



NatWest North West PMI[®]

North West business activity falls for first time since January 2021

North West Business Activity Index



Key findings

Headline Business Activity Index drops into sub-50 contraction territory

Business confidence weakens amid growing headwinds to demand

Price pressures remain strong, but retreat further from record highs

Firms across the North West reported a fall in business activity in September, ending a period of growth stretching back over a year-and-a-half, latest Regional PMI[®] data from NatWest showed.

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 – dropped below the 50.0 threshold that separates growth from contraction for the first time since the third national lockdown in January 2021. At 49.4, down from August’s 51.8, the index signalled a modest rate of contraction that was slightly slower than that seen across the UK as a whole (49.1).

Malcolm Buchanan, Chair of North Regional Board, commented:

"The North West's economic rebound, seen since the easing of restrictions in the wake of the third national lockdown at the start of 2021, fizzled out in September. The third quarter ended with falls in both business activity and inflows of new work, amid reports of growing caution among customers and a squeeze on purchasing power from sharply rising prices. With concerns around the trajectory of interest rates adding to the gloomy outlook, business expectations fell to the lowest since the initial COVID-19 shock. The labour market continued to provide a bright spot, but even here there are signs of a slowdown as employment growth slipped to a 19-month low. Although the PMI data showed price pressures moderating slightly in September, they remain uncomfortably high and indicate the cost of living crisis still has a lot further to run."

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

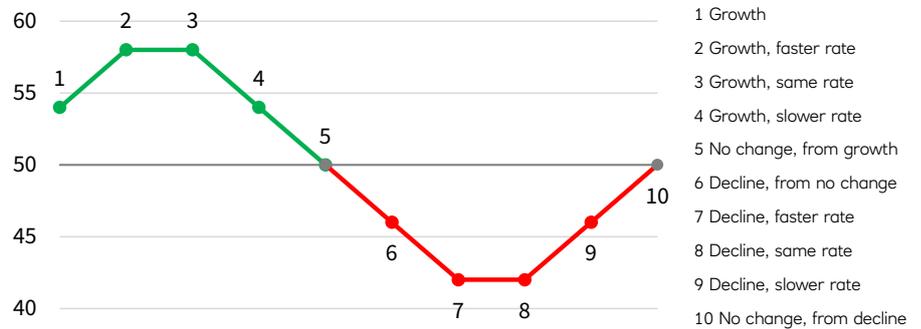
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

September sees growing headwinds to demand

September saw a further decrease in the level of new business at firms across the North West, indicating a sustained slowdown in underlying demand across the region. The fall in new work was the third in as many months and attributed by surveyed businesses to growing anxiety among customers and a squeeze on purchasing power due to the rising cost of living. Although only modest, it was the biggest fall in new business since the COVID-19 lockdowns in January 2021. The rate of decline matched that seen across the UK as a whole.

Business expectations show weakening trend

Firms' expectations towards growth prospects in the year ahead weakened at the end of the third quarter. It was the sixth time in the past eight months that a decrease in business confidence has been recorded, with sentiment in September the lowest since the initial COVID-19 wave almost two-and-a-half years ago. Anecdotal evidence revealed growing concerns about recession due to persistently high inflation, rising energy costs and increasing interest rates.

Exports

Further steady deterioration in export conditions

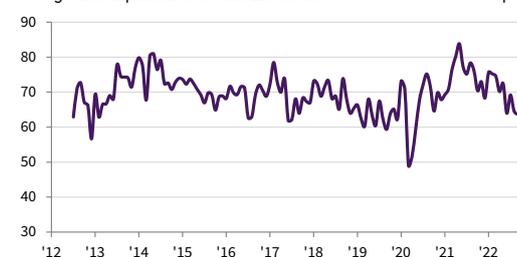
The North West Export Climate Index (ECI) is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the North West. This produces an indicator for the economic health of the region's export markets. A reading below 50 signals a deterioration in export conditions.

After having fallen below the neutral 50.0 threshold for the first time in over two years in August, the ECI registered 49.4 in September, signalling a further slight deterioration in export conditions. Activity fell across several major export markets, including in Germany and the Netherlands, where rates of decline accelerated.

New Business Index
sa, >50 = growth since previous month
48.6
Sep '22



Future Activity Index
>50 = growth expected over next 12 months
63.6
Sep '22



Export Climate Index
sa, >50 = growth since previous month
49.4
Sep '22



Top export markets, North West

Rank	Market	Weight	Output Index, Sep '22
1	USA	13.1%	49.3*
2	Germany	10.5%	45.7
3	Ireland	7.2%	52.2
4	China	6.8%	53.0**
5	Netherlands	6.4%	46.4

* September 'flash' data.

**August data. Due to a later release date, September data for China were not available for inclusion in the ECI.

New Business Index

Apr - Sep '22

◆ = UK

Future Activity Index

Apr - Sep '22

◆ = UK

Export Climate Index

Apr - Sep '22

◆ = UK

Business capacity

Employment continues to rise, but with waning momentum

Employment levels rose further across the North West private sector in September, continuing a sequence of growth stretching back to March 2021. That said, the pace of job creation was the weakest recorded over this period and below the UK-wide average, with a reduction in manufacturing workforce numbers partly offsetting recruitment across the services economy.

Further, albeit slower, decline in backlogs of work

Firms in the North West recorded a further decline in outstanding business (i.e. orders received by not yet completed) in September, reflecting a combination of reduced inflows of new work and a further expansion in staffing capacity. The decline was the fourth in as many months and led by the manufacturing sector. The pace of backlog depletion slowed to the weakest since June, however.

Employment Index

sa, >50 = growth since previous month

52.7

Sep '22

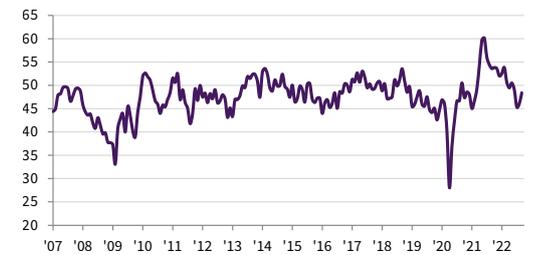


Outstanding Business Index

sa, >50 = growth since previous month

48.4

Sep '22



Employment Index

Apr - Sep '22



◆ = UK

Outstanding Business Index

Apr - Sep '22



◆ = UK



Prices

Rate of input price inflation maintains steady slowdown from recent record high

Business costs continued to rise sharply in September, driven by the soaring price of energy and wage pressures. That said, although remaining well above its historical series average, the rate of input cost inflation eased further from May's record high to a 16-month low amid reports of the softening of some raw material prices.

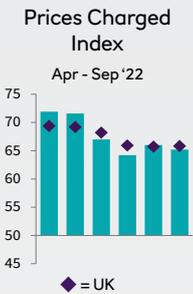
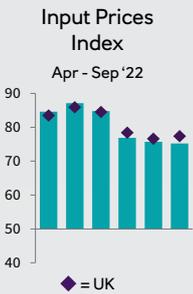
Input Prices Index 75.2
 sa, >50 = inflation since previous month Sep '22



Firms continue to pass on higher costs via hikes in charges for goods and services

Higher input costs once again translated into a rise in prices charged for goods and services in September, as businesses looked to protect profit margins. The rate of output price inflation eased slightly from previous survey period and was fractionally below the UK average, but it nevertheless remained among the quickest in the series history.

Prices Charged Index 65.2
 sa, >50 = inflation since previous month Sep '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

North West specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Sep '22 ⁺
1	Chemicals & Plastics	1.72	48
2	Transport	1.25	47
3	Textiles & Clothing	1.18	47
4	Timber & Paper	0.91	46
5	Basic Metals	0.84	46
6	Food & Drink	0.79	46
7	Other Manufacturing	0.72	50
8	Mechanical Engineering	0.56	45
9	Electrical & Optical	0.51	52

North West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '22 ⁺
1	Transport & Communication	1.18	48
2	Hotels, Restaurants & Catering	1.10	47
3	Business-to-business Services	1.03	47
4	Personal & Community Services	1.03	47
5	Computing & IT Services	0.81	55
6	Financial Intermediation	0.76	52

UK sector focus

Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

Employment

Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

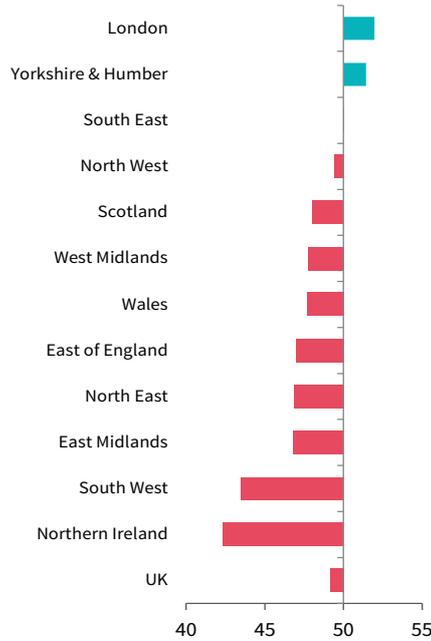
Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
Jun '22	51.2	50.6	52.5	64.0	53.7	49.1	84.8	67.0
Jul '22	51.1	49.4	50.6	69.2	53.8	45.4	76.9	64.2
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

Contact

Emily Potts
Regional Campaign Manager
NatWest
+44 (0) 7890 892 748
emily.potts@natwest.com

Phil Smith
Economics Associate Director
S&P Global Market Intelligence
+44 1491 461 009
phil.smith@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
+44 7967 447 030
sabrina.mayeen@spglobal.com

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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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