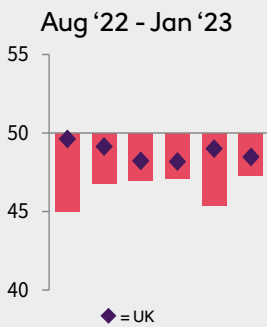




NatWest East Midlands PMI[®]

Decline in business activity slows to softest since July 2022

East Midlands Business Activity Index



Key findings

Rates of contraction in output and new orders ease

Inflationary pressures cool again

Business confidence ticks up to eight-month high

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 47.3 in January, up from 45.4 in December. The latest data signalled a solid decline in business activity, albeit the slowest since last July. Lower output was often attributed to weak client demand and reduced customer spending amid strong inflationary pressures. A softer contraction meant East Midlands firms bucked the wider UK trend which pointed to a faster decline in activity.

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

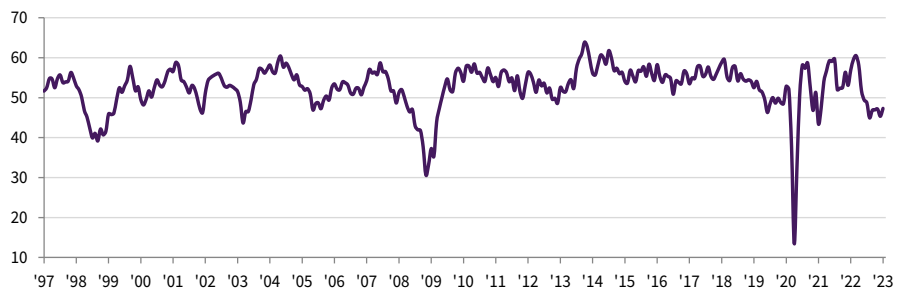
“2023 started in a muted tone across the East Midlands private sector as firms continued to record solid contractions in output and new business. High inflation squeezed customer spending further, with the region registering one of the fastest downturns in new orders of the 12 monitored UK areas.

“Nevertheless, companies were buoyant in their expectations for future output, as business confidence strengthened. At the same time, firms registered renewed job creation, albeit only fractional overall.

“Although inflationary pressures remained historically elevated and continued to place downward strain on demand conditions, rates of increase in costs and selling prices cooled in January. The ability to pass-through any cost savings to customers will likely provide hope to businesses of a pick-up in customer spending as the year progresses.”

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

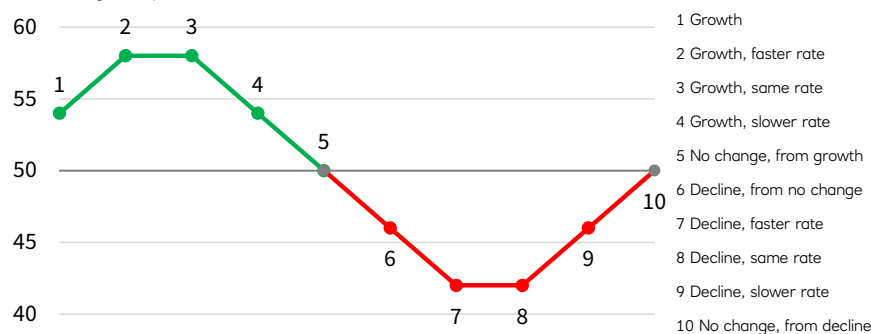
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Contraction in new business softens in January

Private sector firms in the East Midlands recorded a further decline in new orders at the start of 2023. The fall in new business was solid overall and among the fastest of the 12 monitored UK regions, slower than only Scotland and Northern Ireland. Lower client demand was often linked to economic uncertainty and reduced customer spending amid strong inflation. Nonetheless, the rate of contraction eased to the softest since last July.

Degree of business optimism rises to eight-month high

Output expectations regarding the outlook for output over the coming year across the East Midlands private sector strengthened in the opening month of the year. The degree of confidence picked up to the highest since May 2022, but remained weaker than the UK average. Nevertheless, greater positive sentiment was often attributed to planned investment and hopes of the acquisition of new customers and stronger client demand.

Exports

Export conditions for East Midlands firms broadly unchanged in January

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 50.2 in January, up from 48.6 in December. The latest index reading signalled broadly unchanged export conditions for East Midlands firms, thereby bringing to an end a five-month sequence of decline.

Weighing on the export climate were further, albeit slower, contractions in output in the USA and France, with Germany signalling little change in activity levels.

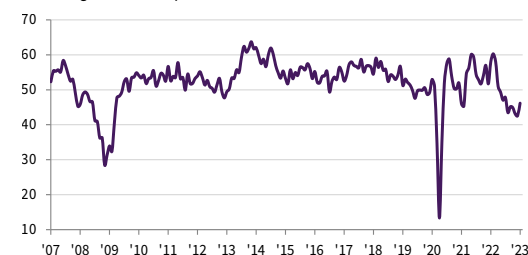
Meanwhile, firms in Singapore recorded a renewed rise in output, while companies in Hong Kong registered a quicker uptick in activity in January.

New Business Index

sa, >50 = growth since previous month

46.2

Jan '23

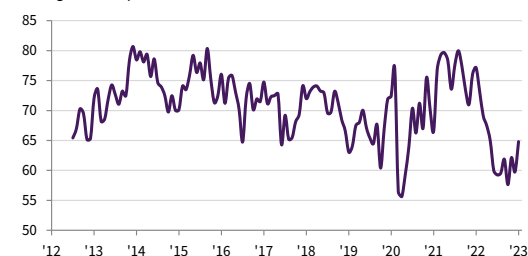


Future Activity Index

>50 = growth expected over next 12 months

64.8

Jan '23

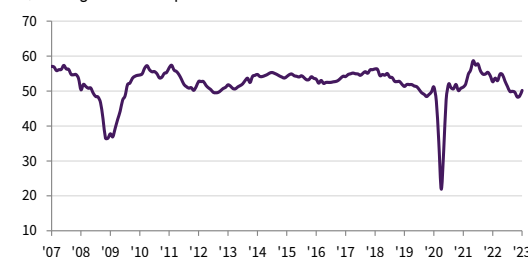


Export Climate Index

sa, >50 = growth since previous month

50.2

Jan '23

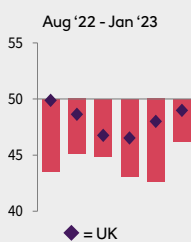


Top export markets, East Midlands

Rank	Market	Weight	Output Index, Jan '23
1	USA	12.5%	46.8
2	Germany	9.9%	49.9
3	France	9.0%	49.1
4	Singapore	7.5%	51.6
5	Hong Kong	7.1%	52.7

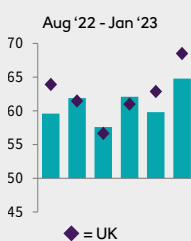
New Business Index

Aug '22 - Jan '23



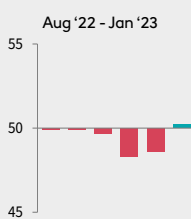
Future Activity Index

Aug '22 - Jan '23



Export Climate Index

Aug '22 - Jan '23

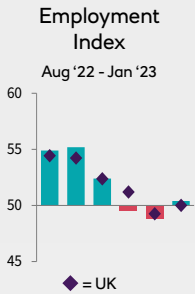
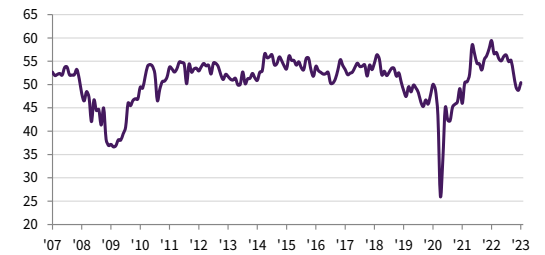


Business capacity

Renewed uptick in employment, albeit fractional

Workforce numbers at East Midlands private sector firms expanded in January, following back-to-back contractions in November and December. Where a rise in employment was noted, firms linked this to efforts to expand capacity. That said, the rate of job creation was only fractional overall and well below the average for 2022. The UK average, however, signalled unchanged staffing numbers on the month.

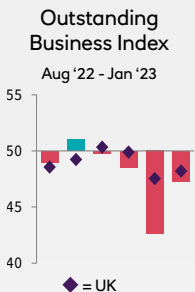
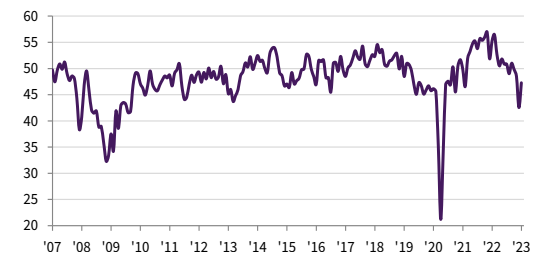
Employment Index
sa, >50 = growth since previous month
50.4
Jan '23



Further drop in backlogs of work in January

Data for the opening month of 2023 signalled another monthly contraction in the level of outstanding business at East Midlands private sector firms. The decrease in backlogs of work was commonly attributed to sufficient capacity to process incoming business. The rate of decline eased notably from that seen in December, but was quicker than the UK average.

Outstanding Business Index
sa, >50 = growth since previous month
47.3
Jan '23

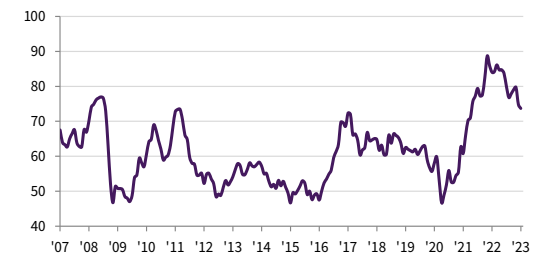


Prices

Rate of cost inflation slows further in January

East Midlands private sector firms indicated another marked rise in input prices in January. The increase in cost burdens was reportedly due to greater fuel, energy, wage and material bills. The region saw the sharpest uptick in input costs of the 12 monitored UK areas, despite the rate of inflation softening for the second-month running to the slowest since April 2021.

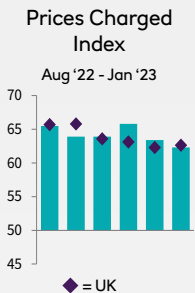
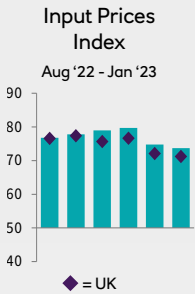
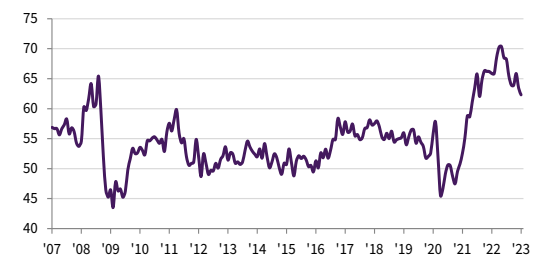
Input Prices Index 73.7
sa, >50 = inflation since previous month Jan '23



Marked rise in output charges in January

Private sector firms in the East Midlands recorded a further substantial increase in selling prices during January. The rate of charge inflation was quicker than the long-run series average and broadly in line with that seen across the UK as a whole. Anecdotal evidence stated that greater output charges stemmed from the pass-through of higher input costs to clients. That said, the pace of increase in selling prices was the slowest since August 2021.

Prices Charged Index 62.3
sa, >50 = inflation since previous month Jan '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, Jan '23 ⁺
1	Textiles & Clothing	2.09	48
2	Food & Drink	1.41	52
3	Other Manufacturing	1.27	48
4	Mechanical Engineering	1.05	50
5	Timber & Paper	1.02	42
6	Transport	0.92	48
7	Basic Metals	0.87	48
8	Electrical & Optical	0.67	48
9	Chemicals & Plastics	0.58	48

East Midlands specialisation: Services

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

UK sector focus

Personal & Community Services

After seeing activity levels decline in the latter stages of last year, the UK's Personal & Community Services sector started 2023 on a more stable footing. Key to this was a renewed, albeit marginal, upturn in inflows of new businesses in the three months to January.

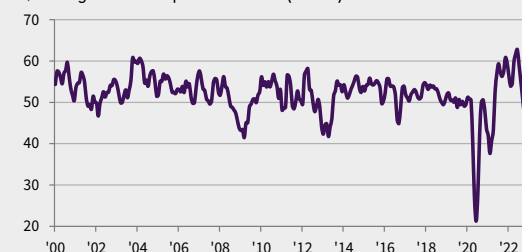
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

On the cost front, the rate of input price inflation eased only slightly and remained close to the record highs seen in 2022. Of the services sub-sectors mentioned, it was second only to that recorded by Hotels, Restaurants & Catering. Prices charged by Personal & Community Services firms meanwhile rose to the greatest extent since mid-2022.

Positively, expectations towards the year ahead improved, although they remained subdued by historical standards.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital remained only marginal, however. There were renewed downturns in output in both Wales and the North West, while the steepest decrease in activity was once again recorded in Northern Ireland.

Employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

Future Activity

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was recorded in the West Midlands, which also saw the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.

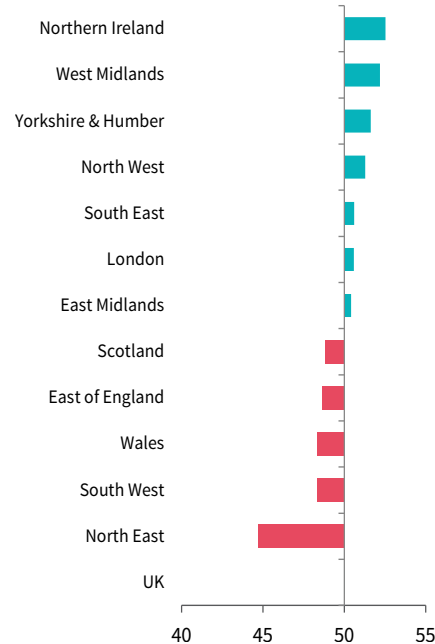
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jan '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
Aug '22	45.0	43.5	49.9	59.6	54.9	49.0	76.8	65.5
Sep '22	46.8	45.1	49.9	61.9	55.2	51.0	77.8	63.9
Oct '22	47.0	44.9	49.7	57.6	52.4	49.8	79.0	63.9
Nov '22	47.1	43.1	48.3	62.1	49.5	48.5	79.7	65.8
Dec '22	45.4	42.6	48.6	59.8	48.8	42.6	74.8	63.4
Jan '23	47.3	46.2	50.2	64.8	50.4	47.3	73.7	62.3

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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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