

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

In Summary:

- The West Midlands Business Activity Index decreased from 50.3 in July 2022 to 49.3 in August 2022, indicating a quicker deterioration in demand conditions leading to a renewed fall in business activity (below the 50-growth mark, although marginal). Firms indicated that business activity contracted due to reduced client purchasing, consumers reducing expenditure, economic uncertainty and product availability issues.
- The East Midlands Business Activity Index decreased further from the 50-growth mark from 48.7 in July 2022 to 45.0 in August 2022, the fastest decline in business activity since January 2021. Firms indicated that the strong decrease in business activity was linked to weak client demand and reduced purchasing power at customers.
- The UK Business Activity Index decreased from 52.1 in July 2022 to 49.6 in August 2022.
- Of the 12 UK regions the West Midlands region was the fourth highest and the East Midlands was third lowest for the Business Activity Index in August 2022.
- The West Midlands Future Business Activity Index decreased from 68.3 in July 2022 to 67.8 in August 2022. Firms in the West Midlands remain optimistic for the upcoming year; however, the degree of optimism was at its second-weakest level since October 2020 and below its historical average as firms reported inflation concerns, recession fears and energy price volatility.
- The East Midlands Future Activity Index increased from 59.3 in July 2022 to 59.6 in August 2022 which was a historically muted degree of confidence in outlook for output in the upcoming year. Firms were still optimistic but the level was at the second lowest since May 2020 due to concerns regarding pressure on customer spending and higher prices.
- Out of the twelve UK regions, the West Midlands was fourth highest and the East Midlands was fifth lowest for the Future Business Activity Index in August 2022.

In Detail:

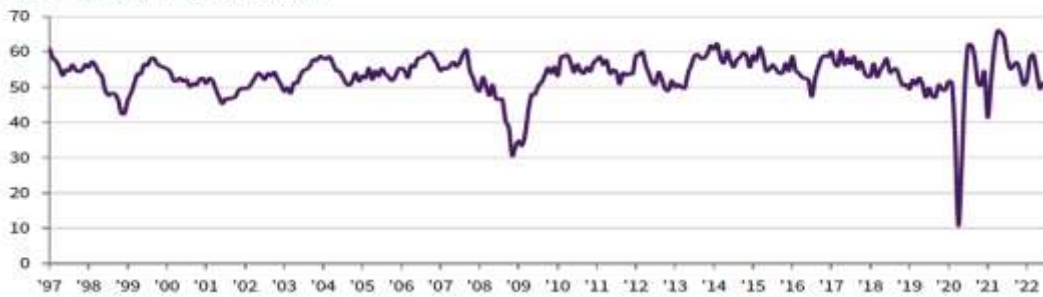
Business Activity Index

- The West Midlands Business Activity Index decreased from 50.3 in July 2022 to 49.3 in August 2022, indicating a quicker deterioration in demand conditions leading to a renewed fall in business activity (below the 50-growth mark, although marginal). Firms indicated that business activity contracted due to reduced client purchasing, consumers reducing expenditure, economic uncertainty and product availability issues.
- The East Midlands Business Activity Index decreased further from the 50-growth mark from 48.7 in July 2022 to 45.0 in August 2022, the fastest decline in business activity since January 2021. Firms indicated that the strong decrease in business activity was linked to weak client demand and reduced purchasing power at customers.

¹ Source: NatWest PMI, August 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 August 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 PMI, September 2022

Of the 12 UK regions the West Midlands region was the fourth highest and the East Midlands was third lowest for the Business Activity Index. London was the highest with 54.9 and the North East was the lowest at 43.4 in August 2022.

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

Business Activity Index

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



Source: NatWest PMI, September 2022

Demand

- The West Midlands New Business Index decreased from 49.6 in July 2022 to 48.5 in August 2022, the third consecutive month for a decline in new work intakes (50 and above indicates growth). The decline in new business was linked to subdued demand conditions during economic uncertainty.
- The East Midlands New Business Index decreased further from the 50-growth mark, from 47.8 in July 2022 to 43.5 in August 2022 – the rate of decline is the fastest seen since May 2020. The decrease in new business was linked to reduced purchasing power of customers amongst the strain on disposable income and soaring inflation. There was a sharper decline for manufacturers than service providers.

Exports²

- The West Midlands Export Climate Index decreased from 50.1 in July 2022 to 48.5 in August 2022, indicating weakening in trade prospects since mid-2020. This is reflected by the in contractions for the USA (44.6) and Germany (46.9).
- The East Midlands Export Climate Index decreased from 51.7 in July 2022 to 50.0 in August 2022, indicating stagnation in the export climate. There were contractions for the USA (44.6) and Germany (46.9), these were also the sharpest declines in output since May 2020. Although, growth was recorded in Hong Kong, Singapore and France but at a slower rate.

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

Top export markets, West Midlands

Rank	Market	Weight	Output Index, Aug '22
1	USA	21.2%	44.6
2	Germany	11.1%	46.9
3	China	8.7%	53.0
4	France	6.1%	50.4
5	Ireland	6.2%	51.0

Top export markets, East Midlands

Rank	Market	Weight	Output Index, Aug '22
1	USA	12.8%	44.6
2	Germany	10.7%	46.9
3	Hong Kong	7.9%	52.2
4	Singapore	7.4%	58.1
5	France	7.1%	50.4

Source: NatWest PMI, September 2022

Business Capacity

- The West Midlands Employment Index decreased from 54.1 in July 2022 to 53.5 in August 2022 – but still an 18 month increase for job creation. Where staff numbers increased, firms reported the replacement of voluntary leavers, efforts to fill outstanding vacancies and the expectations of a pick-up in demand. While other firms reported that skill shortages, a lack of new work and resignations led to lower staff numbers.
- The East Midlands Employment Index decreased from 56.3 in July 2022 to 54.9 in August 2022. Firms in the East Midlands continued to increase staffing levels due to the filling of long-held vacancies, however, the rate of job creating eased to the softest seen since September 2021 due to difficulties retaining staff and efforts to cut costs.
- The West Midlands Outstanding Business Index decreased from 53.2 in July 2022 to 47.3 in August 2022, ending a 17-month sequence of growth. Firms reported efficiency gains and reduced sales was linked to the renewed drop in unfinished work.
- The East Midlands Outstanding Business Index decreased from 50.8 in July 2022 to 49.0 in August 2022, the first fall in unfinished business since February 2021. The decline was linked to lower new order inflows which allowed firms to work through the backlogs.

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.

Prices

- The West Midlands Input Prices Index decreased from 75.2 in July 2022 to 72.1 in August 2022. Although, this still indicates a sharp increase in operating expenses with firms reporting greater energy, food, fuel and staff costs. The overall rate of increase has eased to a 17-month low linked to softer pressures from freight and some materials (for example, metals) prices.
- The East Midlands Input Prices Index decreased 80.0 in July 2022 to 76.8 in August 2022, which is still a steep increase in input costs. Firms in the East Midlands reported higher costs for energy, fuel, materials and labour costs. The rate of increase was one of the sharpest of all regions. The overall rate of increase has softened to the slowest last seen in May 2021 due to reductions in some materials prices.
- The West Midlands Prices Charged Index increased marginally from 65.9 in July 2022 to 66.0 in August 2022 – although this is a contrast to the slowdown in cost inflation, there was a quicker increase for prices charged. The overall rate is the second lowest in 2022 so far. 32% of firms reported higher fees compared with 5% of firms that offered discounts.
- The East Midlands Prices Charged Index decreased from 68.2 in July 2022 to 65.5 in August 2022. Firms reported that higher selling prices were due to the pass-through of greater costs to clients. The rate of charge inflation eased and the slowest seen since September 2021.

Outlook

- The West Midlands Future Business Activity Index decreased from 68.3 in July 2022 to 67.8 in August 2022. Firms in the West Midlands remain optimistic for the upcoming year; however, the degree of optimism was at its second-weakest level since October 2020 and below its historical average as firms reported inflation concerns, recession fears and energy price volatility.
- The East Midlands Future Activity Index increased from 59.3 in July 2022 to 59.6 in August 2022 which was a historically muted degree of confidence in outlook for output in the upcoming year. Firms were still optimistic but the level was at the second lowest since May 2020 due to concerns regarding pressure on customer spending and higher prices.
- Out of the twelve UK regions, the West Midlands was fourth highest and the East Midlands was fifth lowest for the Future Business Activity Index. Yorkshire and The Humber was the highest with 74.0 and the Northern Ireland was the lowest at 45.1 in August 2022.

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



Source: NatWest PMI, September 2022