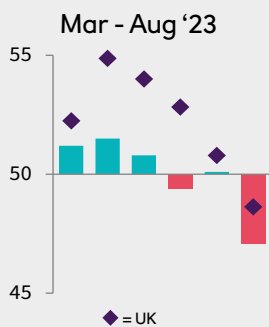


NatWest East Midlands PMI[®]

Sharper decline in new business sparks renewed drop in output

East Midlands Business Activity Index



Key findings

Fastest fall in activity in 2023 so far amid steeper drop in new orders

Selling price inflation slows despite sharper rise in input costs

Rate of job shedding steepest since January 2021

The headline NatWest East Midlands PMI[®] 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 – posted 47.1 in August, down from 50.1 in July. The latest data signalled a solid contraction in business activity midway through the third quarter, and the fastest fall in output since December 2022. The decline was among the sharpest of the 12 monitored UK regions, with firms linking the decrease to weak demand conditions and a further drop in new orders.

Rashel Chowdhury, NatWest Midlands and East Regional Board, commented:

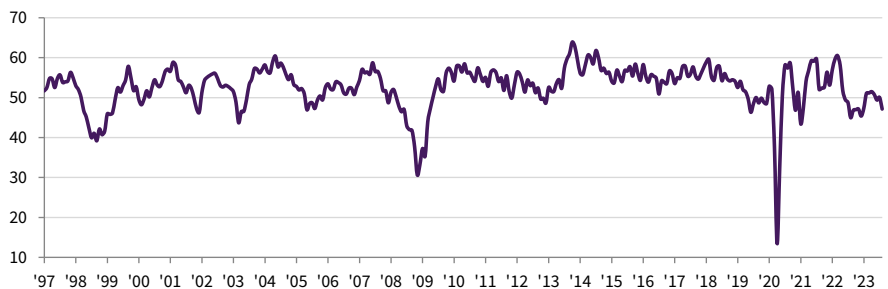
“East Midlands firms signalled further challenging demand conditions as the third quarter progressed. New business contracted at a sharper rate which drove a renewed drop in output. Higher interest rates and a return of hikes in fuel, utility and material costs exacerbated strain on customer spending and sparked an acceleration in input cost inflation.

“Efforts to stimulate demand were evident in another slowdown in the pace of selling price inflation, with charges rising at the weakest rate since the start of 2021. At the same time, burgeoning spare capacity led firms to pursue cost-cutting tactics as the decrease in employment gained momentum.

“Although firms were more optimistic in the year-ahead outlook, the degree of confidence remained historically soft amid ongoing concerns regarding the stability of demand.”

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 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

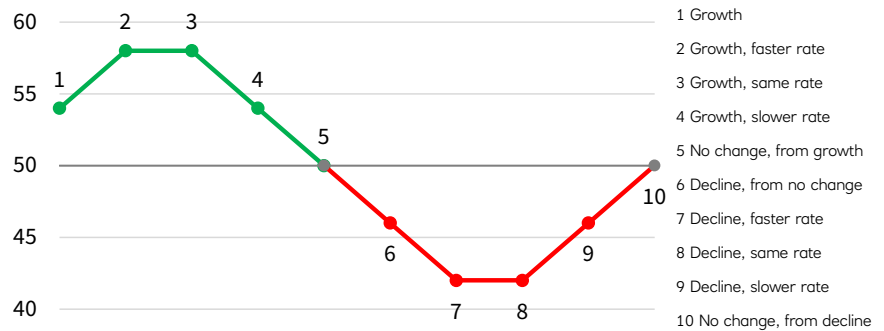
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Sharpest fall in new orders since January

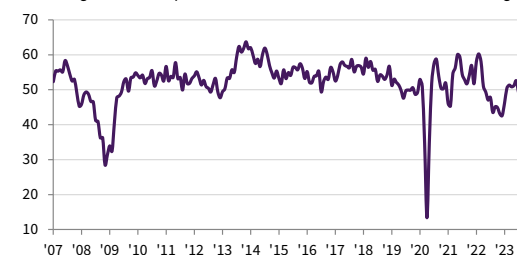
East Midlands private sector firms recorded a solid contraction in new business during August. The pace of decline quickened from that seen in July and was the steepest since the start of the year. Panellists often noted that weak demand conditions stemmed from higher interest rates which led to increased hesitancy among customers to place orders.

The rate of decrease was faster than the UK average, but the region reflected the UK trend by registering a sharper decline in new orders.

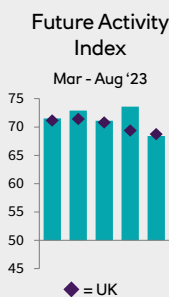
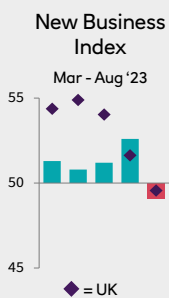
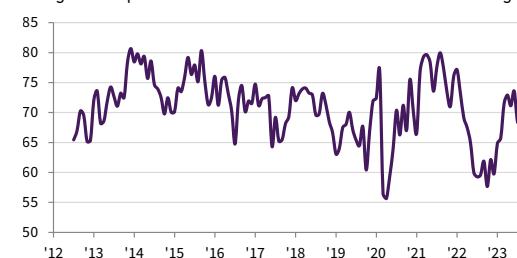
Output expectations improve in August

East Midlands private sector firms signalled further upbeat expectations regarding the outlook for output over the coming 12 months in August. Optimism was linked to greater investment, new product development and hopes of stronger demand conditions. The degree of confidence picked up slightly on the month, but remained below the series average as firms highlighted concerns towards customer spending amid inflationary pressures.

New Business Index
sa, >50 = growth since previous month
46.8
Aug '23



Future Activity Index
>50 = growth expected over next 12 months
69.6
Aug '23



Business capacity

Sharpest fall in employment since January 2021

August data signalled a second successive monthly decrease in staffing numbers at East Midlands private sector businesses. The rate of job shedding accelerated and was the fastest since early-2021. Lower employment was attributed to redundancies due to lower new orders and efforts to cut costs, alongside the non-replacement of voluntary leavers, some of whom left for higher wages elsewhere.

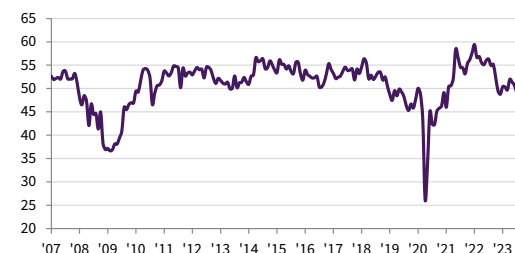
Although the UK as a whole continued to record a rise in employment, the increase was only marginal overall.

Quickest decrease in backlogs in 2023 so far

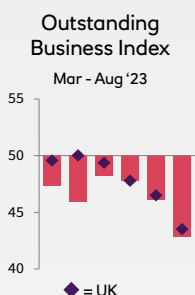
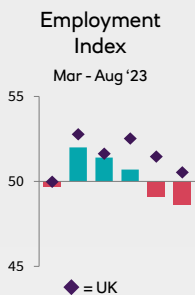
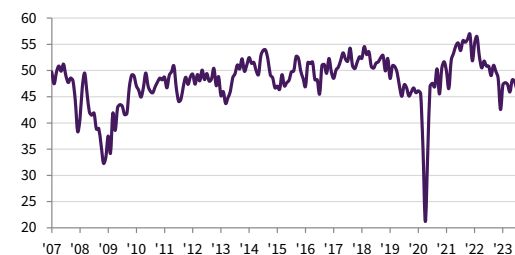
August data signalled an eleventh successive monthly decrease in backlogs of work at East Midlands private sector businesses. The decline in the level of outstanding work was steep overall and the sharpest since December 2022. The pace of contraction was stronger than the series average.

Where a drop in incomplete business was noted, firms linked this to lower new orders and sufficient capacity to process incoming new work.

Employment Index
sa, >50 = growth since previous month
48.6
Aug '23



Outstanding Business Index
sa, >50 = growth since previous month
42.8
Aug '23



Prices

Fastest uptick in cost burdens since May

East Midlands private sector firms recorded a sharper rise in input prices midway through the third quarter. The rate of cost inflation was the fastest for three months and steeper than both the series and UK averages.

The increase in input costs was driven by the service sector, where prices rose markedly. In contrast, manufacturing firms saw a further fall in operating expenses.

Panellists stated that higher material, utility and wage costs led the increase, with some companies also mentioning a higher cost of financing following interest rate hikes.

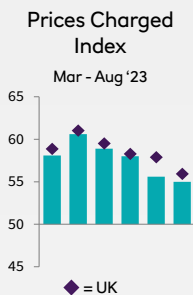
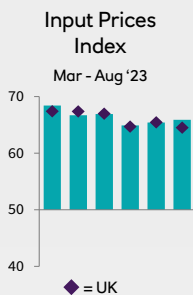
Slowest increase in output charges since January 2021

Private sector firms in the East Midlands indicated a softer uptick in selling prices during August. The pace of increase slowed for the fourth successive month to the slowest since January 2021. Although firms sought to pass-through costs to clients, weak demand conditions led to some instances of discounting in a bid to drive sales.

Input Prices Index 65.9
sa, >50 = inflation since previous month Aug '23



Prices Charged Index 55.0
sa, >50 = inflation since previous month Aug '23



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 '23 ⁺
1	Textiles & Clothing	2.09	50
2	Food & Drink	1.41	52
3	Other Manufacturing	1.27	50
4	Mechanical Engineering	1.05	50
5	Timber & Paper	1.02	50
6	Transport	0.92	50
7	Basic Metals	0.87	50
8	Electrical & Optical	0.67	45
9	Chemicals & Plastics	0.58	50

East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '23 ⁺
1	Transport & Communication	1.18	50
2	Hotels, Restaurants & Catering	1.13	48
3	Personal & Community Services	1.11	52
4	Business-to-business Services	1.07	50
5	Computing & IT Services	0.91	50
6	Financial Intermediation	0.49	55

UK sector focus

Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

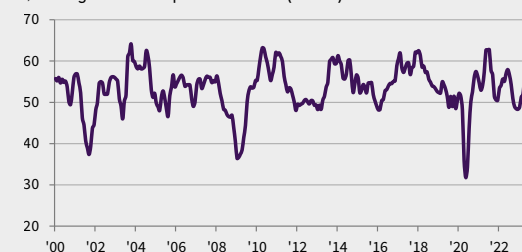
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland*, followed by the South West.

Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

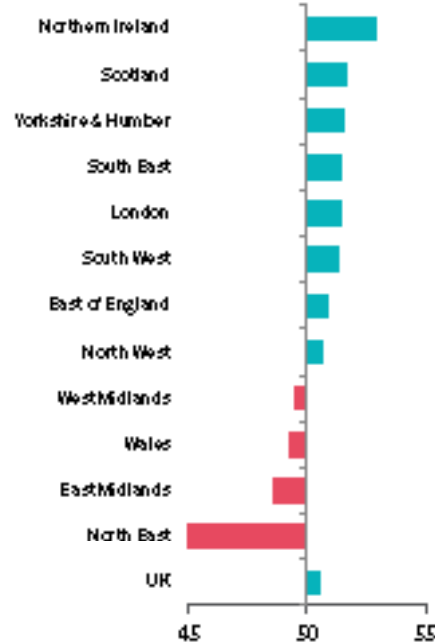
Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

Business Activity Index
sa, >50 = growth since previous month, Aug '23



Employment Index
sa, >50 = growth since previous month, Aug '23



Future Activity Index
>50 = growth expected over next 12 months, Aug '23



* 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 '23	51.2	51.3	53.0	71.5	49.7	47.3	68.4	58.1
Apr '23	51.5	50.8	53.3	72.9	52.0	45.9	66.7	60.6
May '23	50.8	51.2	52.5	71.1	51.4	48.2	66.9	58.9
Jun '23	49.4	52.6	51.4	73.6	50.7	47.8	64.9	58.0
Jul '23	50.1	49.1	50.3	68.4	49.1	46.1	65.4	55.6
Aug '23	47.1	46.8	49.6	69.6	48.6	42.8	65.9	55.0

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