15 January 2024

NatWest

NatWest North West PMI®

December PMI signals mild downturn in North West business activity

North West Business Activity Index

Dec '23
48.8
Nov: 49.1

Jul - Dec '23

Key findings

Business Activity Index slips to 48.8 from 49.1 in November

Inflows of new work show signs of stabilising after recent decline

Price pressures edge higher at end of 2023

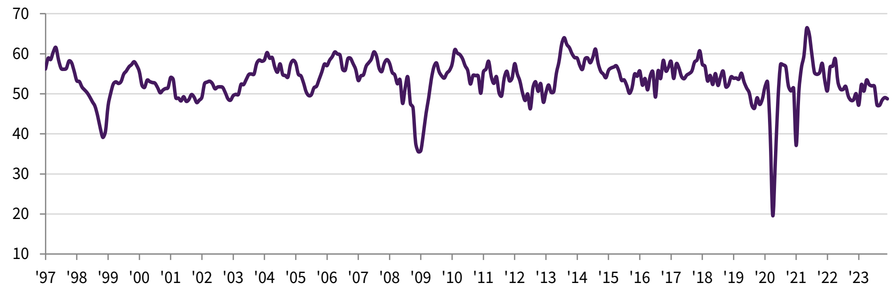
The North West private sector economy remained under pressure as 2023 drew to a close, with the latest NatWest Regional PMI® survey showing a fifth straight monthly decline in business activity in December. Price pressures meanwhile picked up, driven in part by rising wages. A combination of reduced workloads and increasing labour costs took a toll on the local labour market as employment fell for the third time in four months.

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 – remained below the 50.0 threshold that separates growth from contraction in December, registering 48.8 from November's 49.1. The result contrasted with a second successive monthly increase in activity across the UK as a whole (52.1).

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

"2023 ended in somewhat disappointing fashion, with businesses in the North West recording a further modest fall in activity. One positive takeaway was that inflows of new work, which are an indicator of underlying demand and have been in decline since last May, moved closer to stabilisation in December. Even so, relatively low business expectations in the region point to weak growth projections for the coming year. Lower activity has been compounded by a resurgence in cost pressures, as businesses face growing wage demands and a bottoming-out of raw material prices. Firms are under pressure to trim workforce numbers, resulting in a third decrease in regional employment in four months in December, although anecdotal evidence suggests this is mostly being driven by natural wastage rather than layoffs."

North West Business Activity Index
sa, >50 = growth since previous month



PMI® by S&P Global

Contents

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.

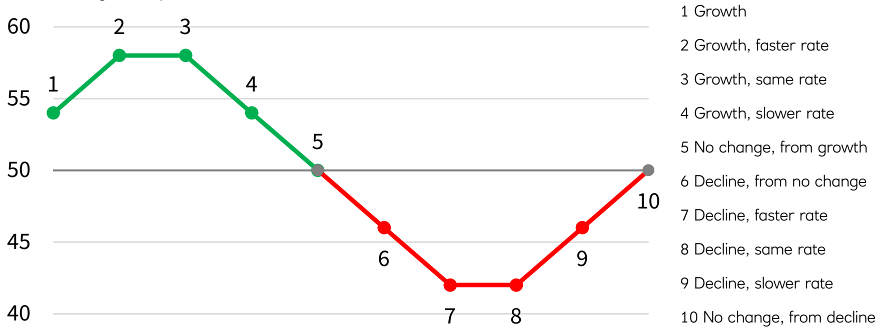
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable 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@spglobal.com.

Index interpretation

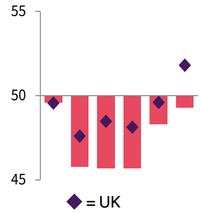
50.0 = no change since previous month



Demand and outlook

New Business Index

Jul - Dec '23



New business moves closer to stabilisation

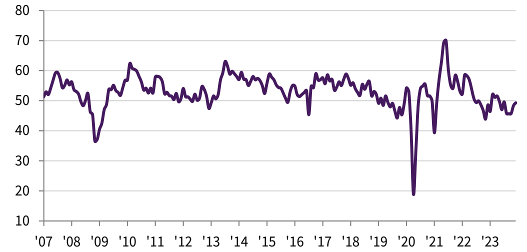
Although firms in the North West recorded a further decrease in new business in December, the rate of decline slowed for the second month running to the weakest since last July and was only marginal. The reduction in new work was centred on the local manufacturing sector, with services firms reporting an upturn in demand. The UK as a whole saw a rise in new business for the first time in six months.

New Business Index

49.3

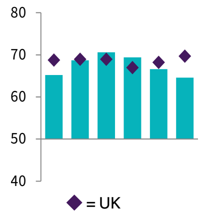
sa, >50 = growth since previous month

Dec '23



Future Activity Index

Jul - Dec '23



Business expectations slip to 12-month low

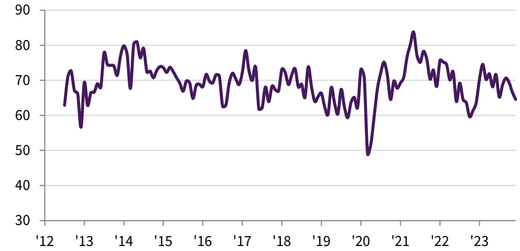
Business expectations in the North West slipped to the lowest for a year in December, going against the UK-wide trend. Anecdotal evidence highlighted concerns about interest rates, squeezed budgets and the UK economic outlook in general. Nevertheless, the number of firms anticipating a rise in activity over the next 12 months still far exceeded those forecasting a fall.

Future Activity Index

64.6

>50 = growth expected over next 12 months

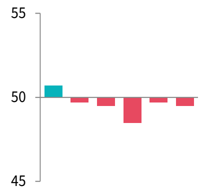
Dec '23



Exports

Export Climate Index

Jul - Dec '23



Further slight decline in export conditions in December

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.

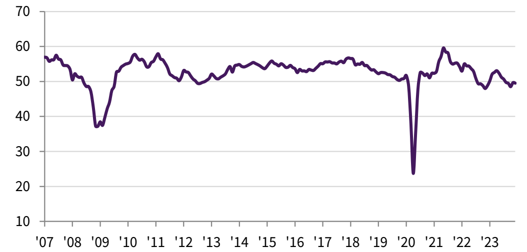
At 49.5, down from November's 49.7, the ECI signalled a further slight deterioration in international demand conditions facing firms in the North West. A marked decline in activity in the Netherlands was a factor, alongside a sustained contraction in Germany. More positively, key markets such the US, Ireland and China each recorded growth in output.

Export Climate Index

49.5

sa, >50 = growth since previous month

Dec '23

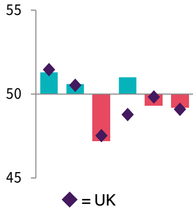


Top export markets, North West

Rank	Market	Weight	Output Index, Dec '23
1	USA	13.7%	50.9
2	Netherlands	10.0%	44.7
3	Germany	9.9%	47.4
4	Ireland	6.5%	51.5
5	China	5.8%	52.6

Business capacity

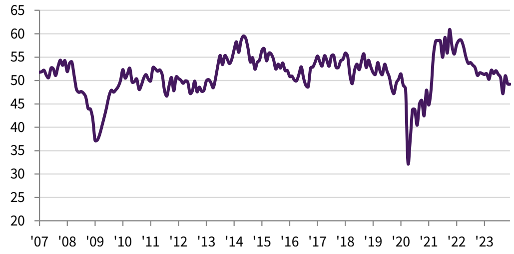
Employment
Index
Jul - Dec '23



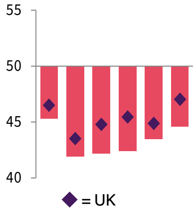
Employment falls for third time in four months

Reduced workloads led firms in the North West to trim their workforce numbers during December. Where staffing levels fell, companies often commented on the non-replacement of voluntary leavers. Employment in the region has now fallen in three of the past four months. The pace of job shedding was slightly quicker than in November and broadly in line with the UK average.

Employment Index 49.2
sa, >50 = growth since previous month Dec '23



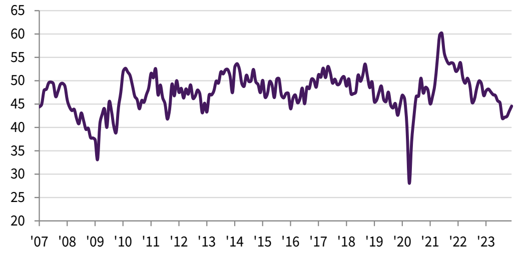
Outstanding
Business Index
Jul - Dec '23



Outstanding business continues to fall

As has been the case in every month since June 2022, firms in the North West recorded a decrease in the level of outstanding business (i.e. orders awaiting completion) in December. The rate of depletion was solid, although it eased for the fourth month in a row to the weakest since last July. Underlying data indicated a particularly steep drop in backlogs of work in the region's manufacturing sector.

Outstanding Business Index 44.6
sa, >50 = growth since previous month Dec '23



Prices

Input Prices Index

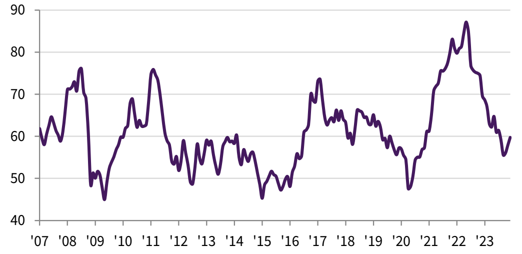
Jul - Dec '23

Input cost inflation hits five-month high

The final month of 2023 saw an increase in cost pressures faced by firms in the North West as the rate of input price inflation accelerated to the quickest for five months. The result largely reflected rising labour costs, according to reports from surveyed firms, although a renewed rise in manufacturing purchase prices was also a factor. However, whilst historically strong, the increase in operating expenses was softer than the national average.

Input Prices Index 59.7

sa, >50 = inflation since previous month Dec '23



Prices Charged Index

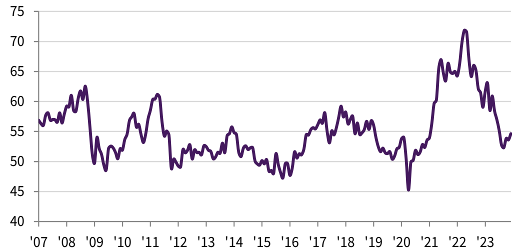
Jul - Dec '23

Solid and accelerated rise in average prices charged

Latest data indicated a solid and accelerated rise in average prices charged for goods and services by firms in the North West. After having slipped to a three-year low in September, the rate of output price inflation ticked up for the second time in three months to its highest since last July. That said, the increase was the third-slowest amongst the 12 regions and nations monitored.

Prices Charged Index 54.6

sa, >50 = inflation since previous month Dec '23



UK Sector PMI

Sector specialisation: North West

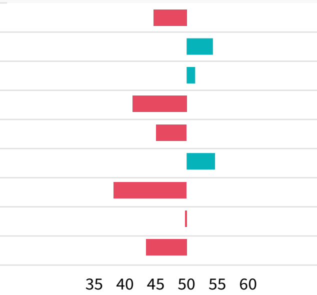
Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

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.

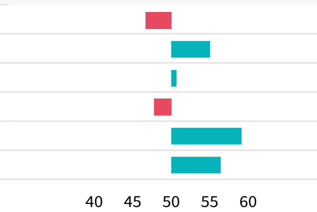
North West specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Dec '23+
1	Chemicals & Plastics	1.72	
2	Transport	1.25	
3	Textiles & Clothing	1.18	
4	Timber & Paper	0.91	
5	Basic Metals	0.84	
6	Food & Drink	0.79	
7	Other Manufacturing	0.72	
8	Mechanical Engineering	0.56	
9	Electrical & Optical	0.51	



North West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '23+
1	Transport & Communication	1.18	
2	Hotels, Restaurants & Catering	1.10	
3	Business-to-business Services	1.03	
4	Personal & Community Services	1.03	
5	Computing & IT Services	0.81	
6	Financial Intermediation	0.76	



UK sector focus

Textiles & Clothing

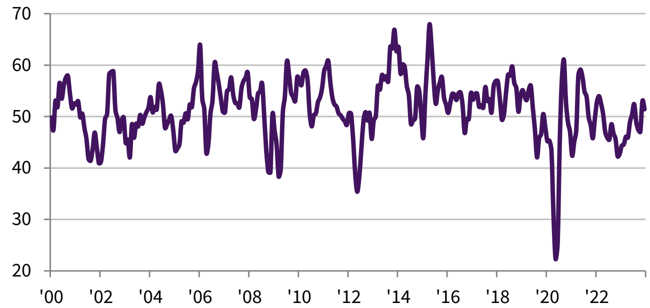
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

Output Index

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



+3-month moving average

UK Regional PMI overview

Business Activity

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by London, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

Employment

Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

Business Activity Index
sa, >50 = growth since previous month, Dec '23

Employment Index
sa, >50 = growth since previous month, Dec '23

Future Activity Index
>50 = growth expected over next 12 months, Dec '23

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

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
Jul '23	51.9	49.6	50.7	65.2	51.3	45.3	61.4	55.2
Aug '23	47.2	45.8	49.7	68.7	50.6	41.9	59.2	52.8
Sep '23	47.2	45.7	49.5	70.6	47.2	42.2	55.6	52.3
Oct '23	48.5	45.7	48.5	69.4	51.0	42.4	56.1	53.8
Nov '23	49.1	48.3	49.7	66.6	49.3	43.5	57.9	53.6
Dec '23	48.8	49.3	49.5	64.6	49.2	44.6	59.7	54.6

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About NatWest

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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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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.

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