

NatWest Purchasing Manager Index (PMI) Survey¹, Released January 2022: Midlands Regions

In Summary:

- The West Midlands Business Activity Index decreased from 54.3 in November 2021 to 50.7 in December 2021. Despite the fall, the index remains above the 50-growth mark meaning this was the eleventh successive month for increase in output, although the latest reading shows the rate of increase slowed to the weakest over this period. West Midlands firms reported that growth was restricted due to rising COVID-19 cases and the knock-on-effect of consumer confidence. Material and staff shortages were also reported as factors reducing output.
- The East Midlands Business Activity Index decreased from 56.4 in November 2021 to 53.1 in December 2021. Despite the fall, the index remains above the 50-growth mark meaning there was still a solid upturn in business activity, but a softer pace. Firms in the East Midlands reported that the softer expansion in output was linked to ongoing supply-chain disruption and the spread of the Omicron variant; the service sector was affected in particular.
- The overall UK Business Activity Index decreased from 57.6 in November 2021 to 53.6 in December 2021.
- The West Midlands Future Activity Index increased from 75.4 in November 2021 to 79.8 in December 2021, which is a seven-month high. Firms were hopeful that COVID-19 and the associated restrictions would recede. Firms also reported marketing efforts and innovation would hopefully lead to output expanding in 2022.
- The East Midlands Future Activity Index increased from 71.1 in November 2021 to 76.1 in December 2021. East Midlands firms' optimism was the highest seen in three months as there are hopes of greater client demand in 2022 and an end to COVID-19 uncertainty.

In Detail:

Business Activity Index

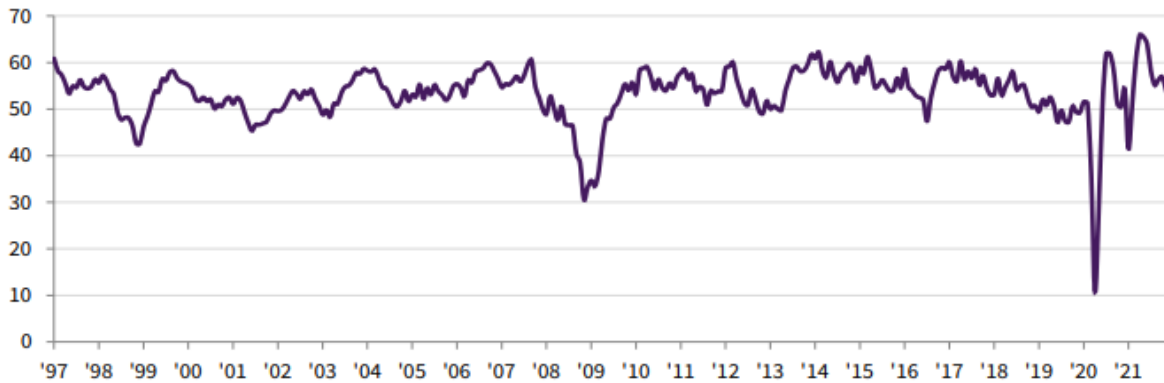
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¹ Source: IHS Markit/NatWest PMI, January 2022. Please note, the seasonally adjusted indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

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

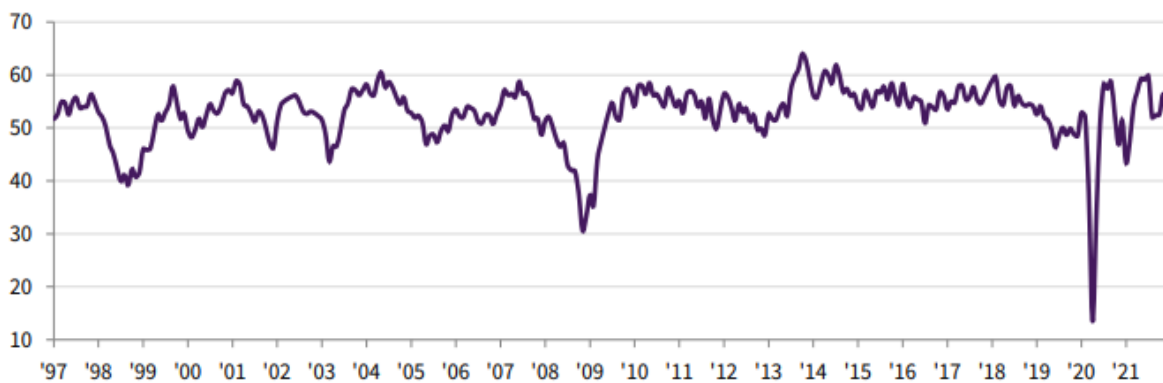
West Midlands Business Activity Index

sa, >50 = growth since previous month



East Midlands Business Activity Index

sa, >50 = growth since previous month



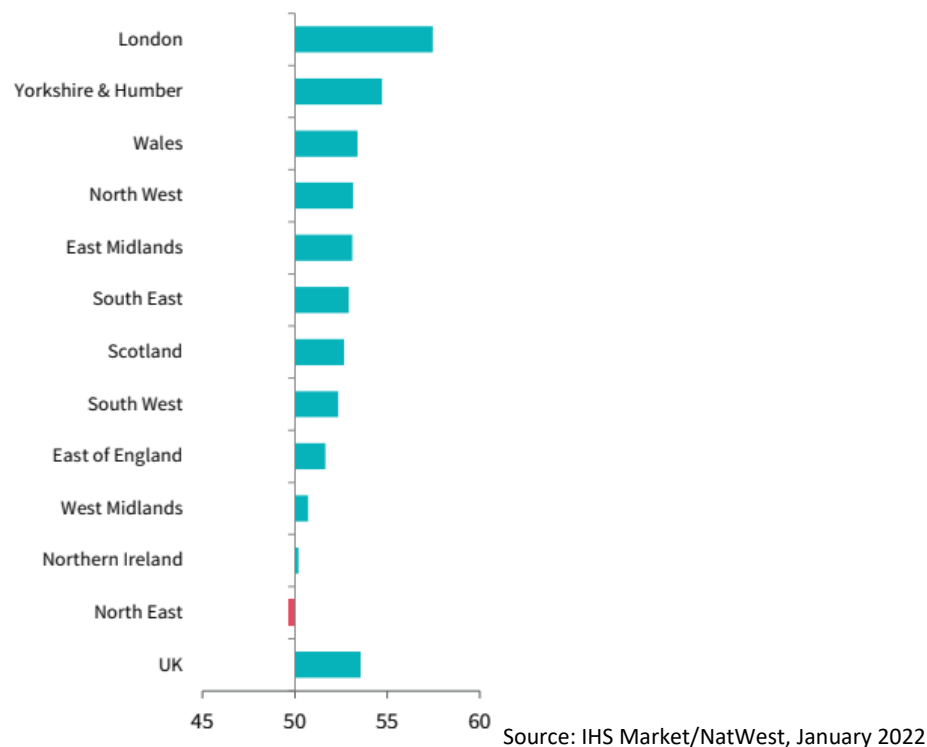
Source: IHS Market/NatWest, January 2022

- Of the 12 UK regions, the West Midlands region was the third lowest and the East Midlands was fifth highest for the Business Activity Index. London was highest at 57.5 and the North East was the lowest at 49.7 in December 2021.

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

Business Activity Index

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



Demand

- The West Midlands New Business Index decreased from 54.3 in November 2021 to 50.0 in December 2021. The stagnant new orders ended a nine-month sequence of expansion. West Midlands firms reported that sales were constrained by COVID-19 related uncertainty, fears over the spread of the Omicron variant and reduced client numbers. Notably, the West Midlands did not follow national trends where new business increased solidly.
- The East Midlands New Business Index decreased from 57.0 in November 2021 to 51.7 in December 2021. The rate of new business growth has slowed to the joint-softest for ten months due to demand conditions following the emergence and spread of the Omicron variant.

Exports²

- The West Midlands Export Climate Index decreased from 55.1 in November 2021 to 54.4 in December 2021. The export conditions have remained above the 50-growth mark but is at a ten-month low. There was growth in four out of the top five export markets, Germany declined to 49.9, with strong growth in the USA (57.0) and Ireland (56.5).
- The East Midlands Export Climate Index decreased from 55.7 in November 2021 to 54.7 in December 2021. this still signals a strong improvement in export conditions. There was strong expansion in Singapore (59.0) and USA remained resilient (57.0). Although, Germany dropped below the 50-mark for the first time since June 2020 at 49.9.

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

Top export markets, West Midlands

Rank	Market	Weight	Output Index, Dec '21
1	USA	21.2%	57.0
2	Germany	11.1%	49.9
3	China	8.7%	53.0
4	Ireland	6.2%	56.5
5	France	6.1%	55.8

Top export markets, East Midlands

Rank	Market	Weight	Output Index, Dec '21
1	USA	12.8%	57.0
2	Germany	10.7%	49.9
3	Hong Kong	7.9%	51.8
4	Singapore	7.4%	59.0
5	France	7.1%	55.8

Source: IHS Market/NatWest, January 2022

Business Capacity

- The West Midlands Employment Index decreased from 55.9 in November 2021 to 55.0 in December 2021. The index remains above the 50-growth mark meaning that employment continued to increase in December due to the replacement of previous leavers and predictions of better demand conditions in upcoming months.
- The East Midlands Employment Index increased from 56.2 in November 2021 to 57.7 in December 2021. The rate of job creation was the second-fastest since the series began (January 1997) and alongside East of England, the second-sharpest of all regions. The sharp rise in the workforce was linked to the replacement of voluntary leavers and the filling of outstanding vacancies.
- The West Midlands Outstanding Business Index decreased from 54.8 in November 2021 to 50.3 in December 2021. The index remains above the 50-growth mark meaning that outstanding business volumes continued to increase in December, although, the increase was the slowest in ten months. West Midlands firms reported an increase due to difficulties hiring suitable staff and problems sourcing raw materials, although at the same time, there were efficiency gains and subdued sales at other firms which allowed them to clear work.
- The East Midlands Outstanding Business Index decreased from 56.9 in November 2021 to 51.9 in December 2021. The rate of expansion softened to the slowest in nine months due to supply-chain disruptions and staff shortages.

Prices

- The West Midlands Input Prices Index decreased from 87.8 in November 2021 to 82.1 in December 2021. The overall rate of inflation eased from November 2021 peak but will still be the third highest since records began in January 1997. The increase was linked to rising operating expenses, with higher freight, raw material and wage costs. Since August 2020, inflation in the West Midlands was more evident than at a national level.
- The East Midlands Input Prices Index decreased from 88.7 in November 2021 to 85.9 in December 2021. The rate of input price inflation eased from November 2021 peak and was the second highest since records began. The rate of increase was linked to greater transportation, wage costs and supply shortages.
- The West Midlands Prices Charged Index increased from 65.4 in November 2021 to 65.9 in December 2021. The rise in output charges was the fastest seen in the history of the series (November 1999).
- The East Midlands Prices Charged Index remained at 66.2 in December 2021. The rate of charge inflation remained little-changed from October's series high, and was marked overall as anecdotal evidence attributed the rise in charges to the pass-through of higher costs to clients.

Outlook

- The West Midlands Future Activity Index increased from 75.4 in November 2021 to 79.8 in December 2021, which is a seven-month high. Firms were hopeful that COVID-19 and the associated restrictions would recede. Firms also reported marketing efforts and innovation would hopefully lead to output expanding in 2022.
- The East Midlands Future Activity Index increased from 71.1 in November 2021 to 76.1 in December 2021. East Midlands firms’ optimism was the highest seen in three months as there are hopes of greater client demand in 2022 and an end to COVID-19 uncertainty.
- Out of the twelve UK regions, the West Midlands was the third highest and the East Midlands was fourth highest for the Future Business Activity Index. Yorkshire and the Humber was the highest at 81.9 and Northern Ireland the lowest at 59.4 in December 2021.

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

Future Activity Index

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



Source: IHS Market/NatWest, January 2022