

# NatWest West Midlands PMI<sup>®</sup>

## Business activity rebounds amid renewed growth of sales

### West Midlands Business Activity Index



### Key findings

Output increases for first time in seven months...

...as companies receive higher intakes of new work

Input cost inflation eases to two-year low

The NatWest PMI<sup>®</sup> results for the West Midlands signalled a substantial improvement in the health of the local economy. Besides retreating price pressures and a recovery in business sentiment, the data showed that a renewed increase in new orders pushed output inside growth territory. 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 – rose from 49.0 in January to 53.0, above the 50.0 threshold for the first time in seven months and at its highest mark since April 2022. The solid upturn was reportedly supported by better underlying demand and expanded clientele. Moreover, the local rise was the third-best of all 12 monitored UK regions.

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

*"The latest results surprised on the upside as more positive than expected data published in recent months underpinned a better outlook for the UK economy, with households and firms becoming more willing to spend. West Midlands companies lifted output in February, moving away from a short-lived downturn, as their clients displayed a stronger appetite for goods and services. Alongside an improvement in demand conditions, panellists stated that marketing efforts bore fruit and that customers were more inclined to add to their inventories. Business confidence strengthened to its highest level in close to a year, supporting solid growth of local jobs."*

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



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## About the West Midlands PMI<sup>®</sup> report

The NatWest West Midlands PMI<sup>®</sup> 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

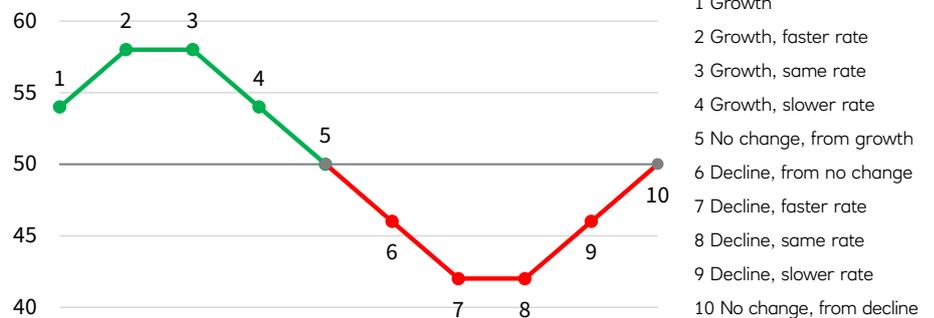
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business rises for first time in nine months

Private sector companies in the West Midlands registered a renewed increase in new work intakes in February, ending an eight-month sequence of reduction. Moreover, the pace of expansion was solid and the strongest since March 2022. Survey participants indicated that demand had strengthened, with some clients reportedly seeking to rebuild their inventories. There were also mentions of successful advertising and new customer acquisitions. The local trend for sales was the third-best regionally.

### Firms at their most confident in over a year

West Midlands companies forecast higher levels of business activity in 12 months' time. Moreover, the overall degree of optimism improved to its best since the start of 2022. Among the reasons cited for upbeat projections were new market opportunities, receding pressure on energy markets, new product releases and more favourable demand conditions.

Local companies were the most confident regionally.

## Exports

### Export climate most favourable for eight months

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. Climbing above the 50.0 threshold in February, the ECI signalled the first improvement in trade prospects for seven months. The ECI rose from 49.7 in January to 51.8, its highest mark since June 2022 but one that was consistent with a moderate rate of expansion.

Output trends strengthened in each of the top five export markets for the West Midlands. Among them, growth was led by Ireland and China. The US was at the bottom with only a fractional increase in output.

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New Business Index  
sa, >50 = growth since previous month  
53.2  
Feb '23



Future Activity Index  
>50 = growth expected over next 12 months  
78.4  
Feb '23

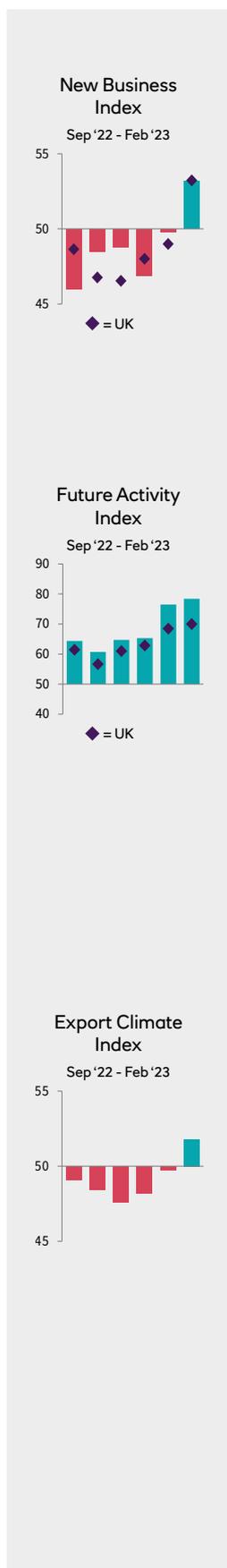


Export Climate Index  
sa, >50 = growth since previous month  
51.8  
Feb '23



Top export markets, West Midlands

Rank	Market	Weight	Output Index, Feb '23
1	USA	24.3%	50.1
2	Germany	11.9%	50.7
3	China	8.5%	54.2
4	France	7.7%	51.7
5	Ireland	7.2%	54.5



## Business capacity

### Job creation ticks higher in February

Companies operating in the West Midlands private sector indicated higher payroll numbers midway through the first quarter. Hiring growth was commonly attributed to rising workloads, acquisitions and the replacement of voluntary leavers. Employment expanded a solid rate that was the quickest in four months.

Out of the 12 monitored UK regions, the West Midlands came third in the rankings for jobs, while two areas posted falls.

### Slower decline in outstanding business

For the third month in a row, unfinished business volumes at West Midlands companies decreased in February. That said, having slowed to the weakest over this period, the rate of depletion was only slight. Where a fall was reported, survey participants mentioned improved capacity, efficiency gains and outsourced support.

The contraction in unfinished business in the West Midlands contrasted with growth at the UK level.

Employment Index  
sa, >50 = growth since previous month  
53.2  
Feb '23



Outstanding Business Index  
sa, >50 = growth since previous month  
48.9  
Feb '23



## Prices

### Price pressures recede further halfway through first quarter

February data pointed to another overall increase in the expenses of private sector companies. The rate of inflation remained elevated, but eased for the third consecutive month to the weakest in two years. Panellists indicated that exchange rate movements, energy price volatility and higher wage bills were the key sources of pressures. These were restricted by competition for new work among suppliers, lower shipping costs and improved availability of some raw materials.

The local rate of input cost inflation was broadly similar to the UK average.

### Slowest upturn in selling prices for a year-and-a-half

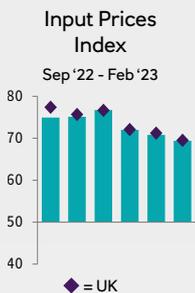
Ongoing cost rises again led West Midlands companies to lift their charges in February, stretching the current sequence of inflation to 33 months. The rate of increase remained substantial by historical standards, despite easing to its lowest since August 2021.

A slower increase in output prices was also seen at the UK level, with inflation below that registered in the West Midlands.

Input Prices Index  
sa, >50 = inflation since previous month  
69.4  
Feb '23



Prices Charged Index  
sa, >50 = inflation since previous month  
62.7  
Feb '23



## 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, Feb' 23 <sup>+</sup>
1	Transport	2.35	50
2	Basic Metals	1.44	50
3	Mechanical Engineering	1.17	50
4	Other Manufacturing	0.89	50
5	Timber & Paper	0.61	45
6	Electrical & Optical	0.59	50
7	Textiles & Clothing	0.57	45
8	Food & Drink	0.51	50
9	Chemicals & Plastics	0.47	45

#### West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb' 23 <sup>+</sup>
1	Transport & Communication	1.19	50
2	Hotels, Restaurants & Catering	1.16	50
3	Personal & Community Services	1.08	50
4	Computing & IT Services	0.98	50
5	Business-to-business Services	0.97	50
6	Financial Intermediation	0.74	50

## UK sector focus

### Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mainly consumer goods such as furniture, jewellery, sports items and household ceramics - saw a rise in production levels in the three months to February, following several months of declining output. Production was supported by easing supply constraints - the incidence of delivery delays having fallen sharply compared to the situation a year ago - which enabled businesses to catch up on backlogs of work.

Underlying demand continued to exhibit a weak trend, however, as underscored by a sustained decrease in new orders. That said, the rate of decline slowed in the three months to February and firms became more optimistic about the outlook.

Cost pressures in the sector meanwhile eased from the record high levels observed over the previous two years. Selling price inflation nevertheless remained historically elevated.

#### Output Index

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



<sup>+</sup>3-month moving average



## UK Regional PMI overview

### Business Activity

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output there did at least stabilise after a seven-month sequence of contraction. London recorded by far the strongest activity growth, registering its best performance since last July, with the South East a distant second place.

### Employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

### Future Activity

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland and Scotland, although these two remained towards the bottom end of the scale for overall levels of optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Feb '23



\* 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
Sep '22	47.8	46.0	49.1	64.4	53.4	46.5	74.9	65.2
Oct '22	49.6	48.5	48.4	60.7	53.9	50.6	75.1	64.3
Nov '22	48.8	48.8	47.6	64.7	52.7	50.8	76.7	64.6
Dec '22	48.9	46.9	48.2	65.3	50.8	46.0	72.0	65.2
Jan '23	49.0	49.8	49.7	76.5	52.2	46.6	70.8	62.9
Feb '23	53.0	53.2	51.8	78.4	53.2	48.9	69.4	62.7

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

### 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.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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