

NatWest Purchasing Manager Index (PMI) Survey¹, Released September 2021: Midlands Regions

In Summary:

- The West Midlands Business Activity Index decreased from 58.3 in July 2021 to a six-month low of 55.2 in August 2021. While the Business Activity Index is still above the 50-mark, reflecting expansion, this decrease shows that even with the relaxation of COVID-19 restrictions, growth was hindered by companies not being able to appropriate labour to fill job roles and also difficulties in sourcing raw materials.
- The East Midlands Business Activity Index decreased from 59.7 in July 2021 to 52.1 in August 2021. The Business Activity Index is still above the 50-mark which shows growth. The expansion was due to output from customer demand and new orders. The latest figure indicates a moderate rise in business activity, but growth was the slowest in the last six months.
- The overall UK Business Activity Index decreased from 59.2 in July 2021 to 54.8 in August 2021.
- The West Midlands Future Activity Index increased from 74.4 in July 2021 to 77.2 in July 2021, a three-month high and above the historical average. Approximately 63% of West Midlands companies are forecasting growth in the next 12 months, with optimism was linked to hopes of an end to COVID-19 with growing vaccine coverage. Companies also reported expectations of new client wins and launching new products and services.
- The East Midlands Future Activity Index increased from 77.6 in July 2021 to 80.0 in August 2021. This degree of confidence rose to the highest in almost six years. Optimism was linked to hopes of improved client demand and new product developments.

In Detail:

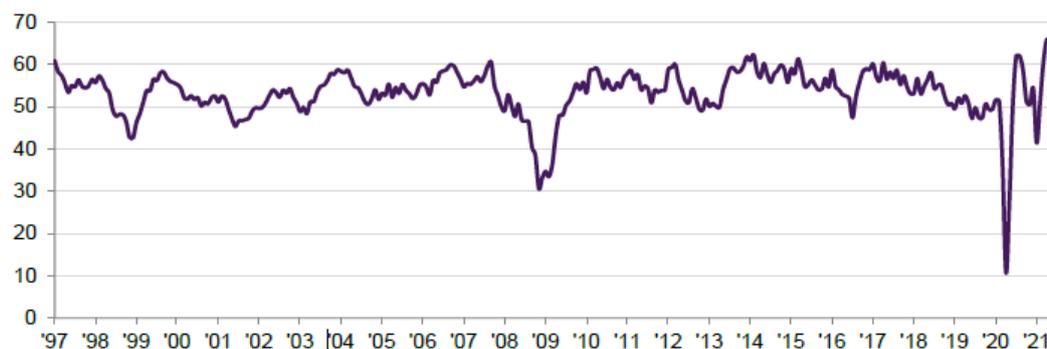
Business Activity Index

- The West Midlands Business Activity Index decreased from 58.3 in July 2021 to a six-month low of 55.2 in August 2021. While the Business Activity Index is still above the 50-mark, reflecting expansion, this decrease shows that even with the relaxation of COVID-19 restrictions, growth was hindered by companies not being able to appropriate labour to fill job roles and also difficulties in sourcing raw materials.
- The East Midlands Business Activity Index decreased from 59.7 in July 2021 to 52.1 in August 2021. The Business Activity Index is still above the 50-mark which shows growth. The expansion was due to output from customer demand and new orders. The latest figure indicates a moderate rise in business activity, but growth was the slowest in the last six months.

The following graphs show the West Midlands and East Midlands Business Activity Index trends up to August 2021:

West Midlands Business Activity Index

sa, >50 = growth since previous month



¹ Source: IHS Markit/NatWest PMI, September 2021. Please note, the seasonally adjusted 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.

East Midlands Business Activity Index

sa, >50 = growth since previous month



Source: IHS Market/NatWest, September 2021

- Of the UK regions (where the highest is first place), the West Midlands region was sixth and the East Midlands was second lowest out of the twelve regions for the Business Activity Index. Scotland was highest at 58.1 and the North East was the lowest at 51.8 in August 2021.

The following chart shows the Business Activity Index across all UK regions in August 2021:

Business Activity Index

sa, >50 = growth since previous month, Aug '21



Source: IHS Market/NatWest, September 2021

Demand

- The West Midlands New Business Index increased for the sixth consecutive month. The latest data shows the New Business Index increased from 59.0 in July 2021 to 59.8 in August 2021. Companies linked the growth from improved client confidence, better demand conditions, easing of travel restrictions and increased footfall. The West Midlands had the second strongest growth in new orders across all 12 regions.
- The East Midlands New Business Index decreased from 54.4 in July 2021 to 52.9 in August 2021. The rate of new business growth was the slowest seen in the last six months, and the second slowest of all 12

regions. However, there was still an increase in expansion which was linked to greater new orders from sustained client demand.

Exports²

- The West Midlands Export Climate Index decreased from 58.1 in July 2021 to 55.4 in August 2021. Despite falling, the latest figure still shows a robust improvement in export conditions. For the top five destinations for the West Midlands, rates of increase in activity remained strong in Ireland, Germany, France and the USA. However, there was a contraction for China.
- The East Midlands Export Climate Index decreased from 57.9 in July 2021 to 55.9 in July 2021; this still signals a strong improvement in export conditions. Hong Kong had a quicker rise in business activity in August, while the other four top destinations output growth eased from highs seen in recent months.

The following tables shows the top export markets for the West Midlands and East Midlands in August 2021:

Top export markets, West Midlands

Rank	Market	Weight	Output Index, Aug'21
1	USA	21.2%	55.4
2	Germany	11.1%	60.0
3	China	8.7%	47.2
4	Ireland	6.2%	62.6
5	France	6.1%	55.9

Top export markets, East Midlands

Rank	Market	Weight	Output Index, Aug '21
1	USA	12.8%	55.4
2	Germany	10.7%	60.0
3	Hong Kong	7.9%	54.9
4	Singapore	7.4%	53.6
5	France	7.1%	55.9

Source: IHS Market/NatWest, September 2021

Business Capacity

- The West Midlands Employment Index increased for the six consecutive month. The latest data shows the Employment Index increased from 57.6 in July 2021 to 58.2 in August 2021, with the growth linked to job creation and greater output needs due to demand conditions.
- The East Midlands Employment Index slightly decreased from 54.6 in July 2021 to 54.5 in August 2021. Although companies registered for the seventh month in a row a rise in employment, the rate of job creation eased to a four-month low as there has been struggles hiring new suitable staff.
- Companies reported backlogs of work during August. The West Midlands Outstanding Business Index increased from 54.7 in July 2021 to 58.1 in August 2021. The rise was linked to finding suitable staff to fill vacancies and the ongoing shortages of raw materials.
- The East Midlands Outstanding Business Index increased from 53.8 in July 2021 to 55.7 in August 2021. This was the fastest rate of growth in backlogs of work since records began (November 1999). Companies reported that staff and material shortages hindered efforts to process incoming new business.

Prices

- The West Midlands Input Prices Index increased from 77.9 in July 2021 to 78.3 in August 2021. Input prices has increased for fourteen consecutive month and the rate of inflation was the second fastest since mid-2008. Companies suggest the increase was due to difficulties in sourcing raw materials and higher airfreight, shipping and staff costs.
- The East Midlands Input Prices Index decreased from 79.4 in July 2021 to 77.2 in August 2021. Average cost burdens increased notably midway through the third quarter, with reports of supplier prices hikes

² The Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the region. This produces an indicator for the economic health of the region's export markets.

and greater wage bills driving inflation. The pace of increase was the second-fastest on record and the rate of cost inflation was among the strongest of the 12 regions.

- The West Midlands Prices Charged Index increased from 62.0 in July 2021 to 62.2 in August 2021, this increase took the current stretch of inflation to 15 months and was the second quickest rate since July 2008. Companies reported that selling charges were raised due to ongoing increases in their expenses.
- The East Midlands Prices Charged Index decreased from 65.8 in July 2021 to 62.0 in August 2021. Greater output prices were reportedly driven by efforts to partially pass on higher input costs to clients where possible. The rate of inflation softened to a three-month low, but is still historically elevated.

Outlook

- The West Midlands Future Activity Index increased from 74.4 in July 2021 to 77.2 in July 2021, a three-month high and above the historical average. Approximately 63% of West Midlands companies are forecasting growth in the next 12 months, with optimism was linked to hopes of an end to COVID-19 with growing vaccine coverage. Companies also reported expectations of new client wins and launching new products and services.
- The East Midlands Future Activity Index increased from 77.6 in July 2021 to 80.0 in August 2021. This degree of confidence rose to the highest in almost six years. Optimism was linked to hopes of improved client demand and new product developments.
- Out of the twelve UK regions (where the highest is in first place), the East Midlands was the third highest for the Future Business Activity Index, with the West Midlands seventh. Yorkshire and the Humber had the highest Future Business Activity at 84.6 and Northern Ireland the lowest at 57.6 in August 2021.

The following chart shows the Future Activity Index across all UK regions in August 2021:



Source: IHS Market/NatWest, September 2021