

Royal Bank of Scotland UK Regional PMI[®]

Improved performances all round in February

UK Regional PMI

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



Key findings

11 out of 12 monitored areas record growth; North East stabilises

New orders increase almost universally

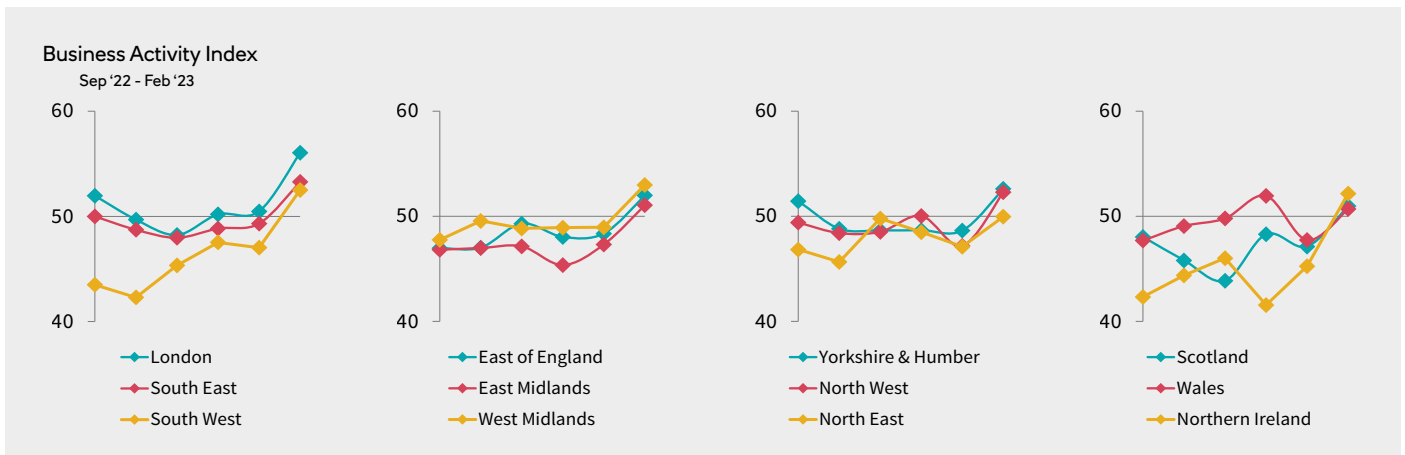
Costs rise more slowly, though still steeply overall

February's Regional PMI[®] data from Royal Bank of Scotland indicated a better month for businesses across the UK in terms of activity, albeit with those in London enjoying by far the strongest growth. Underlying demand perked up in almost all areas, leading to generally stronger optimism among firms. On the price front, charges for goods and services continued to rise sharply across the board, despite signs of easing cost pressures.

The PMI Business Activity Index is the first fact-based indicator of regional economic health published each month, tracking the monthly change in the output of goods and services across the private sector. A reading above 50 signals growth, and the further above the 50 level the faster the expansion signalled.

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output here did at least stabilise after a seven-month sequence of contraction (index at 50.0). London (56.0) recorded by far the strongest activity growth, registering its best performance since last July, with the South East (53.3) a distant second.

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



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About the UK Regional PMI® report

The Royal Bank of Scotland UK Regional PMI® data are compiled by S&P Global from responses to questionnaires sent to companies that participate in S&P Global's UK PMI surveys. S&P Global compiles data for nine English regions, Scotland, Wales and Northern Ireland (NUTS 1 definitions).

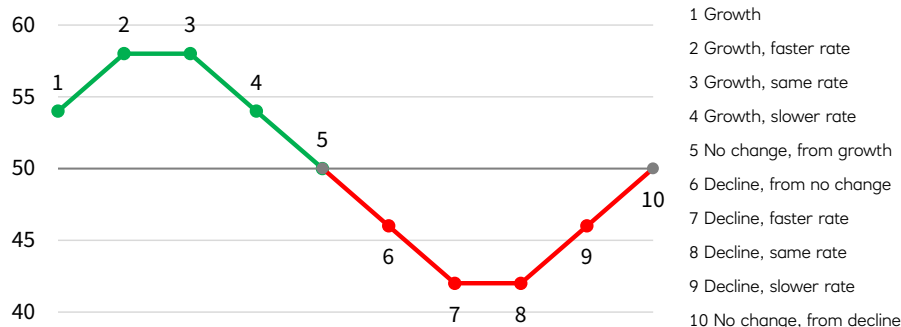
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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 for each region 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 Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Index interpretation

50.0 = no change since previous month



Comment

Sebastian Burnside, Royal Bank of Scotland Chief Economist, commented:

"After a challenging start to the year when only one region (London) reported growth in activity, February's survey data showed a turnaround in fortunes, with almost every area of the UK back in growth territory. Encouragingly, upturns in activity were generally supported by greater inflows of new work.

"London was the standout performer in February, registering strong increases in both output and new work as well as a notable rise in backlogs of work, to suggest that

the capital has decent growth momentum heading into March.

"Business confidence increased in most regions and nations in February and is now notably higher than last Autumn, amid a more settled political backdrop and easing recession concerns.

"Slowing rates of input cost inflation are another cause for optimism, even if they still remain high by historical standards. One area of continued strong cost pressures is wages, with a rise in employment in ten of the 12 monitored regions and nations in February indicating that labour market conditions remain tight.

"Rates of inflation in prices charged for goods and services remain stubbornly elevated, and even ticked up in three cases in February, to suggest little let-up in the rising cost of living."

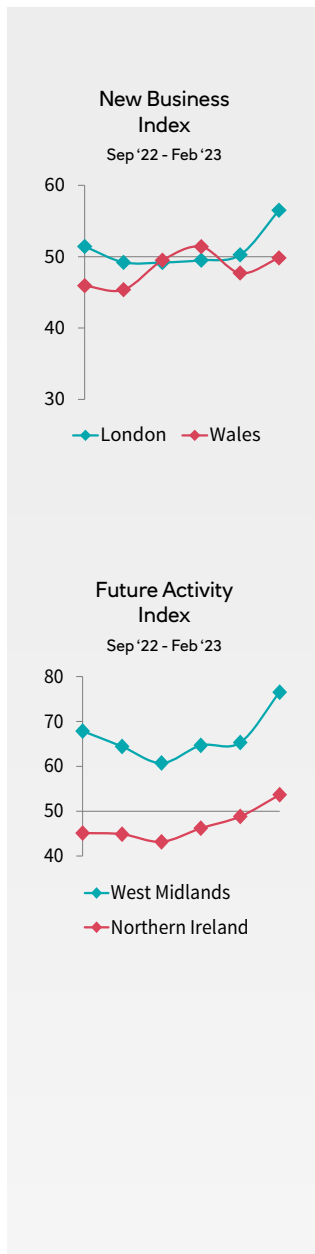
Demand and outlook

Demand perks up midway through the opening quarter

Latest data showed signs of improved demand across almost all parts of the UK in February. Inflows of new work rose everywhere except in Wales, although even here they at least moved closer to stabilisation. London saw the strongest growth in new business, followed by the East of England and the West Midlands respectively.

Business expectations improve in most areas

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland* and Scotland, although these two remained towards the bottom end of the scale for overall levels of optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.



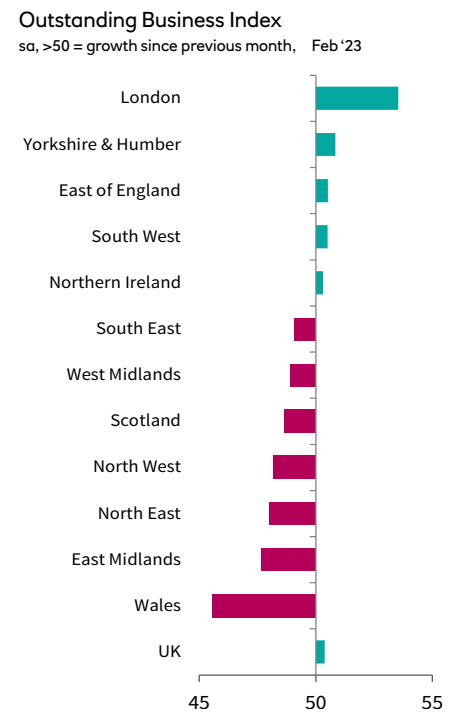
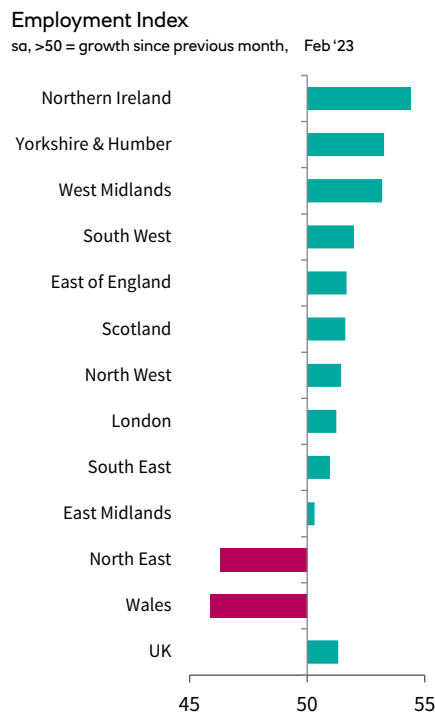
Business capacity

Wales and North East buck the trend of rising employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

Divergences observed in capacity pressures

Five of the 12 monitored areas recorded increases in outstanding business in February. By far the most marked rise was in London, where growth hit a five-month high, while only marginal increases were seen in Yorkshire & Humber, East of England, South West and Northern Ireland. At the other end of the scale, firms in Wales recorded the steepest drop in backlogs of work by some margin.



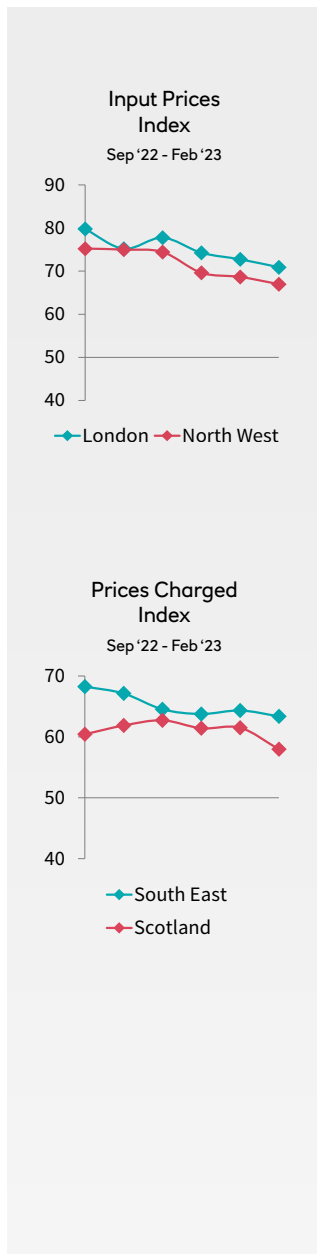
Prices

Broad-based cooling of input cost inflation

February saw a broad-based cooling of input cost inflation faced by UK businesses, albeit with rates remaining firmly above their long-run averages in all areas. The most marked slowdown was in the North East, while the North West recorded the joint-weakest overall rate of cost inflation together with the East of England. London meanwhile topped the rankings for the first time since July 2019.

Continued steep rise in prices charged for goods and services

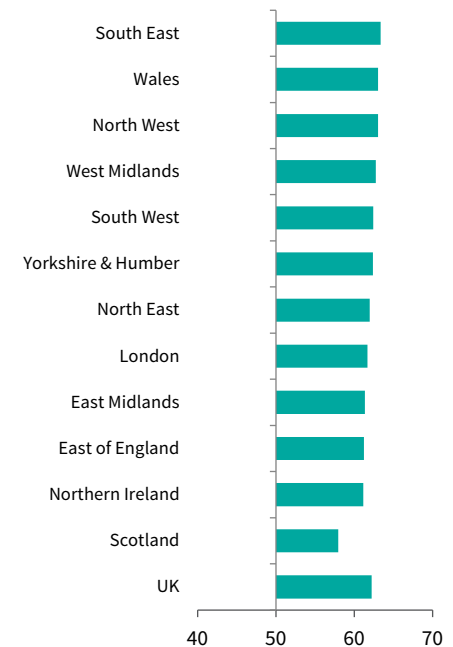
All areas of the UK once again registered a sharp rise in average selling prices in February, as businesses often looked to shift some of the burden of higher costs on to customers. The steepest increase was observed in the South East. That said, here and in most other areas, rates of output price inflation eased compared to January. The only exceptions were the North West, London and East of England.



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



Prices Charged Index
sa, >50 = inflation since previous month, Feb '23



Index summary

UK regions

sa, 50 = no change over previous month / *50 = no change over next 12 months, Feb '23

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	56.0	56.5	70.5	51.2	53.5	70.9	61.7
South East	53.3	53.1	69.6	51.0	49.1	69.2	63.4
South West	52.5	51.2	71.2	52.0	50.5	69.2	62.4
East of England	52.0	54.8	68.1	51.7	50.5	67.0	61.2
East Midlands	51.1	50.4	65.8	50.3	47.7	70.7	61.3
West Midlands	53.0	53.2	78.4	53.2	48.9	69.4	62.7
Yorkshire & Humber	52.6	50.4	74.2	53.3	50.8	69.7	62.4
North West	52.3	52.1	74.6	51.4	48.2	67.0	63.0
North East	50.0	53.0	54.7	46.3	48.0	69.7	62.0
Scotland	51.0	50.6	65.7	51.6	48.6	67.9	58.0
Wales	50.7	49.8	67.9	45.9	45.6	69.6	63.0
Northern Ireland	52.2	50.9	61.6	54.4	50.3	70.8	61.2

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The bank has commitment to retain its close connections with the Scottish communities it serves.

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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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