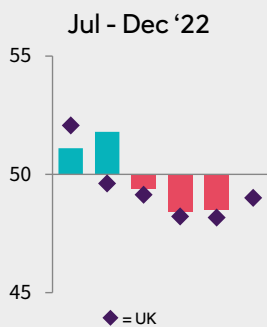


NatWest North West PMI®

North West business activity stabilises in December

North West Business Activity Index



Key findings

Business activity unchanged after three straight monthly falls

Rates of input cost and output price inflation ease but remain high

Local employment edges higher, defying downturn at UK level

The North West's private sector economy ended 2022 on a more stable footing, with business activity holding steady in December after three straight months of contraction, latest Regional PMI® data from NatWest showed. Elsewhere, the survey signalled a further easing of price pressures, albeit with rates of both input cost and output charge inflation remaining above their historical averages.

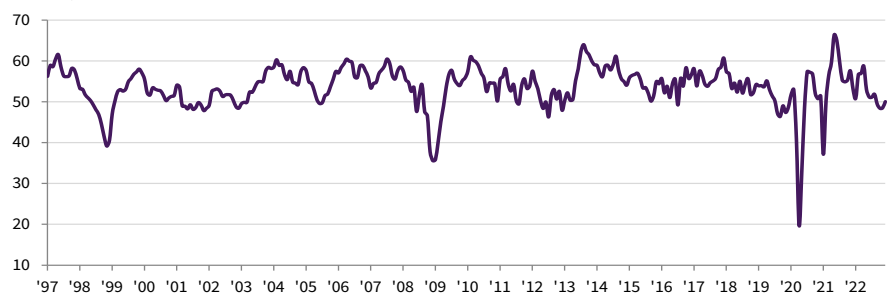
The headline North West PMI Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – registered in line with the 50.0 threshold that separates growth from contraction in December. It was up from 48.5 in November and followed three consecutive sub-50 readings.

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

"In the context of three straight months of contraction prior to December, a PMI reading of 50.0, signalling a stabilisation in business activity, is a relatively positive result and shows the region ended the year on a firmer footing. On the employment front, the North West went against the broader UK trend and registered a further – albeit modest – rise in employment. Encouragement could also be gleaned from the survey's measures of inflationary pressures, which fell to their lowest since February 2021 and signalled slower price increases than in any other region. Still, despite sentiment recovering further from October's recent low, local firms remain only cautiously optimistic about the outlook amid ongoing concerns about a broad economy slowdown and a squeeze on customer budgets."

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

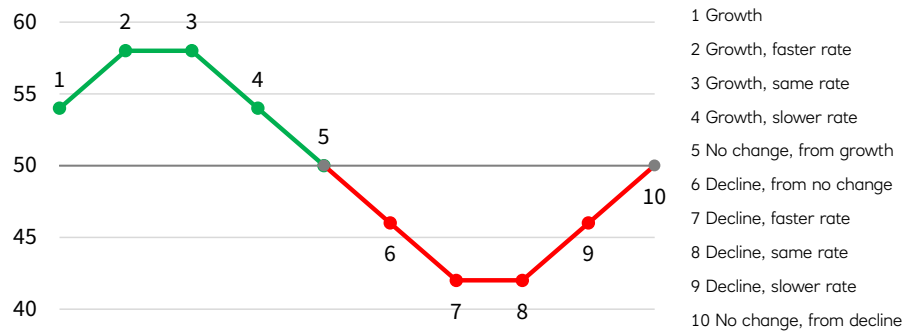
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Firms operating in the North West continued to report various headwinds to demand during December, including client destocking and general economic uncertainty. The result was a sixth consecutive monthly decrease in intakes of new business. However, the rate of decline eased notably since November, when it was the quickest for the best part of two years, to only a modest pace that was the weakest for three months. The reduction was also less marked than that recorded across the UK as a whole.

Business expectations recover further from October's recent low

Firms' expectations towards future activity improved for the second month running in December, thereby recovering further from October's near two-and-a-half year low. That said, confidence remained subdued by historical standards, with local businesses continuing to highlight concerns about a downturn in the economy and a squeeze on client budgets.

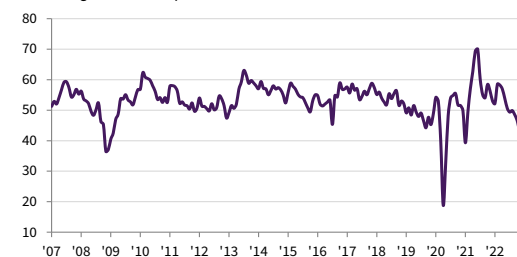
Exports

Downturn in export demand conditions continues

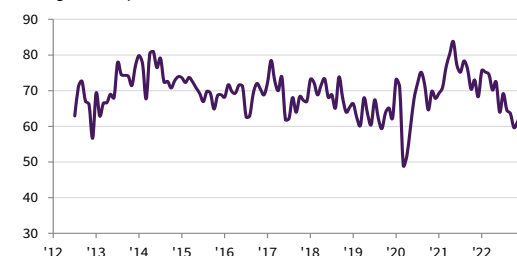
The North West Export Climate Index (ECI) is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the North West. This produces an indicator for the economic health of the region's export markets. A reading below 50 signals a deterioration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

At 48.7, the ECI registered below the neutral 50.0 threshold for a fifth straight month in December, signalling a sustained deterioration in export demand conditions. The result partly reflected an accelerated drop in US economic activity, alongside further (albeit slower) decreases in output across Germany, China and the Netherlands.

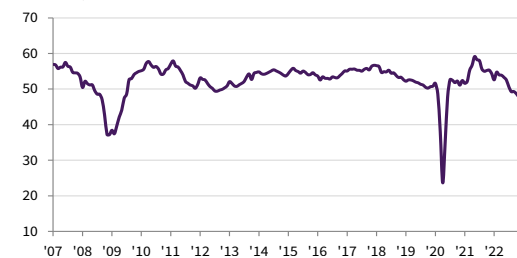
New Business Index
sa, >50 = growth since previous month
48.6
Dec '22



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



Export Climate Index
sa, >50 = growth since previous month
48.7
Dec '22



Top export markets, North West

Rank	Market	Weight	Output Index, Dec '22
1	USA	13.1%	45.0
2	Germany	10.5%	49.0
3	Ireland	7.2%	50.5
4	China	6.8%	48.3
5	Netherlands	6.4%	46.2

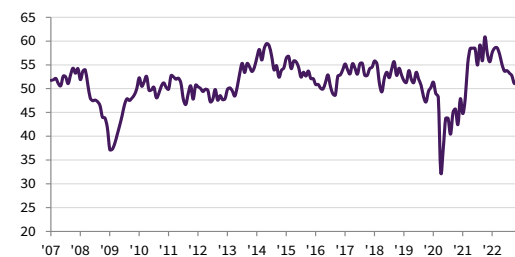


Business capacity

Local labour market continues to show resilience

Firms in the North West recorded a further increase in workforce numbers in December, stretching the current sequence of job creation to 22 months. Although only modest, the increase in employment contrasted with the broader trend across the UK as a whole, which saw a first – albeit marginal – decrease in staffing levels since February 2021. Underlying data indicated that hiring across the North West private sector was centred mainly on the service sector.

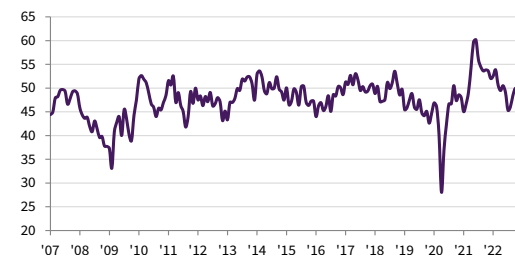
Employment Index
sa, >50 = growth since previous month
51.5
Dec '22



Falling backlogs of work points to easing capacity pressures

December's survey signalled a seventh successive monthly decrease in backlogs of work across the North West private sector. The result reflected a combination of falling inflows of new work and continued growth in staffing capacity. Furthermore, the rate at which outstanding business was depleted accelerated notably from the previous survey period and was the quickest since last August.

Outstanding Business Index
sa, >50 = growth since previous month
46.8
Dec '22

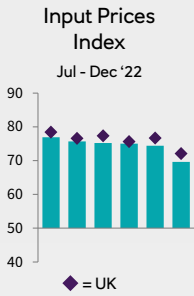
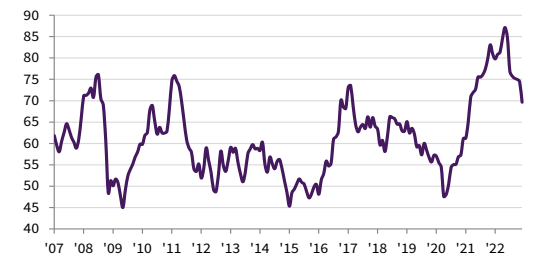


Prices

Input price inflation eases to 22-month low

Rising business costs remained a feature of the survey data in December. Panel members commented on higher prices paid for food and energy, as well as citing staff pay demands and the influence of exchange rate factors. The rate of cost inflation remained elevated by historical standards. However, amid reports of a softening of a range of material prices, it fell further from the record high seen earlier in the year to a 22-month low, and was also the weakest among the 12 regions monitored.

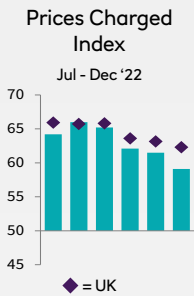
Input Prices Index
sa, >50 = inflation since previous month
69.6
Dec '22



Average charges for goods and services rise at slower rate

The pass-through of higher costs by local businesses to customers led to a further steep rise in average prices charged for goods and services across the North West in December. Although still above the historical series average, the rate of inflation eased for the seventh time in the past eight months, taking it to its lowest since February 2021.

Prices Charged Index
sa, >50 = inflation since previous month
59.1
Dec '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, Dec '22 ⁺
1	Chemicals & Plastics	1.72	45
2	Transport	1.25	48
3	Textiles & Clothing	1.18	46
4	Timber & Paper	0.91	38
5	Basic Metals	0.84	47
6	Food & Drink	0.79	52
7	Other Manufacturing	0.72	47
8	Mechanical Engineering	0.56	52
9	Electrical & Optical	0.51	49

North West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '22 ⁺
1	Transport & Communication	1.18	48
2	Hotels, Restaurants & Catering	1.10	48
3	Business-to-business Services	1.03	49
4	Personal & Community Services	1.03	48
5	Computing & IT Services	0.81	52
6	Financial Intermediation	0.76	48

UK sector focus

Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

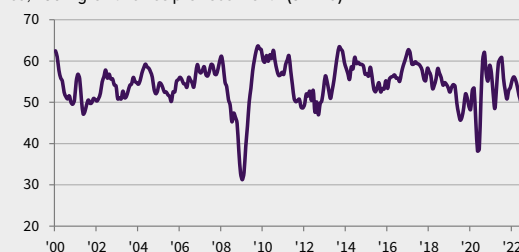
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

Employment

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Dec '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
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
Oct '22	48.4	46.7	48.7	59.6	51.1	49.9	75.0	62.1
Nov '22	48.5	43.9	48.0	61.3	51.6	49.4	74.4	61.5
Dec '22	50.0	48.6	48.7	63.6	51.5	46.8	69.6	59.1

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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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