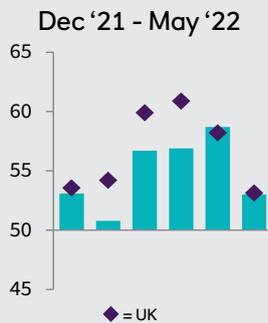


NatWest North West PMI[®]

North West sees slowdown in business activity growth as inflation and economic uncertainty strain demand

North West Business Activity Index



Key findings

Business Activity Index slips to four-month low of 53.0

Further sharp increase in output prices as cost pressures hit new high

Employment continues to rise, with firms still optimistic towards outlook

Latest Regional PMI[®] data from NatWest showed a slowdown in the rate of business activity growth across the North West in May, reflecting a loss of momentum in the post-lockdown recovery and headwinds to demand from rising prices and economic uncertainty. Firms reported a sharp increase in charges for goods and services as they continued to grapple with rising costs, although a rise in employment was indicative of relatively resilient business confidence in the region.

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 – registered 53.0 in May. Although still above the 50.0 no-change threshold, the latest reading was down from April’s 58.7 and signalled the slowest growth for four months.

Richard Topliss, Chairman of North Regional Board, commented:

"Growth of business activity in the North West is starting to slow, as the momentum gained from the lifting of COVID restrictions begins to fade and sharply rising prices act as a headwind to demand. May saw the weakest rise in regional output for four months, with the slowdown reflecting a broader UK trend. Inflationary pressures show no signs of abating, with firms' operating expenses rising at a record rate for the second month running amid the growing cost of energy, materials, transportation and personnel, all of which is translating into higher prices for goods and services. At least for now, however, businesses remain upbeat about the outlook, and more so than in almost any other area, which is helping to sustain job creation across the region."

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

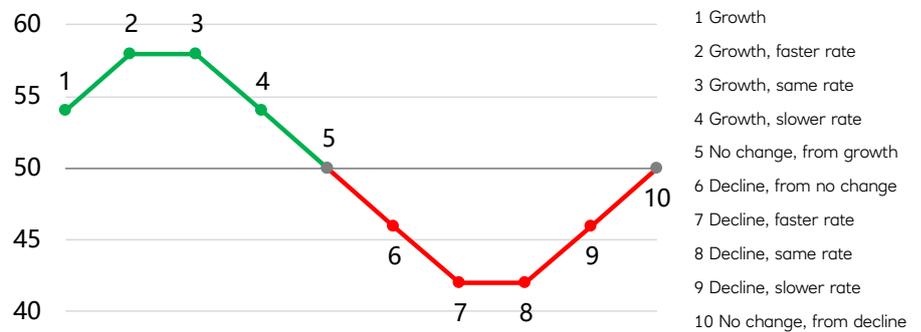
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

May saw a further increase in new business across the North West private sector, driven by a sustained rebound in demand for services following the lifting of COVID-related restrictions. However, owing to a combination of strong price pressures and weakness in manufacturing new orders, the rate of growth eased for the third month running to the weakest since January.

Business expectations tick up slightly

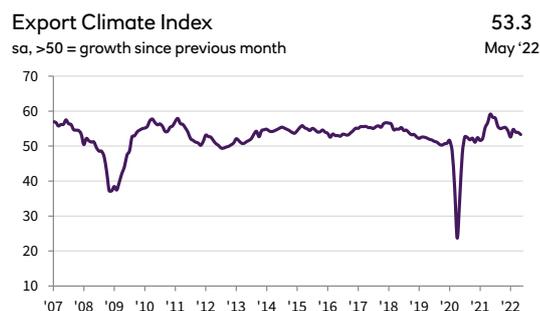
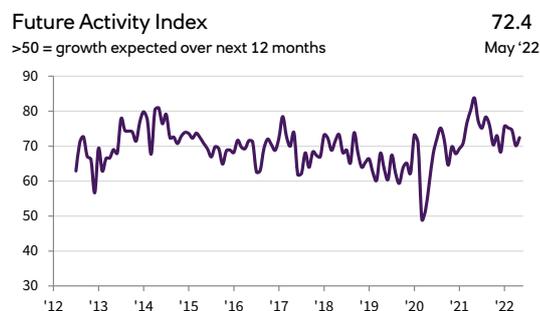
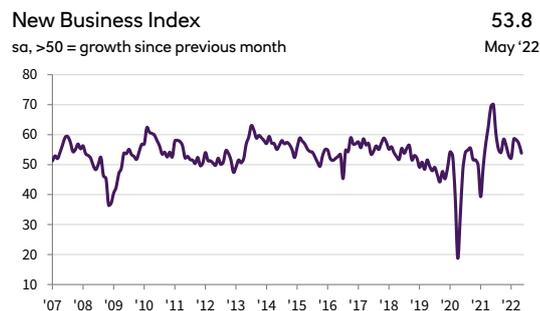
After falling to a four-month low in April, firms' expectations towards future activity showed a slight rebound midway through the second quarter. The improvement in confidence among businesses in the North West contrasted with a decline across the UK as a whole. Furthermore, the degree of optimism in the region was second only to that recorded in Yorkshire & Humber. Surveyed firms reported hopes of a sustained post-pandemic recovery in demand, alongside greater business investment and a boost to activity from increased staffing capacity.

Exports

Slower 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.

Although demand conditions for the North West's exporters continued to improve during May, they did so at the slowest rate for four months. This was highlighted by the ECI slipping to 53.3, down from 53.9 in April, amid weaker growth in each of the region's top three export markets, namely the US, Germany and Ireland.



Top export markets, North West

| Rank | Market | Weight | Output Index, May '22 |
|------|-------------|--------|-----------------------|
| 1 | USA | 13.1% | 53.6 |
| 2 | Germany | 10.5% | 53.7 |
| 3 | Ireland | 7.2% | 57.5 |
| 4 | China | 6.8% | 42.2 |
| 5 | Netherlands | 6.4% | 53.1 |



Business capacity

Employment growth eases but remains strong overall

In line with slower increases in both output and new business, employment growth across the North West private sector eased in May, down to its lowest since July 2021. That said, the rate of job creation remained strong by historical standards, with many local businesses continuing to show a willingness to increase in staff capacity to meet higher demand and in anticipation of greater levels of activity in the future.

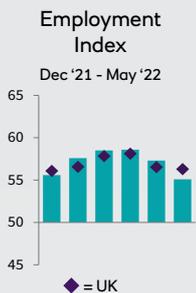
Slight increase in backlogs of work

Firms operating in the North West noted a slight increase in outstanding business (i.e. orders received by not yet completed) in May. It followed a modest decrease in backlogs the month before, and was broadly in line with the picture for the UK private sector as a whole. There were varying trends at the sector level, with a rise in work-in-hand among the region's service providers contrasting with a decline at local manufacturers.

Employment Index
sa, >50 = growth since previous month
55.1
May '22



Outstanding Business Index
sa, >50 = growth since previous month
50.5
May '22



Prices

Business cost pressures show no signs of easing

Business costs continued to intensify midway through the second quarter, with the rate of input price inflation accelerating to a new record high. The increase in costs, which was slightly steeper the UK average, was attributed by surveyed firms to rises in the price of energy, food, fuel, raw materials and shipping. Pay pressures were also a contributing factor, anecdotal evidence showed.

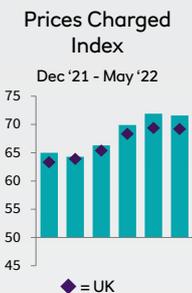
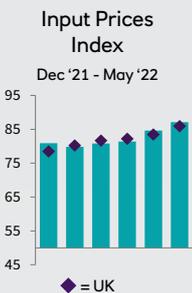
Input Prices Index 87.1
sa, >50 = inflation since previous month May '22



Further sharp rise in prices charged for goods and services

With firms continuing to pass on at least part of the burden of higher costs to clients, May saw a further sharp rise in average prices charged for goods and services. The rate of output price inflation ticked down only slightly from April's record high and continued to outstrip the average recorded across the UK as a whole. Underlying data showed a particularly steep increase in goods prices, although the rate of inflation in services charges was also a record high.

Prices Charged Index 71.6
sa, >50 = inflation since previous month May '22



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, May '22 ⁺ |
|------|------------------------|------|---------------------------------------|
| 1 | Chemicals & Plastics | 1.72 | 55 |
| 2 | Transport | 1.25 | 55 |
| 3 | Textiles & Clothing | 1.18 | 50 |
| 4 | Timber & Paper | 0.91 | 50 |
| 5 | Basic Metals | 0.84 | 55 |
| 6 | Food & Drink | 0.79 | 50 |
| 7 | Other Manufacturing | 0.72 | 55 |
| 8 | Mechanical Engineering | 0.56 | 55 |
| 9 | Electrical & Optical | 0.51 | 55 |

North West specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, May '22 ⁺ |
|------|--------------------------------|------|--|
| 1 | Transport & Communication | 1.18 | 50 |
| 2 | Hotels, Restaurants & Catering | 1.10 | 55 |
| 3 | Business-to-business Services | 1.03 | 55 |
| 4 | Personal & Community Services | 1.03 | 55 |
| 5 | Computing & IT Services | 0.81 | 55 |
| 6 | Financial Intermediation | 0.76 | 55 |

UK sector focus

Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland* and the North East.

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 (namely 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.

Future Activity

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.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

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



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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Dec '21 | 53.1 | 53.1 | 54.3 | 68.3 | 55.6 | 52.0 | 80.9 | 65.0 |
| Jan '22 | 50.8 | 52.2 | 52.6 | 75.7 | 57.6 | 52.5 | 79.8 | 64.3 |
| Feb '22 | 56.7 | 58.6 | 54.8 | 75.2 | 58.5 | 53.8 | 80.8 | 66.3 |
| Mar '22 | 56.9 | 58.2 | 54.0 | 74.5 | 58.6 | 50.7 | 81.4 | 69.9 |
| Apr '22 | 58.7 | 56.9 | 53.9 | 70.2 | 57.3 | 49.5 | 84.6 | 71.9 |
| May '22 | 53.0 | 53.8 | 53.3 | 72.4 | 55.1 | 50.5 | 87.1 | 71.6 |

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