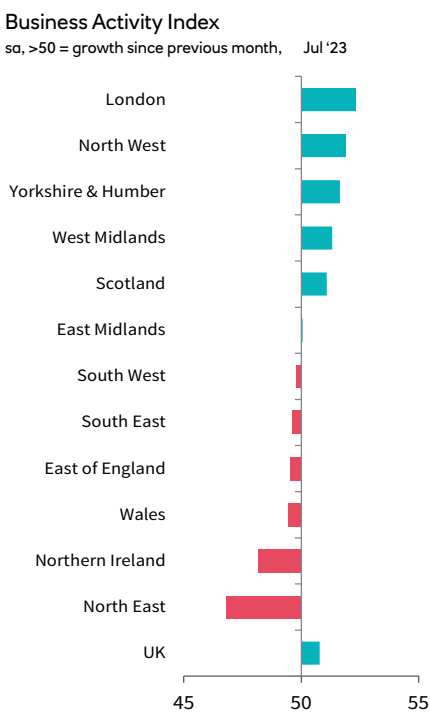


Royal Bank of Scotland UK Regional PMI[®]

Just half of UK regions in growth territory in July amid signs of demand weakness

UK Regional PMI



Key findings

New business falls in majority of regions and nations in July

Nine out of 12 monitored areas report higher employment

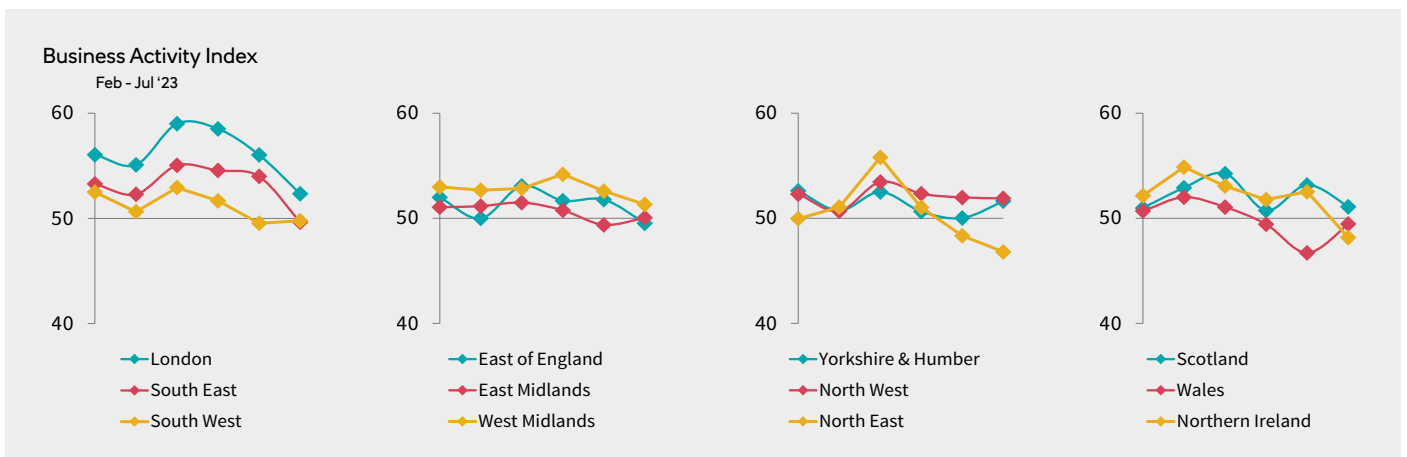
Rates of output price inflation slow in most cases

The number of UK regions reporting growth in business activity fell to the lowest in six months in July, according to the latest Royal Bank of Scotland Regional PMI[®] survey, amid a broadening decline in demand. Trends in employment were comparatively more resilient, with the majority of areas seeing workforce numbers rise. Meanwhile, price pressures generally remained elevated, although slower increases in prices charged for goods and services were recorded in most cases.

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.

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low (business activity index at 52.3). The South East (49.6) and Northern Ireland* (48.2) fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East (46.8).

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



Contents

- [About the report](#)
- [Comment](#)
- [Demand and outlook](#)
- [Business capacity](#)
- [Prices](#)
- [Index summary](#)
- [Contact](#)

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).

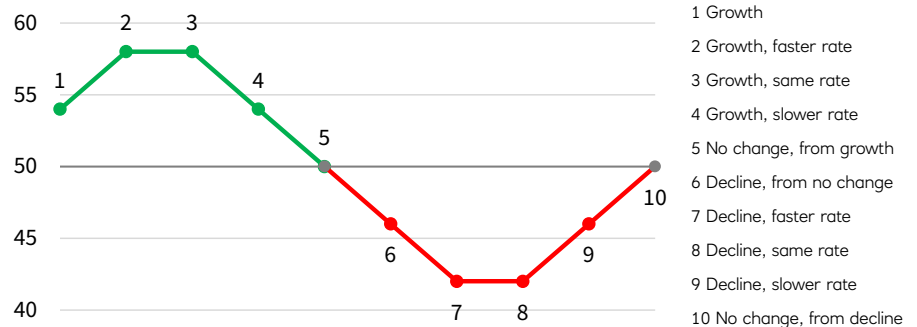
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

"Latest PMI data showed mixed fortunes for the UK's regional economies at the start of the third quarter, with half seeing a rise in a business activity and the remainder recording a contraction. These are the worst set of results since January. Furthermore, even in areas where output did rise, growth was often driven by work on outstanding business rather than new demand, which doesn't bode well for the outlook.

"Employment remained a bright

spot for most areas, with nine of the 12 monitored regions and nations seeing a rise in staffing levels. However, that was the fewest since March and rates of job creation often slowed, which raises some questions around the labour market's resilience in the second half of the year.

"There were both positive and negative takeaways on the inflation front as well. Rates of input cost inflation ticked up in most cases in July, which tended to keep them above their historic averages and led to firms once again raising their own prices. On the other hand, rates of increase in prices charged for goods

and services slowed in the majority of areas, with growing competition for new work amid a backdrop of cooling demand restricting firms' pricing power."

Demand and outlook

New business falls in majority of areas

Most areas recorded a fall in new business in July, the only exceptions being London and the West Midlands where rates of growth slowed notably. The most marked reduction in new work was seen in Wales, which saw demand for goods and services fall to the greatest extent since October last year. Northern Ireland and the North East also recorded solid decreases in new business.

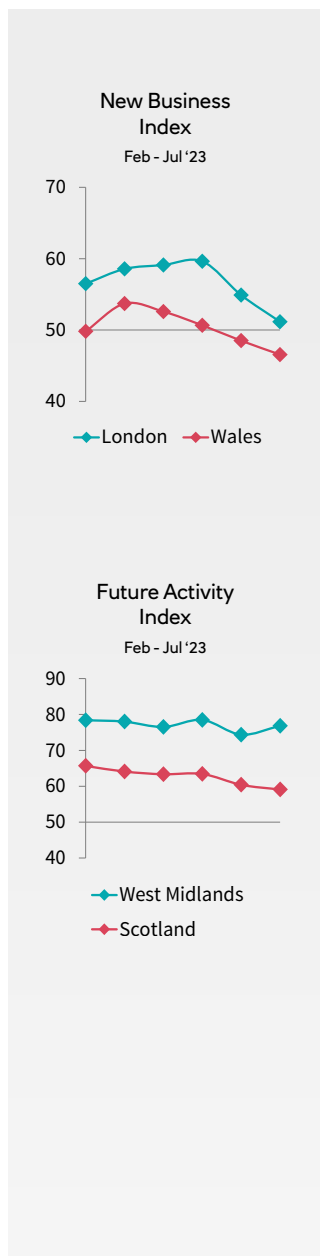
New Business Index
sa, >50 = growth since previous month, Jul '23



Mixed trends in business expectations

Trends in business confidence were mixed, with half of the 12 monitored areas posting an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

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



Business capacity

Employment remains a bright spot for most regions

The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

Broad-based decline in backlogs of work

Backlogs of work fell across every region and nation in July, pointing to a universal easing of pressure on business capacity. Wales recorded the steepest overall decline in outstanding business for the sixth month in a row. The slowest decline was recorded in London. Here, work-in-hand fell only modestly, but it was nevertheless the first decrease in seven months and the most marked fall since April 2022.



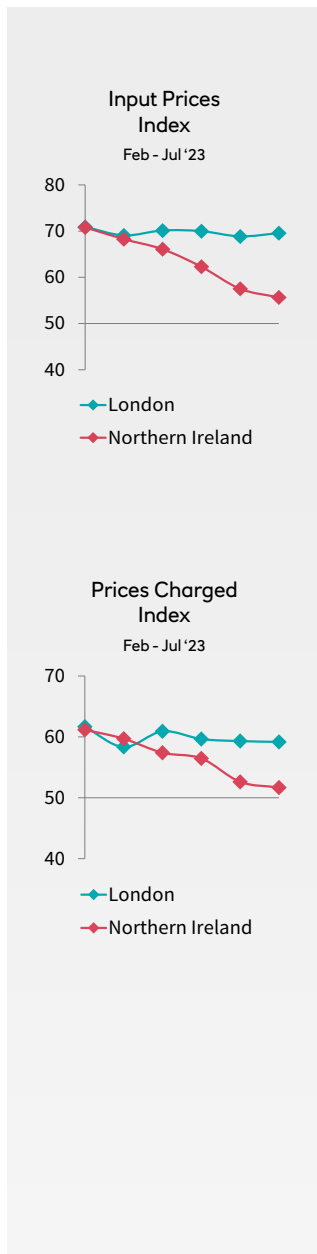
Prices

Rates of input cost inflation tick up in most cases

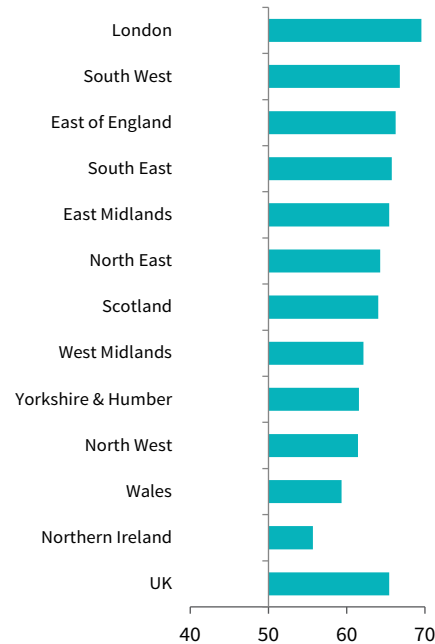
After a broad-based slowdown in June, rates of input price inflation ticked up in most cases in July. The strongest cost pressures were recorded in London, in line with the trend since February, followed by the South West. The softest rate of input price inflation was seen in Northern Ireland where it slipped to the lowest in over three years. Slower increases were also seen in Scotland and the North East.

Further steep, albeit often slower, rises in output prices

Despite easing in most areas, rates of output price inflation generally remained above the respective historic averages in July. The only exception was Northern Ireland, where average prices charged rose only modestly and at the slowest rate since September 2020. Firms in London noted the greatest hikes in selling prices, followed closely by their counterparts in the South East.



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



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



Index summary

UK regions

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

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
London	52.3	51.2	67.4	53.3	48.9	69.5	59.2
South East	49.6	49.4	75.2	51.1	45.6	65.8	59.1
South West	49.8	48.0	67.4	53.7	45.0	66.8	58.0
East of England	49.5	49.2	69.7	53.6	45.9	66.3	57.2
East Midlands	50.1	49.1	68.4	49.1	46.1	65.4	55.6
West Midlands	51.3	50.6	76.8	50.0	45.7	62.1	56.0
Yorkshire & Humber	51.6	48.0	73.3	50.9	46.0	61.6	57.1
North West	51.9	49.6	65.2	51.3	45.3	61.4	55.2
North East	46.8	47.6	63.0	47.5	43.1	64.3	58.8
Scotland	51.1	49.9	59.1	50.3	48.3	64.0	58.7
Wales	49.5	46.6	67.8	51.4	40.7	59.3	54.7
Northern Ireland	48.2	47.5	59.7	53.0	44.9	55.7	51.7

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

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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