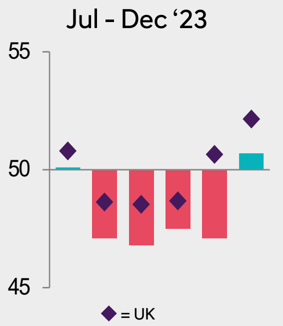
15 January 2024

NatWest East Midlands PMI®

Fastest rise in business activity since May 2023

East Midlands Business Activity Index

Dec '23
50.7
Nov: 47.1



Key findings

Renewed output growth amid softer fall in new orders

Rates of input price and output charge inflation quicken

Employment declines only fractionally

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 50.7 in December, up notably from 47.1 in November, to signal a return to growth in output at firms across the region. The rise in business activity was the quickest since May 2023, albeit slower than the UK average. Anecdotal evidence suggested that increased output was due to signs of improvement in demand conditions and efforts to clear backlogs.

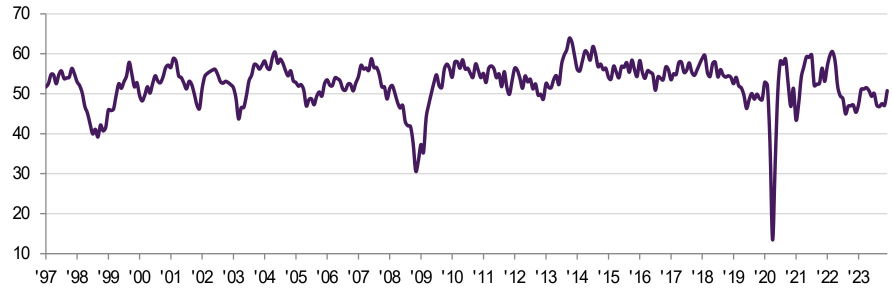
Rashel Chowdhury, NatWest Midlands and East Regional Board, commented:

"East Midlands firms ended 2023 on a slightly better note, as output returned to expansion and the decline in new orders softened for a second successive month to only a marginal pace. Firms noted signs of improvement in demand conditions, but continued to highlight that economic uncertainty weighed on customers' minds.

"Glimmers of hope regarding future demand led to only a fractional drop in employment despite a marked contraction in outstanding work.

"Meanwhile, inflationary pressures gained momentum as input prices and output charges rose at the fastest rates for three and six months, respectively. Greater utility costs and hikes in wage bills placed strain on margins, with paces of increase historically elevated which may constrain customer spending further in the opening months of 2024."

East Midlands Business Activity Index
sa, >50 = growth since previous month



PMI® by S&P Global

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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.

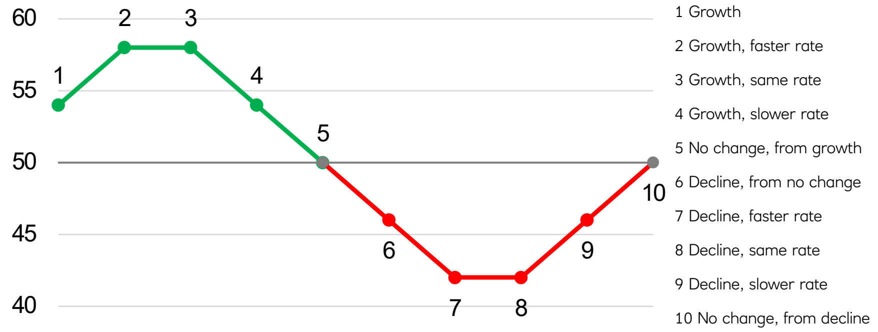
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

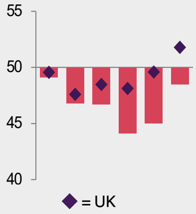
For further information on the PMI survey methodology, please contact economics@spglobal.com.

Index interpretation
50.0 = no change since previous month



New Business Index

Jul - Dec '23



Demand and outlook

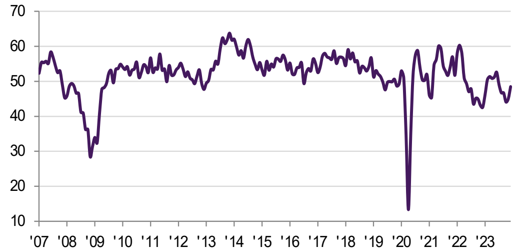
Slowest fall in new business since July

December data signalled only a marginal contraction in new orders at East Midlands firms. The rate of decline softened for the second month running and was the slowest since July. Nonetheless, the decline in new business was linked to subdued demand conditions and economic uncertainty.

The decrease in new orders in the East Midlands contrasted with the wider UK trend which indicated the fastest rise in new business since May.

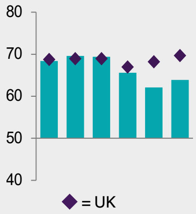
New Business Index 48.5

sa, >50 = growth since previous month Dec '23



Future Activity Index

Jul - Dec '23

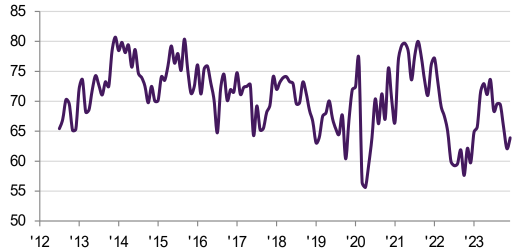


Business confidence picks up, but remains historically muted

East Midlands companies recorded a slight pick up in the level of optimism regarding the year-ahead outlook for output in December. Expectations of greater activity stemmed from hopes of an improvement in customer demand, a more focused approach to marketing and investment in facilities. Although stronger than in November, the degree of confidence was below the long-run series average and the UK trend level.

Future Activity Index 63.9

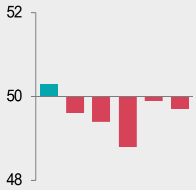
>50 = growth expected over next 12 months Dec '23



Exports

Export Climate Index

Jul - Dec '23



Fractional decline in export conditions during December

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.

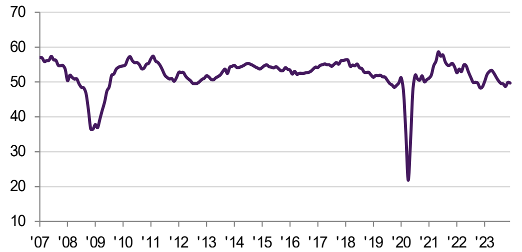
The Export Climate Index registered 49.7 in December, down slightly from 49.9 in November, to signal only a fractional decline in the export climate for East Midlands goods and services.

Export conditions were weighed down by further contractions in output in Germany and France, with the latter indicating a marked fall in output.

Although signalling a rise in business activity, firms in the US and Hong Kong SAR recorded only marginal upturns. Meanwhile, output increased at a sharp pace in Singapore, albeit at a softer rate than that seen in November.

Export Climate Index 49.7

sa, >50 = growth since previous month Dec '23



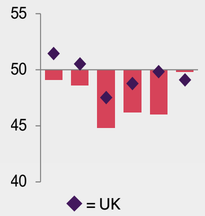
Top export markets, East Midlands

Rank	Market	Weight	Output Index, Dec '23
1	USA	12.5%	50.9
2	Germany	9.9%	47.4
3	France	9.0%	44.8
4	Singapore	7.5%	56.1
5	Hong Kong	7.1%	51.0

Business capacity

Employment Index

Jul - Dec '23



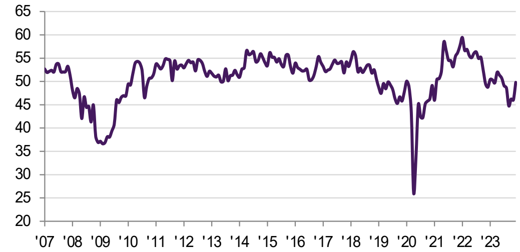
Decline in employment only fractional in December

Firms in the East Midlands registered a sixth successive monthly drop in employment during December. That said, the pace of job shedding eased to only a slight rate that was the slowest in the aforementioned sequence of decline. Companies reportedly cut workers in a bid to reduce costs, but some noted that staff growth was due to the hiring of temporary workers.

Companies in the East Midlands saw a slower fall in employment compared to the UK average.

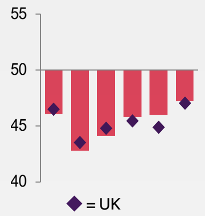
Employment Index 49.8

sa, >50 = growth since previous month Dec '23



Outstanding Business Index

Jul - Dec '23



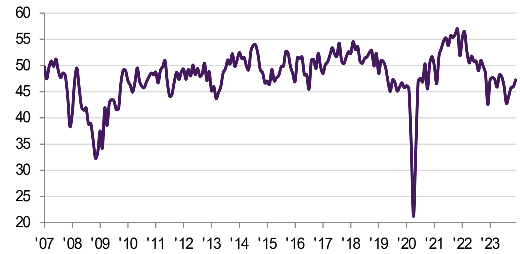
Backlogs of work fall at softest pace in six months

The level of outstanding business at firms in the East Midlands fell further at the end of 2023, thereby extending the current sequence of decline which began in October 2022. Companies continued to state that lower new orders allowed them to work through existing business. The pace of contraction was solid but eased to the slowest since June.

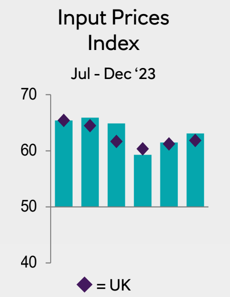
The decrease in work-in-hand was led by manufacturers, as service providers registered a faster rise in incomplete business.

Outstanding Business Index 47.2

sa, >50 = growth since previous month Dec '23



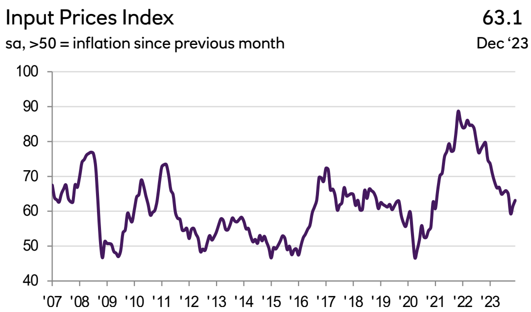
Prices

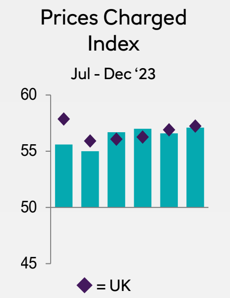


Input costs rise at fastest rate in three months

December data signalled a marked rise in input prices across the East Midlands private sector. Business expenses increased at the fastest pace in three months, and at a rate that was sharper than the series average. Hikes in input costs were attributed to greater wage bills, higher utility prices and increased component costs.

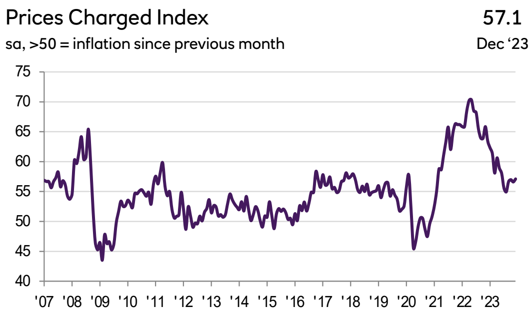
The pace of increase in input prices was the second-fastest of the 12 monitored UK regions, with only London recording a steeper uptick.





Sharpest rise in output charges since June

Selling prices at East Midlands businesses rose at a steep rate at the end of 2023. The increase in output charges was the quickest for six months and sharper than the series average. Firms reportedly sought to pass through costs to customers amid a faster uptick in input prices. The pace of inflation was broadly in line with the UK average.



UK Sector PMI

Sector specialisation: East Midlands

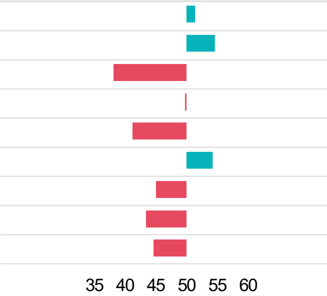
Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

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.

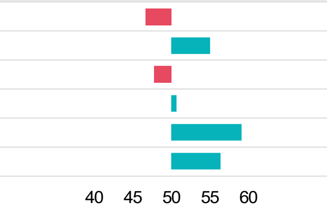
East Midlands specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Dec ' 23+
1	Textiles & Clothing	2.09	
2	Food & Drink	1.41	
3	Other Manufacturing	1.27	
4	Mechanical Engineering	1.05	
5	Timber & Paper	1.02	
6	Transport	0.92	
7	Basic Metals	0.87	
8	Electrical & Optical	0.67	
9	Chemicals & Plastics	0.58	



East Midlands specialisation: Services

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



UK sector focus

Textiles & Clothing

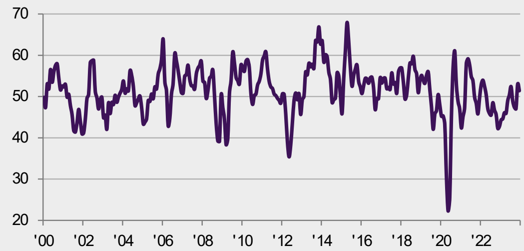
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to the one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

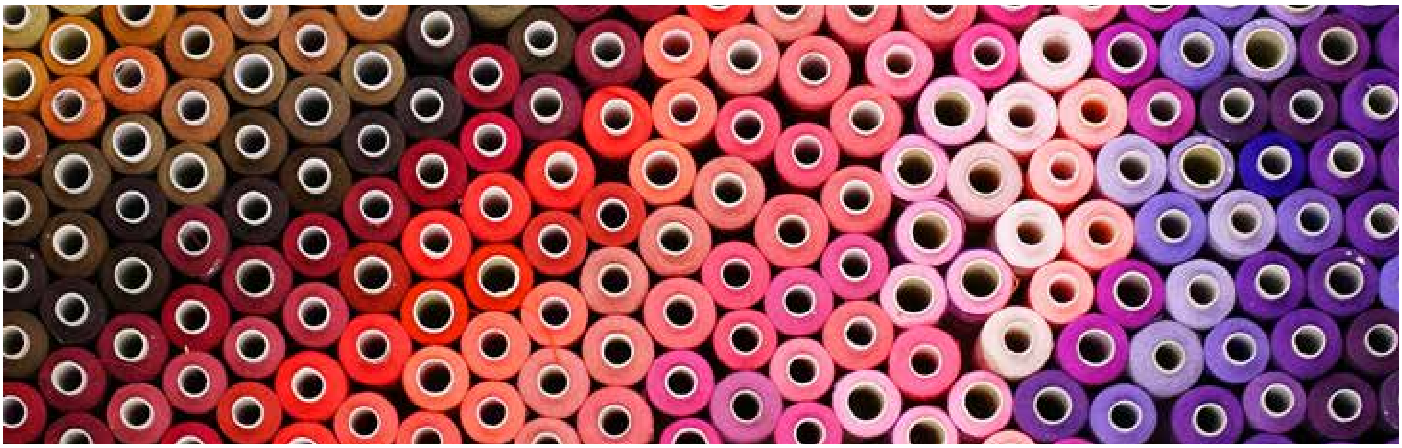
On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

Output Index

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



+ 3-month moving average



PMI by S&P Global

UK Regional PMI overview

Business Activity

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by London, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

Employment

Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

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

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

Future Activity Index
>50 = growth expected over next 12 months, Dec '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
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
Sep '23	46.8	46.7	49.4	69.4	44.8	44.1	64.9	56.7
Oct '23	47.5	44.1	48.8	65.6	46.2	45.8	59.3	57.0
Nov '23	47.1	45.0	49.9	62.1	46.0	46.0	61.5	56.6
Dec '23	50.7	48.5	49.7	63.9	49.8	47.2	63.1	57.1

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About NatWest

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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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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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