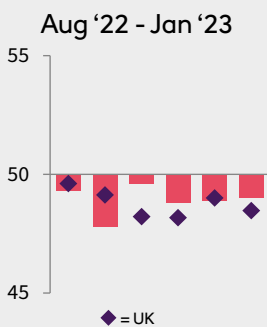




# NatWest West Midlands PMI<sup>®</sup>

## Decline in business activity slows as new orders nearly stabilise

### West Midlands Business Activity Index



### Key findings

Output falls only slightly

Sales move close to stabilisation

Price pressures recede in January

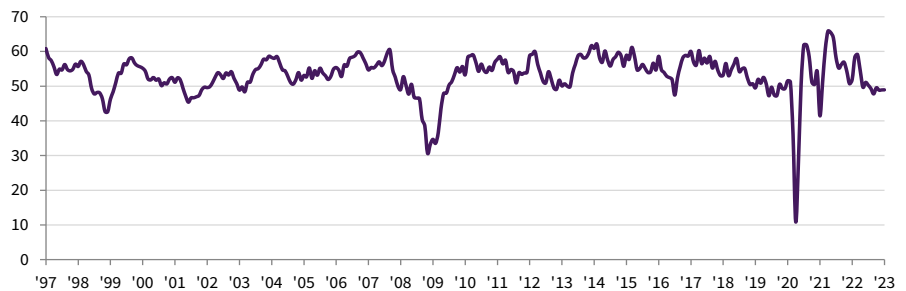
West Midlands output decreased further at the start of 2023, but the downturn was mild and the slowest in three months, according to the NatWest PMI<sup>®</sup>. The headline Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – was at 49.0 in January, little-changed from 48.9 in December and signalling the weakest rate of contraction since last October. Some companies lowered output due to reduced new business, while others signalled growth amid tentative signs of an improvement in demand and successful marketing efforts. The local fall in output was the second-weakest of the 11 regions that noted a decline.

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

*"Although the West Midlands economy remained in contraction territory at the start of 2023, the latest results highlighted tentative signs that economic conditions are at least moving in the right direction. A near stabilisation of sales restricted the fall in business activity and companies maintained a positive mindset towards the outlook. Local firms continued to invest in the future capability of their business, taking on extra staff to prepare for a recovery in demand. The outlook for consumer spending remains clouded with uncertainty, however, amid squeezed household income due to elevated inflation, rising interest rates and energy price volatility."*

West Midlands Business Activity Index

sa, >50 = growth since previous month



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## About the West Midlands PMI® report

The NatWest West Midlands PMI® 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

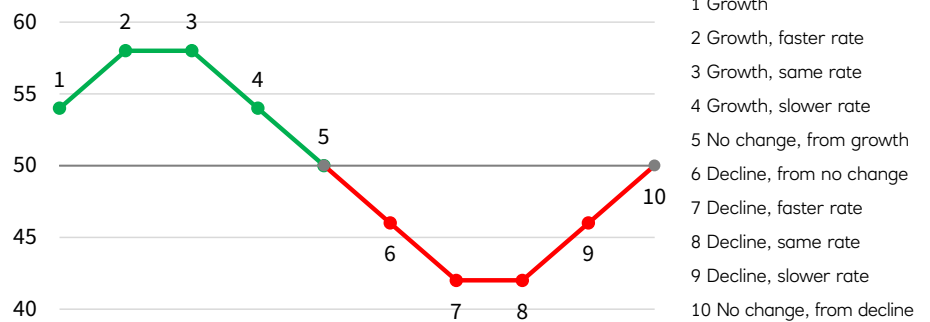
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

There was only a fractional decline in new business placed with West Midlands companies in January, as signalled by the respective seasonally adjusted index posting close to the 50.0 neutral level. Some companies noted a fall in new work intakes due to challenging economic conditions and subdued demand, but others indicated that marketing efforts and new contract wins supported sales.

The West Midlands saw the slowest contraction in new business of the eight regions that posted a reduction.

### Business confidence improves to 11-month high

Private sector companies in the West Midlands expect output levels to be higher in 12 months' time. Moreover, the degree of optimism registered in January was the best seen since February 2022. Firms indicated that marketing efforts, investment, new product launches, contained inflation and an improvement in demand could support business activity.

Regionally, the West Midlands recorded the highest level of business sentiment.

## Exports

### Trade prospects worsen only marginally at start of 2023

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.

Registering 49.7 in January, the ECI was below the 50.0 threshold for the sixth consecutive month and therefore pointed to another deterioration in the export climate. That said, rising from 48.2 in December to its highest level in six months, the latest figure signalled only a marginal rate of contraction.

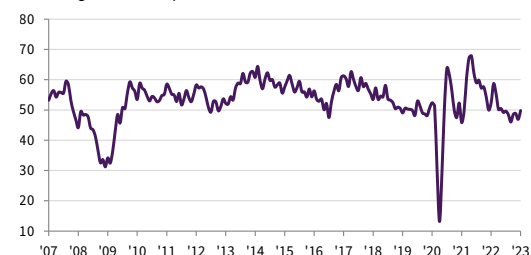
Among the top five export markets for the West Midlands, private sector output rose in China and Ireland. Concurrently, downturns in Germany and the US softened from December.

New Business Index

sa, >50 = growth since previous month

49.8

Jan '23

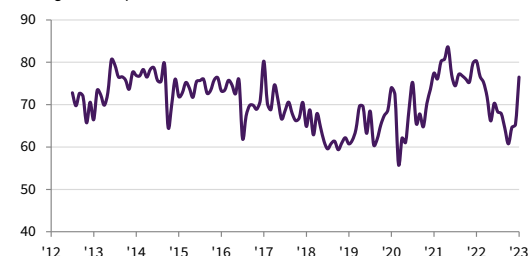


Future Activity Index

>50 = growth expected over next 12 months

76.5

Jan '23

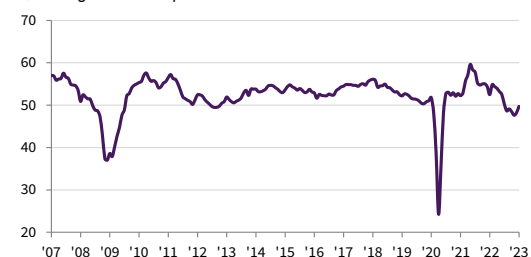


Export Climate Index

sa, >50 = growth since previous month

49.7

Jan '23



Top export markets, West Midlands

Rank	Market	Weight	Output Index, Jan '23
1	USA	24.3%	46.8
2	Germany	11.9%	49.9
3	China	8.5%	51.1
4	France	7.7%	49.1
5	Ireland	7.2%	52.0

## Business capacity

### Employment growth accelerates at start of 2023

January data pointed to a further expansion in private sector employment across the West Midlands. The latest rise was the twenty-third in as many months and strong relative to its long-run average. Where growth was reported, panellists mentioned the replacement of voluntary leavers and investment in the future capability of their business.

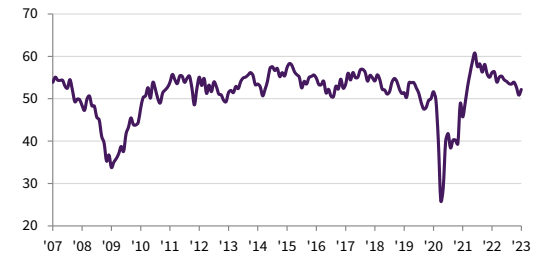
The trend for local jobs was the second-best regionally, beaten only by Northern Ireland.

### Outstanding business decreases further

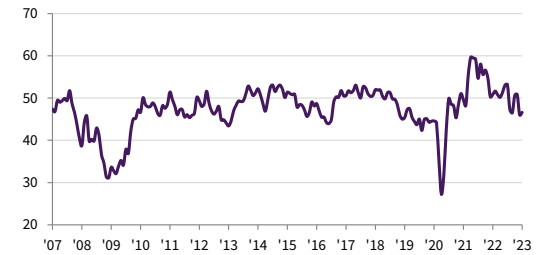
As was the case in December, unfinished business volumes at West Midlands companies declined during January. Despite easing from the previous month, the pace of backlog depletion remained marked. Monitored companies indicated that a combination of expanded capacities and subdued intakes of new orders allowed for the completion of pending workloads.

The local downturn in outstanding business was more pronounced than that seen at the UK level.

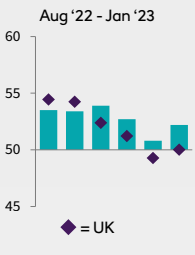
Employment Index 52.2  
 sa, >50 = growth since previous month Jan '23



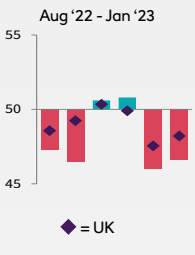
Outstanding Business Index 46.6  
 sa, >50 = growth since previous month Jan '23



Employment Index



Outstanding Business Index





## Prices

### Rate of cost inflation softens to 22-month low

Average input costs at West Midlands companies continued to rise sharply in January, but the rate of inflation eased to the weakest since March 2021. Beverages, food, labour, utility and raw materials were cited as key sources of cost pressures. The latest increase was reportedly curbed by a moderation in prices for fuel, metals and plastics.

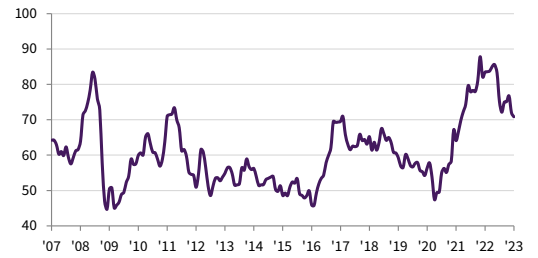
The overall rate of inflation recorded in the West Midlands was below the national average.

### Input Prices Index

sa, >50 = inflation since previous month

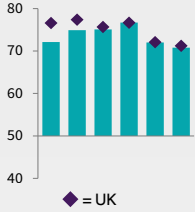
70.8

Jan '23



### Input Prices Index

Aug '22 - Jan '23



### Weakest rise in selling prices since August 2021

In line with a softer increase in input costs, there was a slower upturn in prices charged for goods and services in the West Midlands. The overall rate of output price inflation was the slowest seen in close to a year-and-a-half, though remained well above its long-run average.

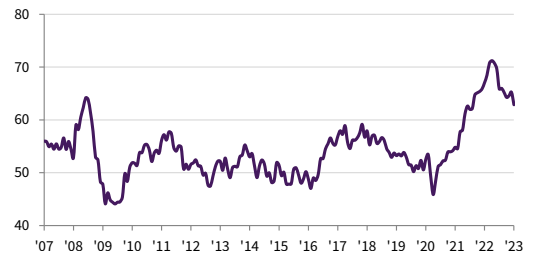
The local rate of charge inflation was broadly aligned with the UK average.

### Prices Charged Index

sa, >50 = inflation since previous month

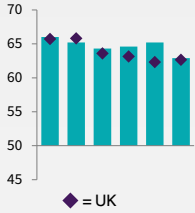
62.9

Jan '23



### Prices Charged Index

Aug '22 - Jan '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, Jan' 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	50
8	Food & Drink	0.51	55
9	Chemicals & Plastics	0.47	50

#### West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan' 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

### 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.

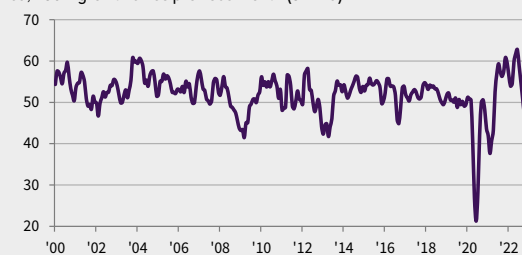
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

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)<sup>+</sup>



<sup>+</sup>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.

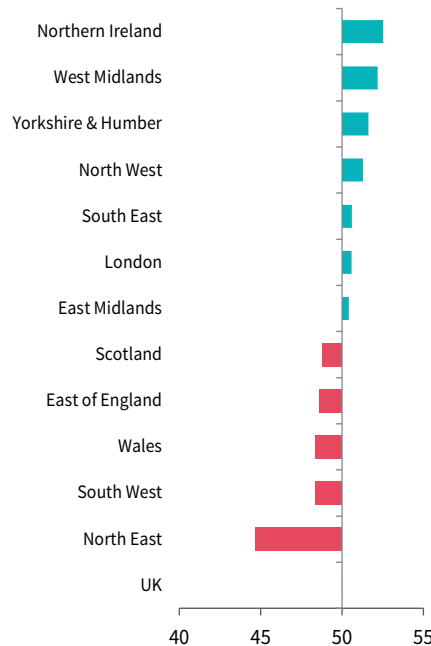
Business Activity Index

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

### 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
Aug '22	49.3	48.5	48.6	67.8	53.5	47.3	72.1	66.0
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

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NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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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