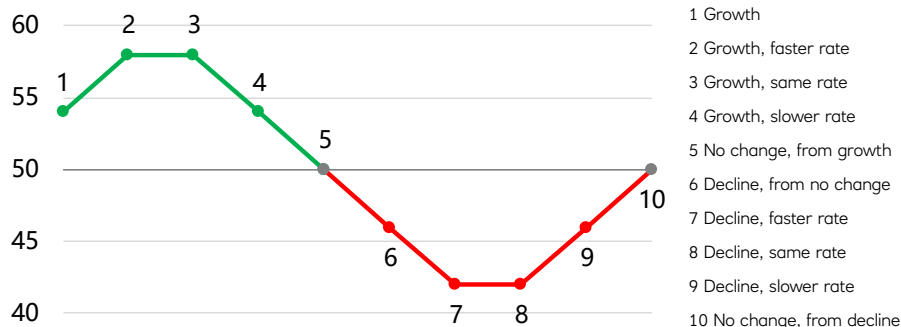
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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:

"May's Regional PMI surveys highlight sharp – and in some cases even intensifying – inflationary pressures across the UK. We're seeing businesses in all areas raising prices charged for goods and services at rates that are either at or very close to record highs as they continue to grapple with rapidly ballooning costs, all of which is further adding to the UK's cost of living crisis."

"These strong price pressures come at a time when the post-lockdown rebound in the economy is fading. Unsurprisingly, we've seen a loss of momentum across the UK in terms of business activity, with nine out of the 12 regions covered by the survey seeing growth slow, and the remaining three registering modest declines in output."

"Although rates of job creation have generally cooled in recent months, firms' willingness to take on additional staff is one area

that continues to show resilience, with all regions recording higher employment in May. London once again topped the regional rankings for employment growth, whilst also continuing to see the strongest growth in business activity. However, other areas already look to be in the grip of 'stagflation', seeing prices rising sharply whilst activity slows."

Demand and outlook

Inflows of new business show further loss of momentum

Although nine out of the 12 monitored regions recorded higher inflows of new orders in May, this was the lowest number since February 2021 and, of these, six saw slower growth. The three areas to register outright decreases in new business were Northern Ireland, the North East and East Midlands. London and Wales recorded the strongest increases, with both also seeing slightly faster rates of expansion.

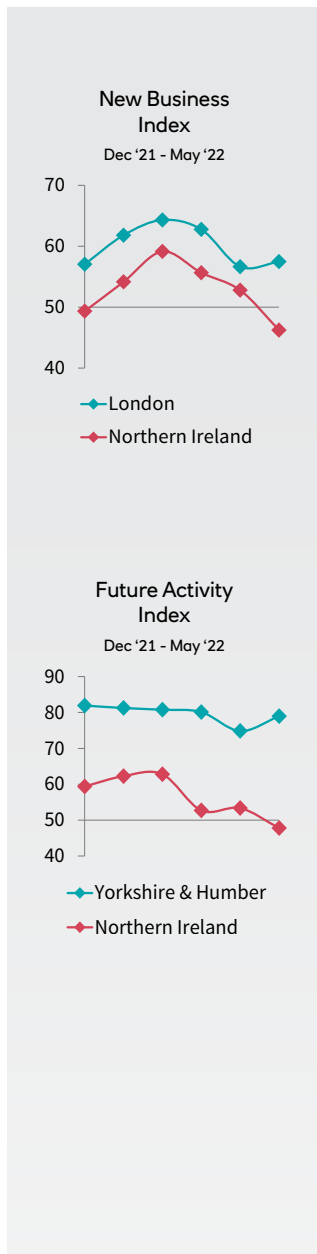
New Business Index
sa, >50 = growth since previous month, May '22



Expectations fall across majority of regions

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

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



Business capacity

London leads broad-based increase in employment

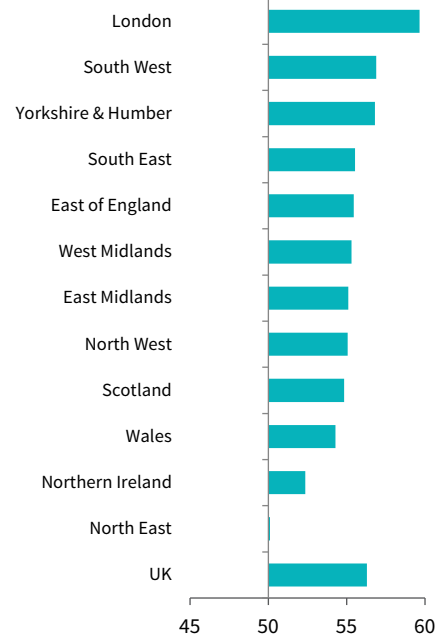
London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

Nine out of 12 regions record higher backlogs

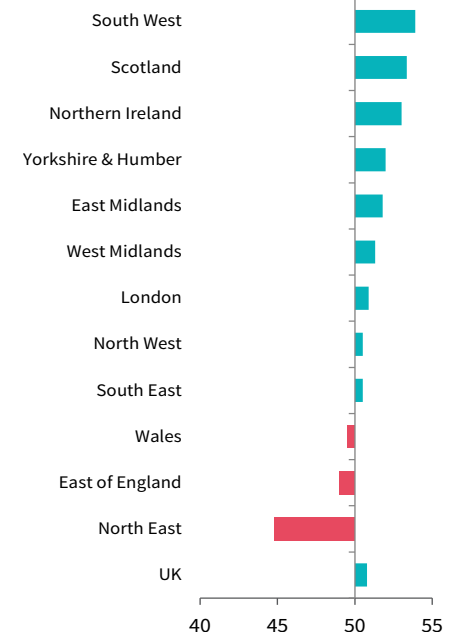
Three-quarters of UK regions saw a rise in outstanding business (i.e. orders received by not yet completed) in May. The South West recorded the strongest rate of backlog accumulation, followed by the Scotland and Northern Ireland. At the other end of the scale, firms in the North East registered the steepest drop in work-in-hand, with the East of England and Wales posting more modest declines by comparison.



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



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



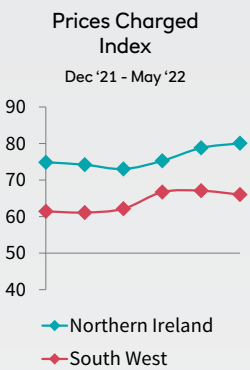
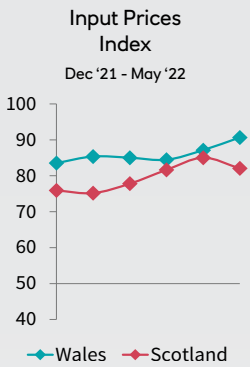
Prices

Half of regions see record input price increases

In May, half of the 12 monitored regions posted record increases in firms' input prices. Among the remaining six areas, rates of cost inflation were also elevated and faster than at any time prior to October last year. Businesses in Wales faced the steepest overall rise in operating expenses, while those in Scotland reported the slowest increase (albeit one that was still sharp overall).

Output prices rise sharply across the board

With firms generally looking to pass on at least part of the burden of higher costs to clients, all monitored areas saw sharp increases in average prices charged for goods and services in May. Northern Ireland once again recorded the steepest increase, with the rate of inflation here accelerating to a fresh survey high. This was also the case for Wales, the North East, East Midlands and London.



Input Prices Index
sa, >50 = inflation since previous month, May '22



Prices Charged Index
sa, >50 = inflation since previous month, May '22



Index summary

UK regions

sa, 50 = no change over previous month / *50 = no change over next 12 months, May '22

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	56.5	57.5	67.5	59.7	50.9	85.7	66.9
South East	53.2	53.5	72.1	55.5	50.5	87.4	70.4
South West	55.0	55.2	68.2	56.9	53.9	83.6	66.0
East of England	51.7	51.1	61.6	55.5	49.0	82.3	66.3
East Midlands	51.8	49.4	65.0	55.1	51.8	84.7	70.3
West Midlands	49.7	50.5	66.1	55.3	51.3	85.6	70.7
Yorkshire & Humber	52.1	51.3	78.9	56.8	52.0	85.6	71.9
North West	53.0	53.8	72.4	55.1	50.5	87.1	71.6
North East	48.4	46.7	56.1	50.1	44.8	87.1	72.1
Scotland	55.9	53.9	65.5	54.8	53.4	82.1	67.3
Wales	56.1	56.3	62.5	54.3	49.5	90.7	74.1
Northern Ireland	49.0	46.2	47.8	52.4	53.0	90.2	80.1

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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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