

## NatWest Purchasing Manager Index (PMI) Survey<sup>1</sup>, Released June 2022: Midlands Regions

### In Summary:

- The West Midlands Business Activity Index decreased from 54.5 in April 2022 to 49.7 in May 2022, the first contraction in 16 months. Business activity was restricted due to inflationary pressures, subdued demand, challenging economic conditions and input shortages.
- The East Midlands Business Activity Index decreased from 58.1 in April 2022 to 51.8 in May 2022, the lowest reading since June 2020. There was still an overall increase in business activity in May 2022 which was linked to the delivery of inputs and clearing of backlogs, although it was restricted due to hikes in prices and a drop in new orders.
- The UK Business Activity Index decreased from 53.1 in May 2022.
- Of the 12 UK regions the West Midlands region was the third lowest and the East Midlands was fifth lowest for the Business Activity Index in May 2022.
- The West Midlands Future Business Activity Index decreased from 71.8 in April 2022 to 66.1 in May 2022. Despite the overall level of positive sentiment falling to a 19- month low, some firms remained upbeat due to new product launches, marketing efforts and expansion plans to support output over the course of the coming year. Optimism was restricted due to acute inflationary pressures, issues with transportation, a challenging economic climate and the Russian invasion all reportedly dampened optimism in May 2022.
- The East Midlands Future Activity Index decreased 67.5 in April 2022 to 65.0 in May 2022, optimism was at its lowest since June 2020. Although the level of optimism has dropped, firms still reported a strong degree of confidence for the next 12 months due to new product development and hopes of an increase in client demand. Optimism was restricted due to hikes in prices and the impact on customer spending.
- Out of the twelve UK regions, the West Midlands was sixth highest and the East Midlands was fifth lowest for the Future Business Activity Index in May 2022.

### In Detail:

#### Business Activity Index

- The West Midlands Business Activity Index decreased from 54.5 in April 2022 to 49.7 in May 2022, the first contraction in 16 months. Business activity was restricted due to inflationary pressures, subdued demand, challenging economic conditions and input shortages.
- The East Midlands Business Activity Index decreased from 58.1 in April 2022 to 51.8 in May 2022, the lowest reading since June 2020. There was still an overall increase in business activity in May 2022 which was linked to the delivery of inputs and clearing of backlogs, although it was restricted due to hikes in prices and a drop in new orders.

<sup>1</sup> Source: NatWest PMI, June 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 May 2022:**

West Midlands Business Activity Index

sa, >50 = growth since previous month



East Midlands Business Activity Index

sa, >50 = growth since previous month



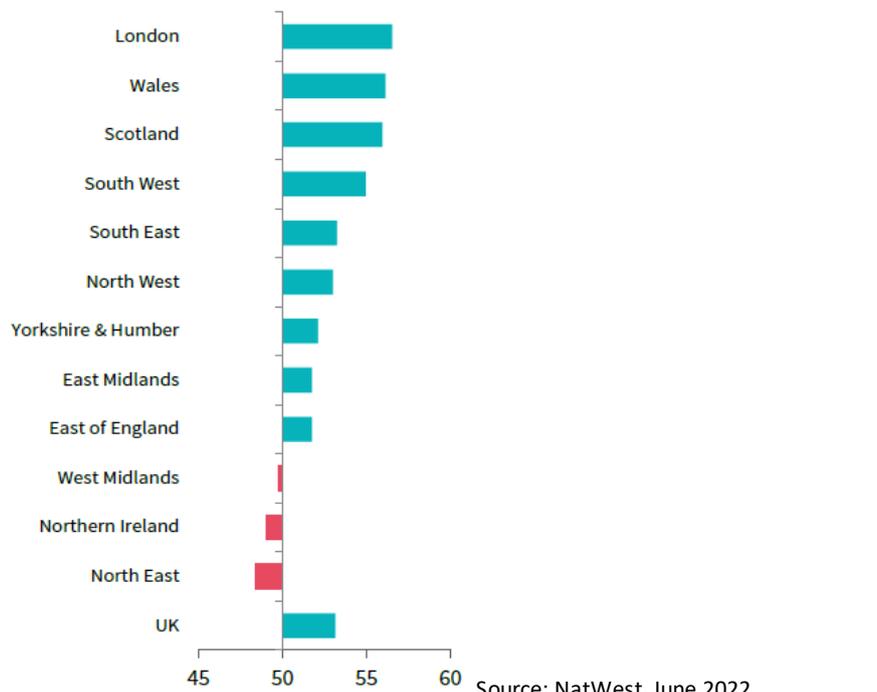
Source: NatWest, June 2022

- Of the 12 UK regions the West Midlands region was the third lowest and the East Midlands was fifth lowest for the Business Activity Index. London was the highest with 56.5 and the North East was the lowest at 48.4 in May 2022.

**The following chart shows the Business Activity Index across all UK regions in May 2022:**

Business Activity Index

sa, >50 = growth since previous month, May '22



Source: NatWest, June 2022

## Demand

- The West Midlands New Business Index increased 50.2 in April 2022 to 50.5 in May 2022, a marginal rise in new business intakes due to better demand conditions and greater international travel. New business was restricted due to subdued market confidence, inflationary pressures, the cancellation of projects and input shortages.
- The East Midlands New Business Index decreased from 51.0 in April 2022 to 49.4 in May 2022, the first decline since February 2021. Weak demand conditions were linked to lower purchasing power among customers and supply-chain disruption. The North East and Northern Ireland also had a decline in new business.

## Exports<sup>2</sup>

- The West Midlands Export Climate Index decreased from 53.4 in April 2022 to 52.8 in May 2022, indicating the slowest rate of growth in four months. Economic growth was sustained in four of the top five export markets for the West Midlands; as there was a contraction to China (42.2).
- The East Midlands Export Climate Index remained unchanged since April 2022 at 55.1. Supporting more positive export conditions were steeper increases in activity in Hong Kong (sharpest increase since March 2011, 56.0) and Singapore (62.0).

The following tables shows the top export markets for the West Midlands and East Midlands in May 2022:

Top export markets, West Midlands

Rank	Market	Weight	Output Index, May '22
1	USA	21.2%	53.6
2	Germany	11.1%	53.7
3	China	8.7%	42.2
4	France	6.1%	57.0
5	Ireland	6.2%	57.5

Top export markets, East Midlands

Rank	Market	Weight	Output Index, May '22
1	USA	12.8%	53.6
2	Germany	10.7%	53.7
3	Hong Kong	7.9%	56.0
4	Singapore	7.4%	62.0
5	France	7.1%	57.0

Source: NatWest, June 2022

## Business Capacity

- The West Midlands Employment Index increased from 55.1 in April 2022 to 55.3 in May 2022, taking the current sequence of job creation to 15 months and the pace of growth was the fastest since February 2022. The increase in employment was linked to rebuilding of workforces, sustained improvements in new business, expansion plans and the replacement of voluntary leavers.
- The East Midlands Employment Index decreased from 55.5 in April 2022 to 55.1 in May 2022, the rate of job creation was the slowest since September 2021 due to efforts in cutting costs.
- The West Midlands Outstanding Business Index increased from 50.2 in April 2022 to 51.3 in May 2022, the fastest rate of growth since February 2022. New contract wins, greater bookings, labour shortages, supply-chain issues and a lack of raw material availability all reportedly caused the increase in unfinished business volumes.
- The East Midlands Outstanding Business Index increased from 50.5 in April 2022 to 51.8 in May 2022, as material delivery delays pushed up work-in-hand.

<sup>2</sup> 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.

## Prices

- The West Midlands Input Prices Index increased from 85.0 in April 2022 to 85.6 in May 2022. The latest rate of inflation accelerated to the second highest since data collection started in January 1997. Firms indicated that electronic component, energy, food, fuel, transportation and wage costs were the main drivers of price pressures.
- The East Midlands Input Prices Index remained unchanged since April 2022 at 84.7. For the East Midlands, the pace of increase in input prices was among the slowest, with only the South West, the East of England and Scotland registering softer increases.
- The West Midlands Prices Charged Index decreased from 71.2 in April 2022 to 70.7 in May 2022. The overall rate of charge inflation was among the highest since the series started in November 1999 (the highest index reading was recorded in the previous month). Approximately 47% of monitored firms signalled higher fees, citing the pass-through of rising cost burdens to clients.
- The East Midlands Prices Charged Index slightly increased from 70.2 in April 2022 to 70.3 in May 2022. The rate of selling price inflation accelerated further and was the sharpest on record. Firms stated that greater selling prices were due to the pass-through of higher costs to clients.

## Outlook

- The West Midlands Future Business Activity Index decreased from 71.8 in April 2022 to 66.1 in May 2022. Despite the overall level of positive sentiment falling to a 19-month low, some firms remained upbeat due to new product launches, marketing efforts and expansion plans to support output over the course of the coming year. Optimism was restricted due to acute inflationary pressures, issues with transportation, a challenging economic climate and the Russian invasion all reportedly dampened optimism in May 2022.
- The East Midlands Future Activity Index decreased 67.5 in April 2022 to 65.0 in May 2022, optimism was at its lowest since June 2020. Although the level of optimism has dropped, firms still reported a strong degree of confidence for the next 12 months due to new product development and hopes of an increase in client demand. Optimism was restricted due to hikes in prices and the impact on customer spending.
- Out of the twelve UK regions, the West Midlands was sixth highest and the East Midlands was fifth lowest for the Future Business Activity Index. Yorkshire and The Humber was the highest with 78.9 and the Northern Ireland was the lowest at 47.8 in May 2022.

The following chart shows the Future Activity Index across all UK regions in May 2022:

### Future Activity Index

>50 = growth expected over next 12 months, May '22



Source: NatWest, June 2022