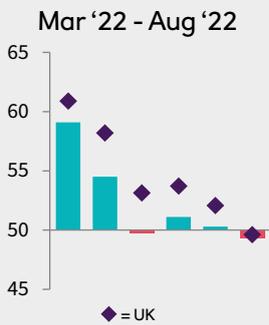


NatWest West Midlands PMI[®]

Quicker decline in new business drags down output in August

West Midlands Business Activity Index



Key findings

Renewed fall in business activity

Sales slip at fastest pace since January 2021

Input cost inflation eases but charges rise at similar rate to July

August data indicated that a quicker deterioration in demand conditions resulted in a renewed fall in business activity across the West Midlands, according to the NatWest PMI[®]. The headline 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 – slipped from 50.3 in July to 49.3, pointing to the first drop in three months but one that was marginal overall. Panellists attributed the contraction to reduced client purchasing, consumers trimming expenditure, economic uncertainty and product availability issues.

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

"The latest results clearly show the harmful consequences of inflation and uncertainty on the West Midlands economy. There was a third successive decline in new work intakes in August as consumers continued to tighten the purse strings due to the rising cost of living. Firms responded to subdued conditions by scaling back business activity and reassessing growth projections downwards as recession fears deepened. Although it was welcoming to see a further retreat of cost inflationary pressures, the results showed a broadly unchanged rate of increase in prices charged for local goods and services. As companies face higher expenses themselves and seek to pass this on to clients at a time when consumers are cutting back on non-essential spending, a meaningful recovery in the West Midlands economy is looking more distant."

West Midlands Business Activity Index

sa, >50 = growth since previous month



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About the West Midlands PMI[®] report

The NatWest West Midlands PMI[®] is compiled by S&P Global from responses to questionnaires sent to West Midlands 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

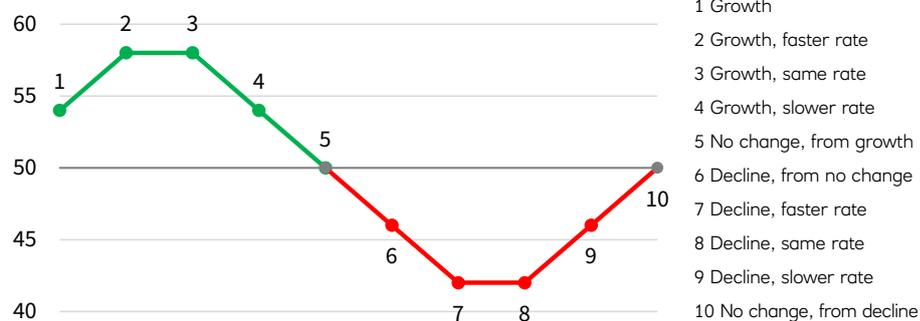
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'West 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

Downturn in new work intakes quickens in August

For the third month running, new business placed with private sector companies in the West Midlands declined in August. The rate of contraction was modest, but accelerated to the fastest since the start of 2021. Where a fall was reported, survey participants mentioned subdued demand conditions amid economic uncertainty.

The local trend for sales compared with a broad stagnation at the UK level.

New Business Index

sa, >50 = growth since previous month

48.5

Aug '22



New Business Index

Mar '22 - Aug '22



Level of positive sentiment slips for second straight month

West Midlands firms remained upbeat regarding the year-ahead outlook for business activity, but confidence fell to its second-lowest level since October 2020 (surpassing May 2022). Moreover, the Future Activity Index was below its historical average. Inflation concerns, recession fears and energy price volatility were among the key factors dragging down optimism.

Regionally, the West Midlands came fourth out of 12 in the rankings for business confidence.

Future Activity Index

>50 = growth expected over next 12 months

67.8

Aug '22



Future Activity Index

Mar '22 - Aug '22



Exports

August sees outright deterioration in export conditions

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

At 48.5 in August, down from 50.1 in July, the Export Climate Index highlighted the first deterioration in trade prospects since mid-2020. The rate of contraction was, however, mild.

Economic trends weakened across the top five export markets for the West Midlands. Germany and the US recorded faster declines in private sector output, while growth softened in China, France and Ireland.

Export Climate Index

sa, >50 = growth since previous month

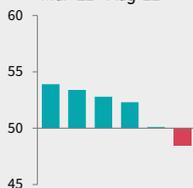
48.5

Aug '22



Export Climate Index

Mar '22 - Aug '22



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

Business capacity

Jobs growth eases to 17-month low

August data continued to show job creation in the West Midlands private sector economy, though the rate of increase softened to the second-slowest in the current 18-month sequence of expansion. Where staff numbers rose, panellists commented on the replacement of voluntary leavers, efforts to fill outstanding vacancies and predictions of a pick-up in demand. Others suggested that skill shortages, a lack of new work and resignations led to lower headcounts.

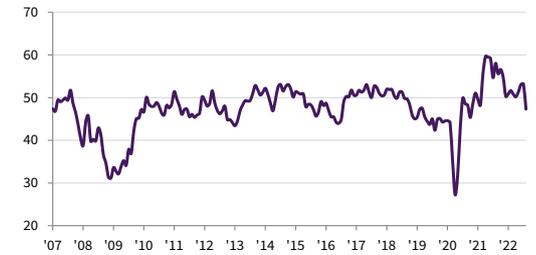
Employment Index
sa, >50 = growth since previous month
53.5
Aug '22



Spare capacity signalled for first time in a year-and-a-half

Outstanding business volumes at private sector firms in the West Midlands decreased in August, ending a 17-month sequence of accumulation. Moreover, the pace of depletion was solid and the fastest in close to two years. Anecdotal evidence indicated that a combination of efficiency gains and reduced sales aided the renewed drop in unfinished work.

Outstanding Business Index
sa, >50 = growth since previous month
47.3
Aug '22

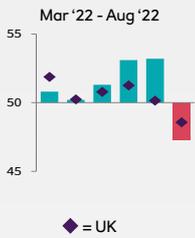


The fall in backlogs seen in the West Midlands was quicker than that recorded at the national level.

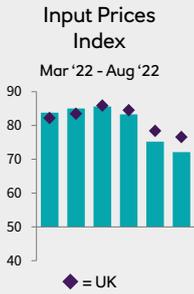
Employment Index



Outstanding Business Index



Prices

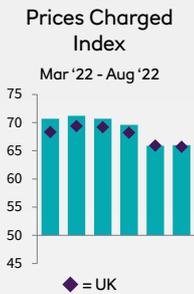
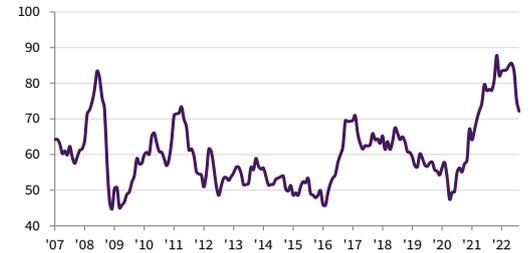


Input costs rise at sharp, but slower rate

Private sector companies in the West Midlands signalled another sharp upsurge in their operating expenses halfway through the third quarter. Greater energy, food, fuel and staff costs were among the key sources of inflation cited by panellists. Nevertheless, the overall rate of increase softened to a 17-month low amid softer pressures from freight and some material (particularly metals) prices.

The West Midlands recorded the lowest rate of inflation out of the 12 monitored UK regions.

Input Prices Index 72.1
Aug '22
sa, >50 = inflation since previous month



Firms continue to transfer cost increases to clients

In contrast to the slowdown in cost inflation, there was a faster upturn in prices charged for goods and services in the West Midlands during August. The rate of increase quickened only fractionally from July's seven-month low and was above its long-run average, but was nevertheless the second-lowest in 2022 so far. Around 32% of panellists reported higher fees, compared with 5% that offered discounts.

The local rate of charge inflation outpaced the UK average.

Prices Charged Index 66.0
Aug '22
sa, >50 = inflation since previous month



UK Sector PMI

Sector specialisation: West 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 West Midlands, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

West Midlands specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Aug' 22 ⁺
1	Transport	2.35	48
2	Basic Metals	1.44	48
3	Mechanical Engineering	1.17	50
4	Other Manufacturing	0.89	48
5	Timber & Paper	0.61	45
6	Electrical & Optical	0.59	55
7	Textiles & Clothing	0.57	48
8	Food & Drink	0.51	45
9	Chemicals & Plastics	0.47	45

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug' 22 ⁺
1	Transport & Communication	1.19	48
2	Hotels, Restaurants & Catering	1.16	48
3	Personal & Community Services	1.08	55
4	Computing & IT Services	0.98	58
5	Business-to-business Services	0.97	48
6	Financial Intermediation	0.74	52

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

West 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	59.1	55.4	53.9	75.2	53.9	50.8	83.8	70.7
Apr '22	54.5	50.2	53.4	71.8	55.1	50.2	85.0	71.2
May '22	49.7	50.5	52.8	66.1	55.3	51.3	85.6	70.7
Jun '22	51.1	49.2	52.3	70.3	54.4	53.1	83.3	69.6
Jul '22	50.3	49.6	50.1	68.3	54.1	53.2	75.2	65.9
Aug '22	49.3	48.5	48.5	67.8	53.5	47.3	72.1	66.0

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