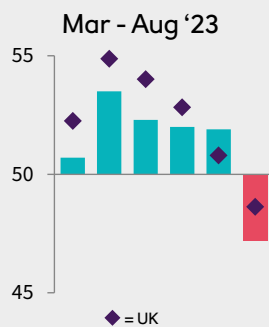


# NatWest North West PMI<sup>®</sup>

## North West business activity falls for first time in seven months in August

### North West Business Activity Index



### Key findings

Sustained decline in demand weighs on activity

Employment rises only marginally

Price indicators point to easing inflationary pressures

Growing headwinds to demand saw business activity levels across the North West fall for the first time in seven months in August, the latest NatWest Regional PMI<sup>®</sup> survey showed. With backlogs of work declining, firms showed greater caution towards hiring. Positively, latest data indicated a sustained easing of inflationary pressures.

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 – moved below the 50.0 no-change threshold separating growth from contraction for the first time since January. At 47.2, down from July’s 51.9, the latest reading pointed to a solid rate of decline in business activity, and one that was slightly faster than that seen across the UK as a whole (48.6).

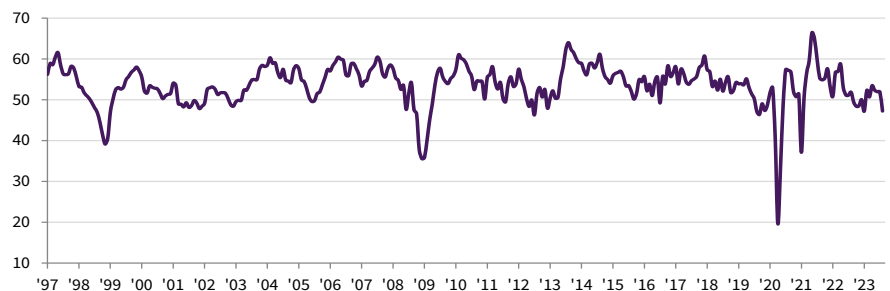
Where a reduction in business activity was recorded, local firms often attributed this to a general softening in customer demand.

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

*"Business activity in the region has unsurprisingly succumbed to the recent soft patch in demand, dropping for the first time in seven months in August. That said, the North West isn't the only area under pressure, with output falling in eight of the 12 monitored regions midway through the third quarter. Reduced workloads and the absence of any real optimism among firms towards the outlook has placed the brakes on job creation in the region, although the fact that employment so far looks resilient is a positive. It's also encouraging to see price pressures easing, with the survey's measures of input cost and prices charged inflation both falling to 33-month lows."*

North West Business Activity Index

sa, >50 = growth since previous month



## Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

## 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

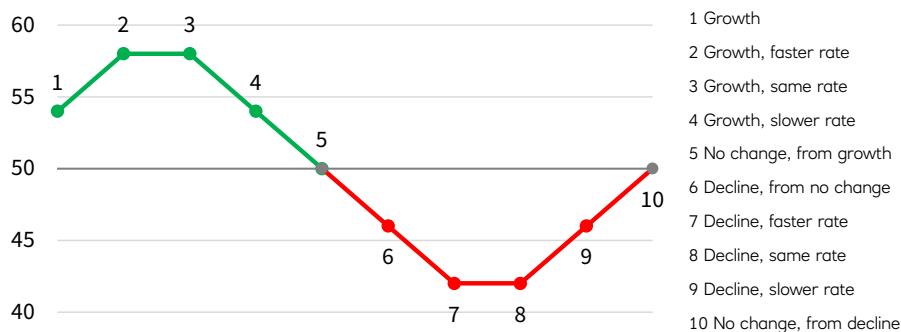
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### Deepening decline in new work points to weakening demand

Demand for goods and services across the North West weakened in August, as highlighted by a fourth straight monthly decline in inflows of new work. Moreover, the rate of contraction accelerated notably from the previous survey period to the fastest since November last year. It also outstripped the UK-wide average, with only the South West and Yorkshire & Humber recording more marked declines. A squeeze on spending due to the rising cost of living and an uncertain UK economic outlook weighed on customer demand, according to surveyed firms.

### Expectations tick up but remain historically subdued

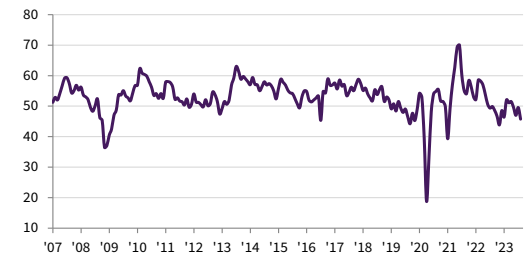
Businesses' expectations towards future output ticked up in August, after having sunk to a seven-month low at the start of the third quarter. Even so, the degree of optimism remained slightly below the average recorded over the series history since 2012, reflecting sub-par confidence among the region's services firms. It was hoped that new products would support higher activity over the coming year, but at the same time firms voiced concerns about pressure on household incomes and an uncertain global economic outlook.

New Business Index

sa, >50 = growth since previous month

45.8

Aug '23

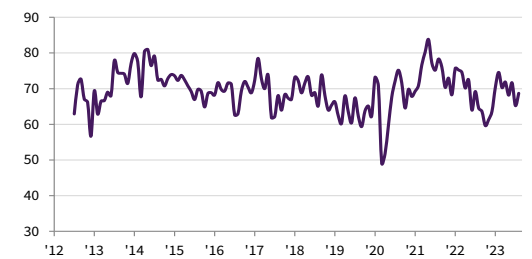


Future Activity Index

>50 = growth expected over next 12 months

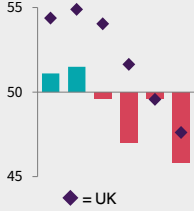
68.7

Aug '23



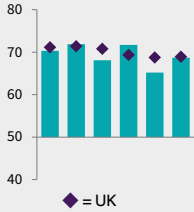
New Business Index

Mar - Aug '23



Future Activity Index

Mar - Aug '23

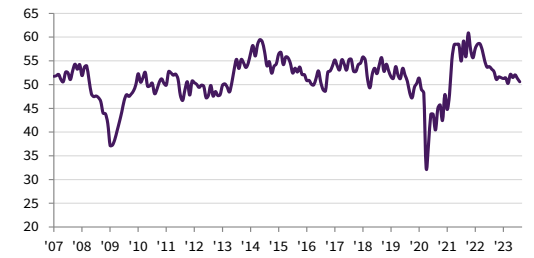


## Business capacity

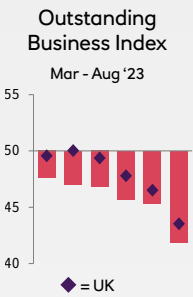
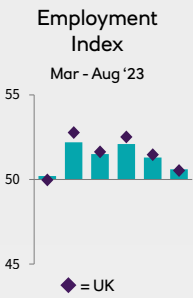
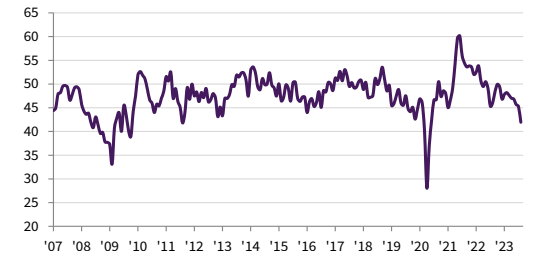
### Rate of job creation slows to a crawl

Private sector employment across the North West rose only marginally in August, with the rate of job creation having slowed for the second month running to the weakest since March. The result was in line with the trend recorded across the UK as a whole. Underlying data showed a slowdown in hiring across the region's services sector, but also a renewed uptick in local factory jobs numbers.

Employment Index 50.6  
sa, >50 = growth since previous month Aug '23



Outstanding Business Index 41.9  
sa, >50 = growth since previous month Aug '23



### Marked drop in outstanding business

Latest data showed a sharp and accelerated reduction in outstanding business (i.e. orders awaiting completion) at private sector firms in the North West. Having quickened for the sixth month in a row, the rate of depletion reached the fastest since May 2020 and was the second-sharpest among the 12 monitored regions (after that seen in Wales).



## Prices

### Input price inflation softest since November 2020

Cost pressures faced by private sector firms in the North West eased during August. Input price inflation slowed to its weakest for nearly three years and moved closer to its pre-pandemic long-run average. It was also comfortably below the national rate. Falling manufacturing purchasing costs contrasted with a rapid, albeit weaker rise in service sector operating expenses, with the latter largely linked to growing wage demands.

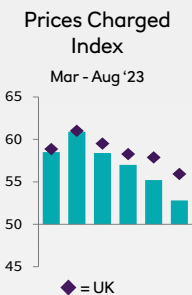
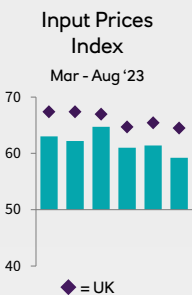
Input Prices Index  
sa, >50 = inflation since previous month  
59.2  
Aug '23



### Rate of increase in prices charged slows sharply

There was a notable slowdown in the rate of increase in average prices charged by firms in the North West midway through the third quarter. The respective seasonally adjusted index fell to its lowest since November 2020 and the rate of inflation signalled was the weakest among the 12 regions monitored by the survey. Whilst some firms passed on higher costs to customers, others noted the influence of growing competition for new work.

Prices Charged Index  
sa, >50 = inflation since previous month  
52.8  
Aug '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, Aug '23 <sup>+</sup>
1	Chemicals & Plastics	1.72	48
2	Transport	1.25	49
3	Textiles & Clothing	1.18	49
4	Timber & Paper	0.91	49
5	Basic Metals	0.84	50
6	Food & Drink	0.79	52
7	Other Manufacturing	0.72	50
8	Mechanical Engineering	0.56	51
9	Electrical & Optical	0.51	44

#### North West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '23 <sup>+</sup>
1	Transport & Communication	1.18	48
2	Hotels, Restaurants & Catering	1.10	46
3	Business-to-business Services	1.03	49
4	Personal & Community Services	1.03	51
5	Computing & IT Services	0.81	51
6	Financial Intermediation	0.76	54

## UK sector focus

### Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

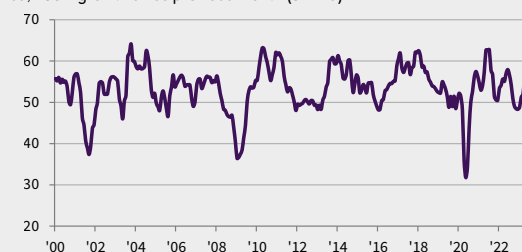
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

#### Output Index

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



<sup>+</sup> 3-month moving average



## UK Regional PMI overview

### Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland\*, followed by the South West.

### Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

### Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

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

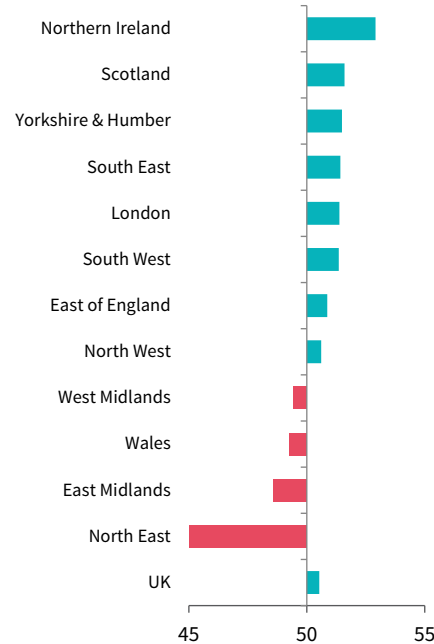
#### Business Activity Index

sa, >50 = growth since previous month, Aug '23



#### Employment Index

sa, >50 = growth since previous month, Aug '23



#### Future Activity Index

>50 = growth expected over next 12 months Aug '23



## 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
Mar '23	50.7	51.1	52.6	70.3	50.2	47.6	63.0	58.5
Apr '23	53.5	51.5	53.1	71.9	52.2	47.0	62.2	60.9
May '23	52.3	49.6	52.3	68.1	51.5	46.8	64.7	58.4
Jun '23	52.0	47.0	51.2	71.7	52.1	45.7	61.0	57.0
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

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NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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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Purchasing Managers' Index<sup>®</sup> (PMI<sup>®</sup>) 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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