

# Royal Bank of Scotland UK Regional PMI<sup>®</sup>

## Difficult start to the year for most regions, but confidence towards the outlook grows

### UK Regional PMI

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



### Key findings

Business activity falls in all nations and regions bar London

Expectations towards future activity improve across the board

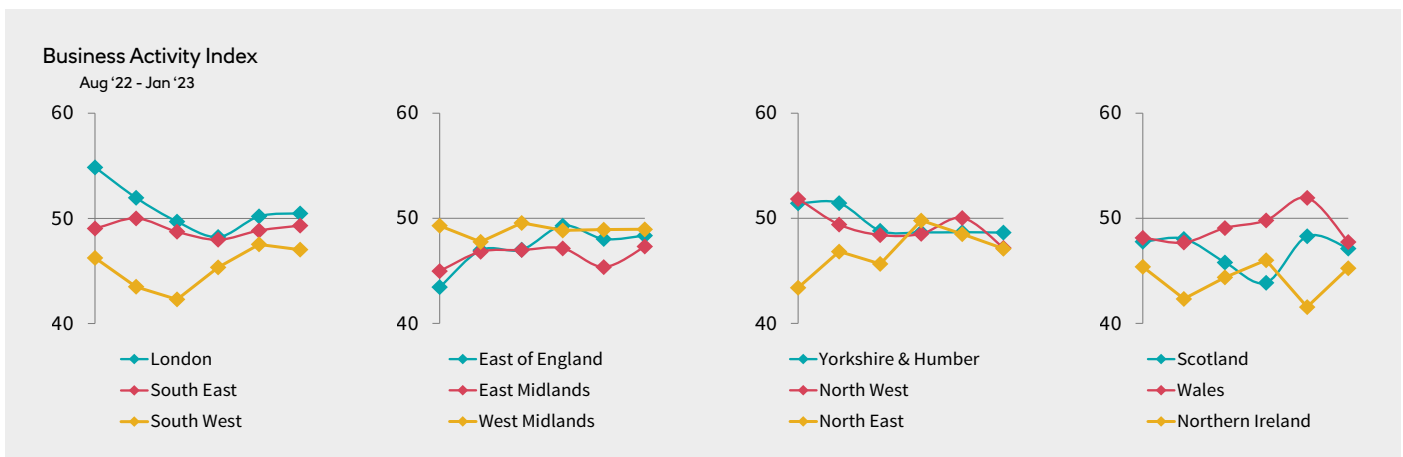
Rates of cost inflation continue to ease in most areas

Almost all UK regions and nations saw a decrease in business activity in January, latest Regional PMI<sup>®</sup> data from Royal Bank of Scotland showed, as soaring inflation and tightening financial conditions strained demand for goods and services. More positively, there was an increase in the number of areas reporting higher employment, amid a broad-based improvement in firms' expectations for the year ahead.

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.

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital was only marginal, however (index at 50.5 from 50.2 in December). There were renewed downturns in output in both Wales (47.7 from 52.0) and the North West (47.2 from 50.0), while the steepest decrease in activity was once again recorded in Northern Ireland\* (45.3).

\* 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).

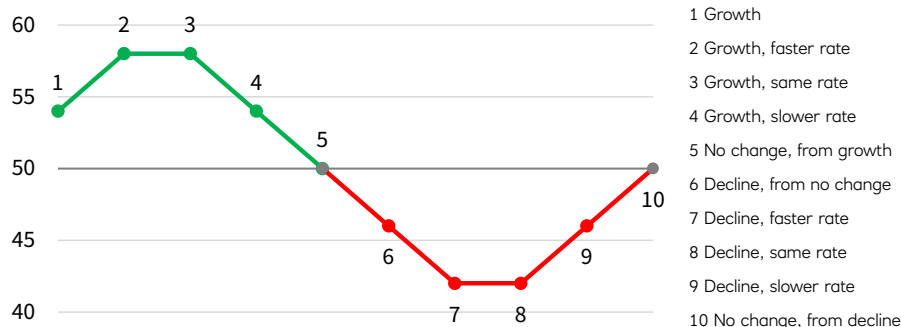
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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:

"It was a challenging start to the year for firms across the UK, with business activity falling almost universally on a regional basis in January. London was alone in recording an increase in output but only managed to eke out marginal growth, as demand for goods and services remained strained by a combination of high inflation, rising interest rates and customer hesitancy.

"However, the new year did bring increased optimism among businesses, who have seemingly

been buoyed by a steady easing of cost pressures and greater calm in energy markets. January data showed that firms across the UK were more confident about their growth prospects in the coming year, hinting that any recession could be shallowed that first feared.

"Increased optimism among businesses was reflected in a greater number of areas seeing a rise employment in January. Though it has to be said that firms' willingness to take on staff isn't anywhere near the level it was at a year ago.

"On the price front, the data point to a degree of stickiness in core

inflationary pressures, with most nations and regions not only seeing average prices charged for goods and services continuing to rise sharply by historical standards, but also at slightly faster rates than in December."

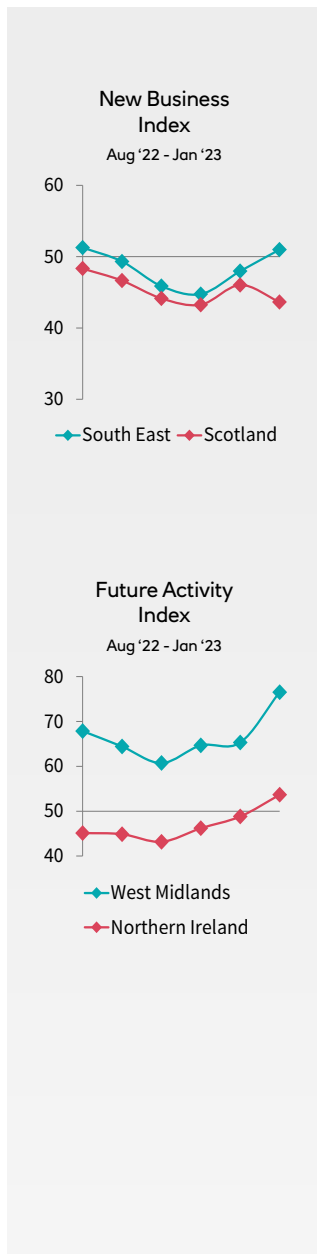
## Demand and outlook

### New orders fall across majority of regions and nations

Of the 12 regions and nations monitored by the survey, only four recorded higher inflows of new work in January, namely the South East, East of England, North East and London. Even here, however, the increases were marginal. Scotland meanwhile moved to the bottom of the rankings for new business, recording a marked and accelerated rate of decline.

### Business confidence grows universally

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was seen in the West Midlands, which also recorded the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.



## Business capacity

### Just over half of areas record higher employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

### Business capacity pressures generally ease

There was a broad easing of business capacity pressures across the UK in January, with all regions except London recording a decrease in backlogs of work. The level of outstanding business in the capital was unchanged from the previous month. Scotland recorded the steepest decline in work-in-hand, followed by Northern Ireland.



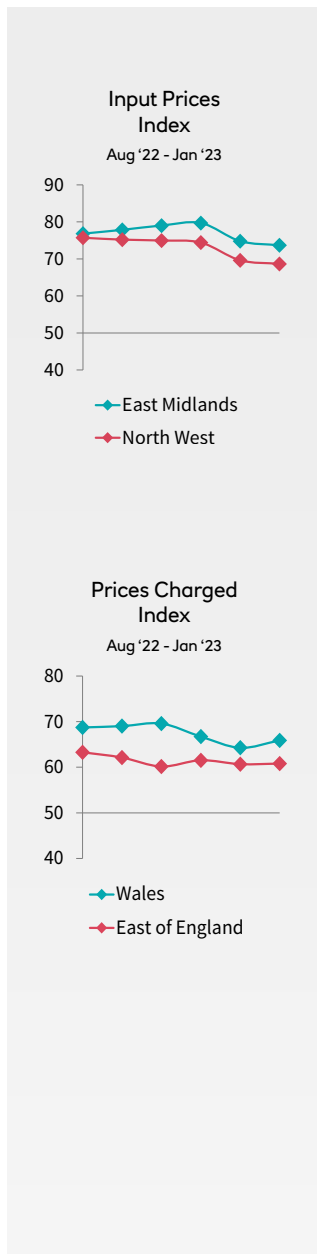
## Prices

### Input cost inflation slows in most cases

Although rates of input cost inflation remained elevated by historical standards in January, they softened in most cases. Northern Ireland saw the most notable slowdown, though still recorded the second-highest overall rate of inflation behind the East Midlands. The least marked rise in costs was in the North West – its weakest for almost two years.

### Rates of output price inflation remain strong

Every nation and region monitored by the survey recorded a rate of output price inflation that was well above its long-run average. Moreover, faster increases were registered in nine of the 12 areas, including Wales, which topped the rankings for the fourth time in the past five months. The East of England saw the slowest rise in prices charged for goods and services.



## Index summary

### UK regions

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

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	50.5	50.2	68.4	50.6	50.0	72.7	61.3
South East	49.3	51.0	72.0	50.6	47.8	71.9	64.3
South West	47.0	46.8	65.4	48.4	48.3	70.7	63.7
East of England	48.4	50.6	69.1	48.6	49.6	69.8	60.8
East Midlands	47.3	46.2	64.8	50.4	47.3	73.7	62.3
West Midlands	49.0	49.8	76.5	52.2	46.6	70.8	62.9
Yorkshire & Humber	48.6	47.9	75.4	51.6	47.2	71.6	62.9
North West	47.2	46.5	70.3	51.3	47.8	68.7	61.7
North East	47.1	50.4	56.3	44.7	45.6	72.6	64.4
Scotland	47.1	43.6	58.4	48.8	44.1	69.1	61.5
Wales	47.7	47.7	67.3	48.4	44.9	70.4	65.9
Northern Ireland	45.3	44.9	53.6	52.5	44.9	73.1	61.8

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### About Royal Bank of Scotland

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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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