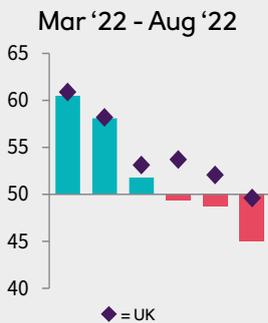


NatWest East Midlands PMI[®]

Fastest fall in business activity since January 2021 amid weaker client demand

East Midlands Business Activity Index



Key findings

Sharper contractions in output and new orders

Input costs rise at slowest pace since May 2021

Employment growth slows amid renewed fall in backlogs of work

The headline NatWest East Midlands Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – fell from 48.7 in July to 45.0 in August, with the latest data signalling the quickest decline in output across the East Midlands private sector since January 2021. Anecdotal evidence suggested that the strong decrease in business activity was due to weak client demand and reduced purchasing power at customers. The rate of contraction was faster than the series average, as manufacturers and service providers across the region recorded a fall in output.

John Maude, NatWest Midlands & East Regional Board, commented:

“East Midlands firms signalled more challenging business conditions during August, as pressure on customer disposable incomes dampened spending and led to faster contractions in output and new business. Client demand slumped, as new orders fell at the sharpest pace since the initial COVID-19 lockdown in May 2020.

“Lower new orders led firms to favour cost-cutting efforts, as employment rose at the slowest pace for almost a year. Although picking up from July, the degree of confidence in the outlook was the second-lowest for over two years as inflationary concerns weighed on sentiment.

“August saw slower increases in business expenses and charges for goods and services. Nevertheless, inflationary pressures remained historically elevated amid soaring material and energy bills.”

East Midlands Business Activity Index

sa, >50 = growth since previous month



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About the East Midlands PMI® report

The NatWest East Midlands PMI® is compiled by S&P Global from responses to questionnaires sent to East of England companies that participate in S&P Global's UK manufacturing and services PMI surveys.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The 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 indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index

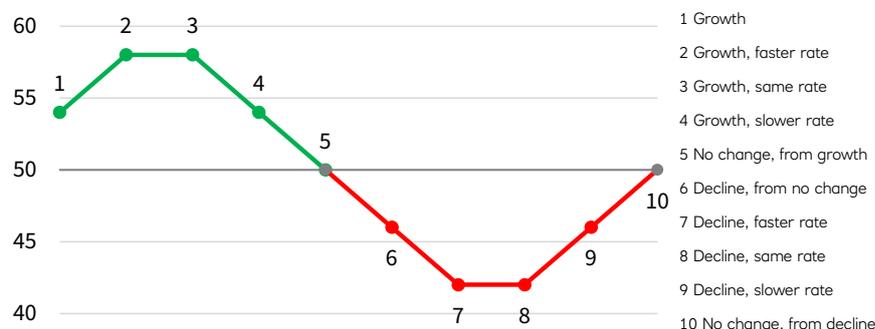
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'East Midlands PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index interpretation

50.0 = no change since previous month



Demand and outlook

Sharp decline in new business in August

Private sector firms in the East Midlands recorded a steep contraction in new orders during August. The rate of decline quickened from July to the fastest since May 2020. Companies noted that the decrease in new business was linked to reduced purchasing power at customers amid strain on disposable income and soaring inflation.

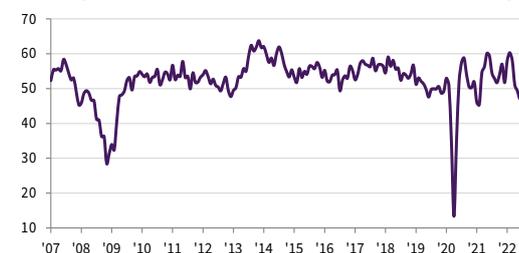
Manufacturers registered the sharper decline of the two monitored sectors.

Output expectations historically subdued

August data signalled an historically muted degree of confidence in the outlook for output over the coming year across the East Midlands private sector. Although upbeat overall, the level of optimism was the second-lowest since May 2020 as concerns regarding pressure on customer spending and higher prices weighed on sentiment.

Output expectations across the region remained weaker than the UK average.

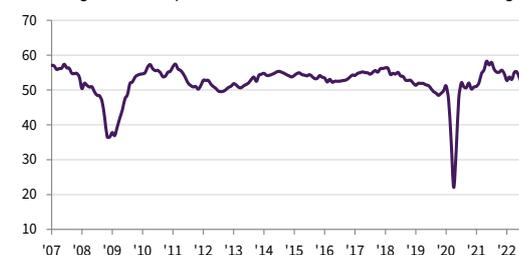
New Business Index 43.5
sa, >50 = growth since previous month Aug '22



Future Activity Index 59.6
>50 = growth expected over next 12 months Aug '22



Export Climate Index 50.0
sa, >50 = growth since previous month Aug '22



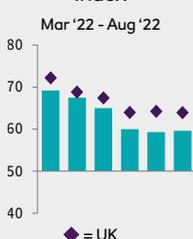
Top export markets, East Midlands

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

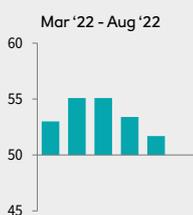
New Business Index
Mar '22 - Aug '22



Future Activity Index
Mar '22 - Aug '22



Export Climate Index
Mar '22 - Aug '22



Exports

Export conditions stagnate in August

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

The Export Climate Index posted at 50.0 in August, down from 51.7 in July, to signal a stagnation in the export climate for East Midlands private sector firms.

Weighing on export conditions were solid contractions in activity in key export destinations including the USA and Germany, which both registered the sharpest declines in output since May 2020.

France recorded the slowest expansion in output in the current 17-month sequence of growth. At the same time, Hong Kong and Singapore each posted weaker upturns in activity.

Business capacity

Employment Index



Rate of job creation slows to softest since September 2021

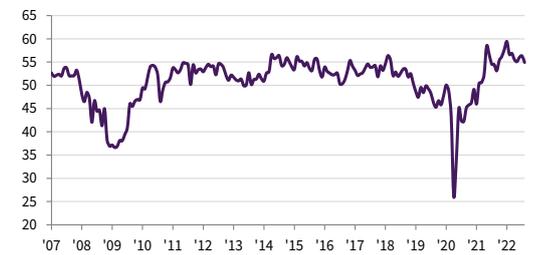
Private sector firms in the East Midlands continued to register an increase in employment midway through the third quarter. Anecdotal evidence stated that greater workforce numbers were due to the filling of long-held vacancies. The rate of job creation eased to the slowest in almost a year, however, amid difficulties retaining staff and efforts to cut costs.

The pace of employment growth in the region was slightly quicker than the UK average, which also softened from July.

Employment Index

sa, >50 = growth since previous month

54.9
Aug '22



Outstanding Business Index



Renewed drop in backlogs of work during August

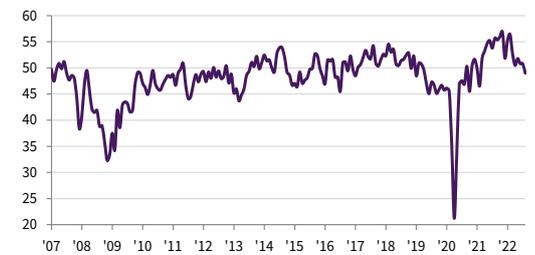
The level of unfinished business at private sector East Midlands companies fell for the first time since February 2021 in August. The pace of decline was only marginal overall, but was linked by panellists to lower new order inflows which allowed firms to work through their backlogs.

Manufacturers and service providers alike recorded reductions in incomplete business, with the region posting a decrease that was broadly similar in pace to the UK average.

Outstanding Business Index

sa, >50 = growth since previous month

49.0
Aug '22



Prices

Softer uptick in cost burdens in August

Average input costs at East Midlands private sector firms increased at an historically elevated pace during August. Higher operating expenses were attributed to greater energy, fuel, materials and wage costs. Although much sharper than the series average, the rate of cost inflation softened to the slowest since May 2021 amid reductions in some material prices.

Service providers across the region signalled a faster uptick in input prices than manufacturing firms.

Input Prices Index **76.8**
sa, >50 = inflation since previous month Aug '22

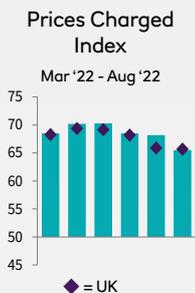
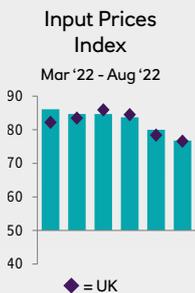


Further marked rise in selling prices, despite softer rate of inflation

East Midlands private sector firms signalled another substantial increase in output charges midway through the third quarter. Survey respondents stated that higher selling prices were due to the pass-through of greater costs to clients. The rate of charge inflation eased, however, and was the slowest since September 2021.

In line with the trend for input costs, the rate of increase in output prices was broadly in line with the UK average.

Prices Charged Index **65.5**
sa, >50 = inflation since previous month Aug '22



UK Sector PMI

Sector specialisation: East Midlands

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the East Midlands, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

East Midlands specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Aug '22 ⁺
1	Textiles & Clothing	2.09	48
2	Food & Drink	1.41	45
3	Other Manufacturing	1.27	48
4	Mechanical Engineering	1.05	50
5	Timber & Paper	1.02	48
6	Transport	0.92	48
7	Basic Metals	0.87	48
8	Electrical & Optical	0.67	55
9	Chemicals & Plastics	0.58	45

East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '22 ⁺
1	Transport & Communication	1.18	48
2	Hotels, Restaurants & Catering	1.13	45
3	Personal & Community Services	1.11	55
4	Business-to-business Services	1.07	48
5	Computing & IT Services	0.91	55
6	Financial Intermediation	0.49	50

UK sector focus

Timber & Paper

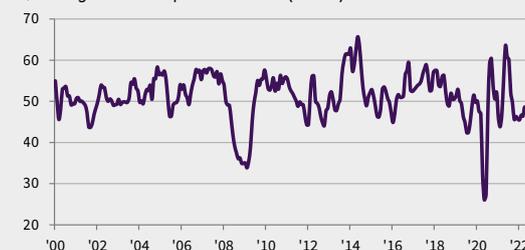
Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

Output Index

sa, >50 = growth since previous month (3mma)⁺



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

Employment

Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland* grew more pessimistic.

Business Activity Index

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



Employment Index

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



Future Activity Index

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



* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



Index summary

East Midlands

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Mar '22	60.5	58.0	53.0	69.2	56.9	52.7	86.1	68.5
Apr '22	58.1	51.0	55.1	67.5	55.5	50.5	84.7	70.2
May '22	51.8	49.4	55.1	65.0	55.1	51.8	84.7	70.3
Jun '22	49.4	47.1	53.4	60.0	56.0	50.8	83.7	68.5
Jul '22	48.7	47.8	51.7	59.3	56.3	50.8	80.0	68.2
Aug '22	45.0	43.5	50.0	59.6	54.9	49.0	76.8	65.5

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Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

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