

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

In Summary:

- The West Midlands Business Activity Index decreased from 64.0 in June 2021 to 58.3 in July 2021. With the Business Activity Index still above the 50-mark, this shows a slower but still a sharp rate of increase. The rise in business activity was restricted by staff and raw material shortage.
- The East Midlands Business Activity Index increased from 59.1 in June 2021 to 59.7 in July 2021 - this rate of output growth was the fastest since August 2014 and also quicker than the UK average. The rise was linked to the relaxation of COVID-19 restrictions which led to greater capacity and another boost to client demand.
- The overall UK Business Activity Index decreased from 62.2 in June 2021 to 59.2 in July 2021.
- The West Midlands Future Activity Index decreased from 77.1 in June 2021 to 74.4 in July 2021 – despite this falling to a seven-month low, firms still had a strong degree of optimism. Firms hope that further relaxations of travel restrictions and the end of the pandemic will support output growth in the year ahead and some firms also reported plans to launch new products. However, concerns still remain surrounding Brexit, raw material scarcity and the path of the pandemic restricted sentiment.
- The East Midlands Future Activity Index increased from 73.6 in June 2021 to 77.6 in July 2021. Firms in the region were more upbeat than the UK average, with optimism from the removal of many more COVID-19 restrictions and hopes of further boosts to client demand.

In Detail:

Business Activity Index

- The West Midlands Business Activity Index decreased from 64.0 in June 2021 to 58.3 in July 2021. With the Business Activity Index still above the 50-mark, this shows a slower but still a sharp rate of increase. The rise in business activity was restricted by staff and raw material shortage.
- The East Midlands Business Activity Index increased from 59.1 in June 2021 to 59.7 in July 2021, this rate of output growth was the fastest since August 2014 and also quicker than the UK average. The rise was linked to the relaxation of COVID-19 restrictions which led to greater capacity and another boost to client demand.

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

West Midlands Business Activity Index

sa, >50 = growth since previous month



¹ Source: IHS Markit/NatWest PMI, August 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, August 2021

- Of the UK regions, the West Midlands region was the fifth lowest and the East Midlands was sixth out of the twelve regions for the Business Activity Index. South West was highest at 62.2 and Northern Ireland was the lowest at 54.1 in July 2021.

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

Business Activity Index

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



Source: IHS Market/NatWest, August 2021

Demand

- The West Midlands New Business Index increased for the fifth consecutive month, as the Index remains above the 50-mark. The latest data shows the New Business Index decreased from 62.2 in June 2021 to 59.0 in July 2021. Despite easing, the pace of expansion remained substantial as sales rose and firms mentioned improved demand conditions and the lifting of COVID-19 restrictions.

- The East Midlands New Business Index decreased from 59.4 in June 2021 to 54.4 in July 2021. The rate of new business growth was the slowest seen in the last five months. However, there was still an increase in expansion which was linked to further relaxation of COVID-19 restrictions and boost to client demand.

Exports²

- The West Midlands Export Climate Index decreased from 58.6 in June 2021 to 58.1 in July 2021. Despite falling from June 2021 to a three-month low, the latest figure was still consistent with a substantial pace of expansion. Output rose across the top five destinations for West Midlands goods exports, with quicker increases in Germany and China. Growth eased in the US and France, but remained strong.
- The East Midlands Export Climate Index increased from 57.2 in June 2021 to 57.9 in July 2021, the improvement was the second-strongest since June 2006. The upturn in the export climate was supported by quicker output growth in Germany, Singapore and Hong Kong. The US also registered a marked expansion in activity despite easing from that seen in June. At the same time, France indicated a sharp rise in output.

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

Top export markets, West Midlands

Rank	Market	Weight	Output Index, Jul'21
1	USA	21.2%	59.9
2	Germany	11.1%	62.4
3	China	8.7%	53.1
4	Ireland	6.2%	65.0
5	France	6.1%	56.6

Top export markets, East Midlands

Rank	Market	Weight	Output Index, Jul '21
1	USA	12.8%	59.9
2	Germany	10.7%	62.4
3	Hong Kong	7.9%	52.8
4	Singapore	7.4%	60.1
5	France	7.1%	56.6

Source: IHS Market/NatWest, August 2021

Business Capacity

- The West Midlands Employment Index increased for the fifth consecutive month, remaining above the 50-mark. The latest data shows the Employment Index decreased from 60.8 in June 2021 to 57.6 in July 2021. Although softer than June's all-time high, the rate of job creation was sharp. The upturn in employment across the region was the third-fastest regionally, behind London and the South West.
- The East Midlands Employment Index decreased from 56.7 in June 2021 to 54.6 in July 2021, the rate of job creation was the slowest for three months and the third-softest of the UK regions.
- The West Midlands Outstanding Business Index decreased from 59.2 in June 2021 to 54.7 in July 2021. Firms indicated that strengthening demand conditions, supply-chain constraints and staff shortages were the main sources of rising backlogs.
- The East Midlands Outstanding Business Index decreased from 55.2 in June 2021 to 53.8 in July 2021. Backlogs of work were commonly linked to supplier material shortages and some issues surrounding labour availability.

Prices

- The West Midlands Input Prices Index decreased from 79.6 in June 2021 to 77.9 in July 2021 – despite easing from June 2021, the rate of increase was among the sharpest seen in the near 25 years of the survey. Firms associated supply-chain disruptions, raw material scarcity and greater freight fees pushed up expenses. Manufacturing companies saw a sharper increase than their services counterparts.

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.

- The East Midlands Input Prices Index increased from 77.1 in June 2021 to 79.4 in July 2021 - firms registered another substantial rise in input prices during July. The rate of cost inflation was the quickest since data collection began in January 1997 and was faster than the UK average. Where an increase was reported, companies linked this to higher supplier, material, logistics and labour costs.
- The West Midlands Prices Charged Index decreased from 62.6 in June 2021 to 62.0 in July 2021. The West Midlands registered the second slowest rate of charge inflation of the 12 UK regions, ahead only of London.
- The East Midlands Prices Charged Index increased from 63.4 in June 2021 to 65.8 in July 2021. Firms stated that higher selling prices were due to the pass-through of greater costs to clients. The rate of charge inflation accelerated to a fresh series high and was the second-fastest of the 12 monitored UK regions, slower than only Northern Ireland.

Outlook

- The West Midlands Future Activity Index decreased from 77.1 in June 2021 to 74.4 in July 2021 – despite this falling to a seven-month low, firms still had a strong degree of optimism. Firms hope that further relaxations of travel restrictions and the end of the pandemic will support output growth in the year ahead and some firms also reported plans to launch new products. However, concerns still remain surrounding Brexit, raw material scarcity and the path of the pandemic restricted sentiment.
- The East Midlands Future Activity Index increased from 73.6 in June 2021 to 77.6 in July 2021. Firms in the region were more upbeat than the UK average, with optimism from the removal of many more COVID-19 restrictions and hopes of further boosts to client demand.
- Out of the twelve UK regions, the East Midlands was the third highest for the Future Business Activity Index, with the West Midlands sixth in July 2021. The South East the highest Future Business Activity at 81.9 and Northern Ireland the lowest at 56.6 in July 2021.

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

Future Activity Index

>50 = growth expected over next 12 months, Jul '21



Source: IHS Market/NatWest, August 2021