

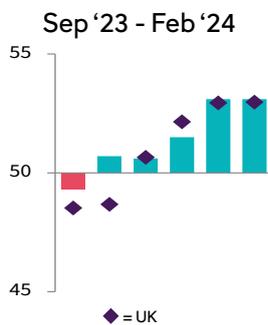


NatWest

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

## Output growth matches January's recent high, but new business intakes moderate

### West Midlands Business Activity Index



### Key findings

Business activity increases solidly...

...despite softer expansion in sales

Input costs rise at stronger pace, charge inflation steadies

The NatWest PMI<sup>®</sup> results for February showed mixed signs regarding economic conditions in the West Midlands. There was a further solid rise in output, despite a slowdown in sales growth, while employment slipped back into contraction. On the price front, cost inflation reached a seven-month high and the rate of increase in selling charges was broadly similar to January. At 53.1 in February, equal to January, the headline NatWest West Midlands PMI<sup>®</sup> 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 – highlighted a solid rate of expansion that was the joint-best since May 2023. Sustained increases in new orders, demand resilience and promotional activity induced the upturn, according to panellists.

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

*"February's PMI data showed West Midlands output expanding at the joint-quickest pace in nine months, underpinned by resilient demand conditions, backlog clearing and efficiency gains. However, cost considerations, resignations and staff-retention challenges led to a renewed fall in local employment. Adding to the adverse dataflow was the presence of intense cost pressures. Business expenses rose to the greatest degree since mid-2023 as disruptions in the Red Sea, input shortages and the higher cost of living meant that local firms paid more for food, materials and shipping. Some companies shifted their additional cost burdens onto customers via higher selling prices, but others offered discounts amid attempts to gain market shares."*

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

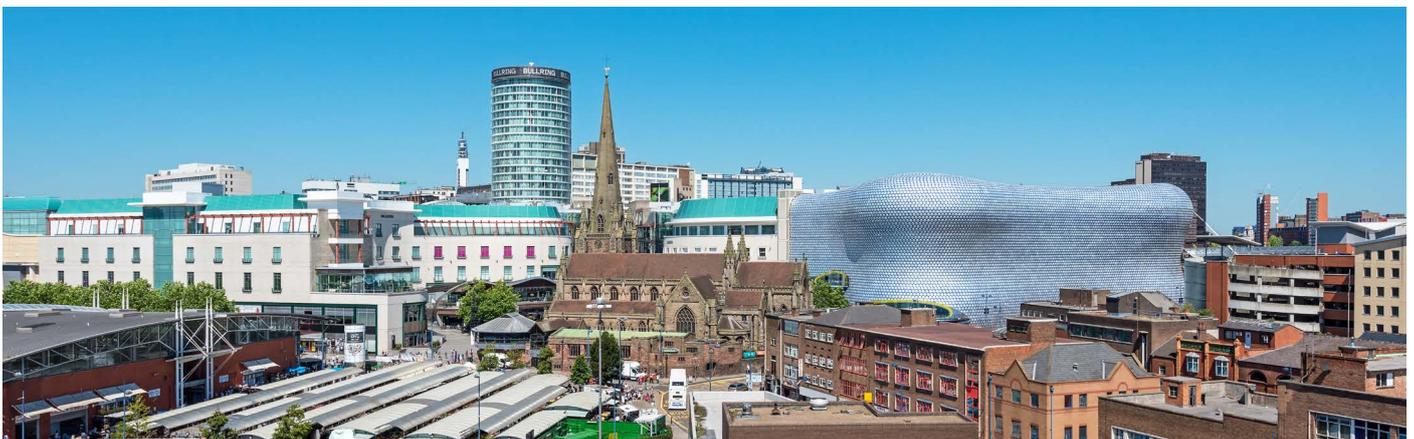
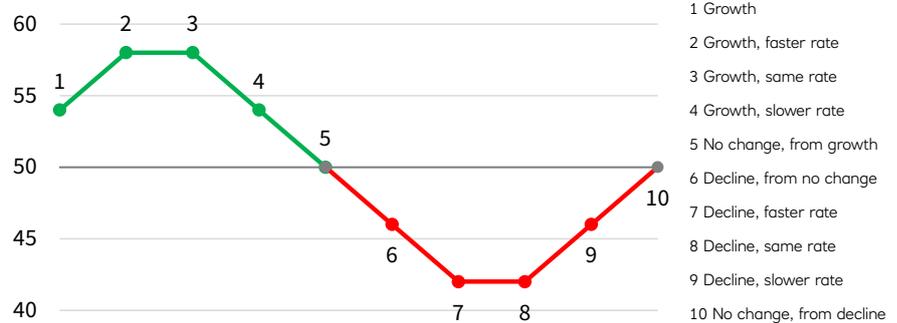
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

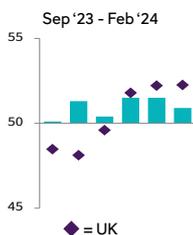
Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New Business Index



### New business rises only slightly in February

The latest PMI data signalled a further increase in new orders placed with West Midlands companies, stretching the current sequence of expansion to 13 months. That said, the uptick was slight and the weakest since last November. Growth was reportedly curbed by economic uncertainty and sufficient stock levels among clients.

The local rise in sales was weaker than the national average.

### New Business Index

sa, >50 = growth since previous month

50.9

Feb '24



### Future Activity Index



### Outlook for business activity remains positive

West Midlands firms remained strongly upbeat towards growth prospects, with close to 58% of panellists anticipating higher output volumes and only 4% signalling pessimism. Hopes of better demand conditions were central to February's forecasts, alongside marketing efforts. The overall level of confidence slipped to a three-month low, but remained above its long-run average.

Regionally, the West Midlands came third in the rankings for sentiment, behind the South East and Eastern England.

### Future Activity Index

>50 = growth expected over next 12 months

76.8

Feb '24



### Export Climate Index



## Exports

### February sees slight improvement in export climate

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 West Midlands. This produces an indicator for the economic health of the region's export markets.

The ECI rose from 50.2 in January to 51.3 in February, signalling a second successive improvement in trade conditions and, despite being slight, one that was the strongest in nine months.

Among the top five export markets for the West Midlands, economic growth was recorded in China, Ireland and the US. Germany registered a sharper contraction in output and France a softer decline.

### Export Climate Index

sa, >50 = growth since previous month

51.3

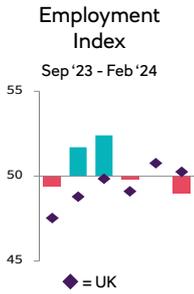
Feb '24



### Top export markets, West Midlands

Rank	Market	Weight	Output Index, Feb '24
1	USA	24.3%	52.5
2	Germany	11.9%	46.3
3	China	8.5%	52.5
4	France	7.7%	48.1
5	Ireland	7.2%	54.4

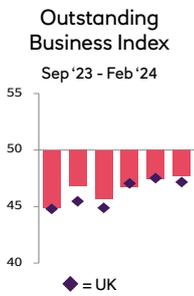
## Business capacity



### Employment slips back into contraction

February data showed a decline in private sector jobs across the West Midlands for the second time in three months, following stabilisation in January. Firms linked the latest fall to the non-replacement of voluntary leavers, cost considerations and redundancies. Some also mentioned challenges retaining staff amid offers of higher pay elsewhere. That said, the overall pace of job shedding was only slight.

The reduction in payroll numbers across the West Midlands contrasted with fractional growth at the UK level.



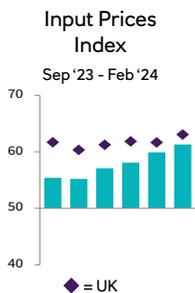
### Contraction in outstanding business extends to February

As has been observed on a monthly basis since December 2022, private sector firms in the West Midlands signalled a fall in backlogs halfway through the first quarter. The drop was linked to subdued demand conditions, efficiency gains and also staff working overtime. Nevertheless, work pending completion decreased at a moderate pace that was the slowest for ten months.

Outstanding business volumes in the West Midlands declined at a softer rate to that seen nationally.



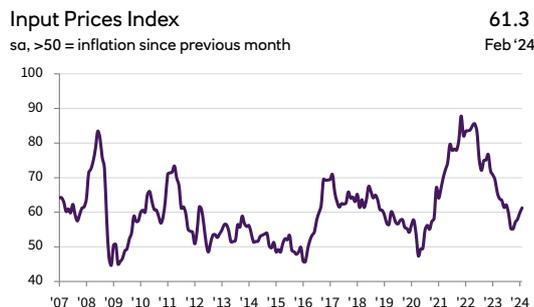
## Prices



### Cost inflation intensifies for fourth month running

Companies operating in the West Midlands signalled another increase in their expenses, which they attributed to greater food, material and shipping costs. Currency fluctuations and disruptions in the Red Sea, alongside input shortages and the higher cost of living, were also cited as sources of price pressures. The rate of inflation quickened to a seven-month high.

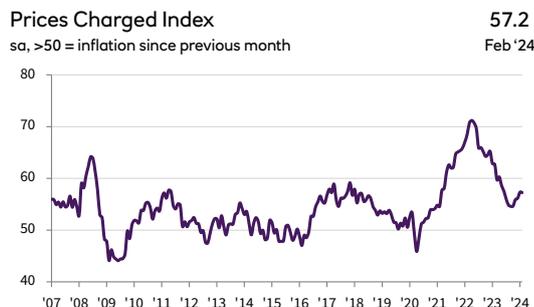
Nevertheless, local input costs rose to a lesser extent than the UK average.



### Charge inflation steadies

Despite a stronger increase in input costs, the rate of charge inflation across the West Midlands was broadly aligned with that recorded in January. Some panellists reportedly hiked their fees amid the pass-through of cost rises to clients. Others reduced them due to efforts to boost sales and expand market shares.

Out of the 12 monitored UK regions and nations, the West Midlands came fourth in the rankings for charge inflation in February.



## 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 '24
1	Transport	2.09	55
2	Basic Metals	1.58	48
3	Mechanical Engineering	1.20	55
4	Other Manufacturing	0.94	45
5	Timber & Paper	0.77	50
6	Electrical & Optical	0.63	48
7	Textiles & Clothing	0.58	45
8	Food & Drink	0.57	48
9	Chemicals & Plastics	0.48	48

#### West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb '24
1	Transport & Communication	1.26	55
2	Personal & Community Services	1.16	48
3	Hotels, Restaurants & Catering	1.14	55
4	Computing & IT Services	1.04	55
5	Business-to-business Services	0.96	50
6	Financial Intermediation	0.68	55

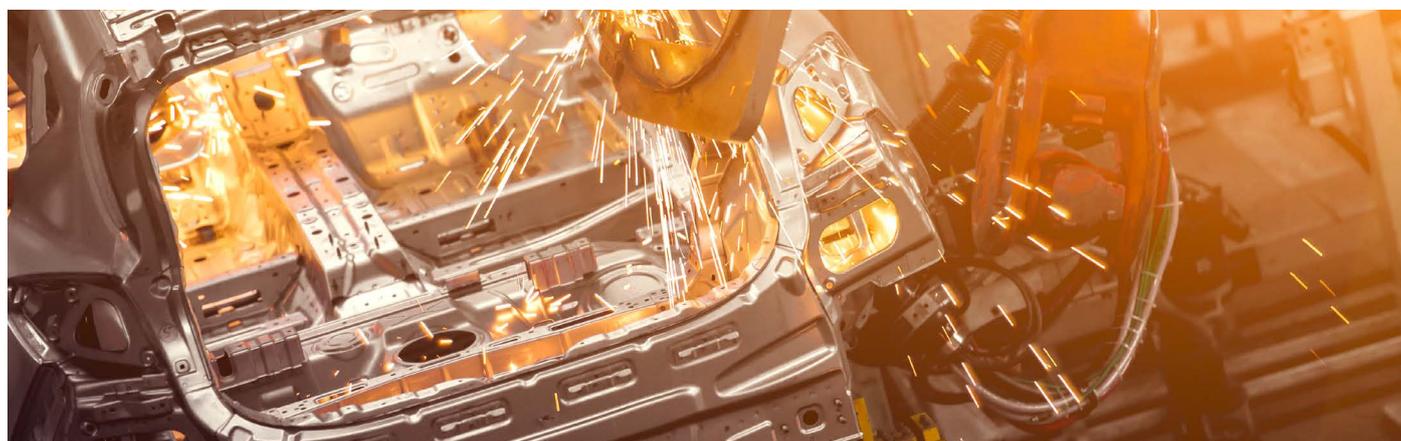
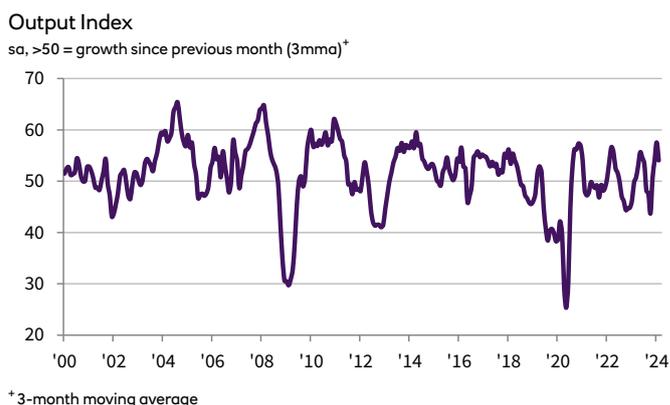
## UK sector focus

### Transport Manufacturing

Transport manufacturers recorded solid output growth in the three months to February. This was in contrast to the sustained downturn in overall UK goods production over the same period.

That said, the upturn in Transport output merely represented a rebound from the decline seen last autumn, and underlying demand in the sector remained weak. New orders continued falling in line with the trend throughout the second half of last year, albeit with the rate of decline easing. Lower sales from abroad were a factor. The disparity between rising output and shrinking order books contributed to a marked rise in stocks of finished goods in the three months to February.

Production expectations in the Transport manufacturing sector were close to the lowest seen over the past three years. Latest data meanwhile showed employment falling – albeit marginally – for the first time since the first quarter of 2023, with firms also cutting back on purchasing activity.



## UK Regional PMI overview

### Business Activity

Two-thirds of the monitored UK nations and regions recorded business activity growth in February. London remained out in front despite seeing its pace of expansion ease to a three-month low. At the other end of the scale, Wales posted a solid and accelerated fall in output, while declines were also seen in the North East, Yorkshire & Humber and South West.

### Employment

Scotland topped the rankings for employment growth for the fourth time in the past five months in February, pushing London back down into second place. The East of England, Northern Ireland\*, South West and South East all saw slight increases in workforce numbers, while the North West recorded no change. Job cuts were seen everywhere else.

### Future Activity

Business expectations improved in the majority of areas midway through the opening quarter. The South East recorded the highest degree of optimism, the first time this has been the case for eight months. Confidence was lowest in the North East, which was one of just two areas where sentiment weakened from the month before (along with the West Midlands).

**Business Activity Index**  
sa, >50 = growth since previous month, Feb '24



**Employment Index**  
sa, >50 = growth since previous month, Feb '24



**Future Activity Index**  
>50 = growth expected over next 12 months, Feb '24



\* 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 '23	49.3	50.1	49.3	78.4	49.4	44.9	55.4	54.6
Oct '23	50.7	51.3	48.6	73.8	51.7	46.8	55.2	54.6
Nov '23	50.6	50.4	49.6	75.7	52.4	45.7	57.1	55.9
Dec '23	51.5	51.5	49.5	77.2	49.8	46.7	58.1	56.2
Jan '24	53.1	51.5	50.2	78.1	50.0	47.4	59.9	57.3
Feb '24	53.1	50.9	51.3	76.8	49.0	47.7	61.3	57.2

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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<sup>™</sup> (PMI<sup>®</sup>) 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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