

NatWest West Midlands PMI®

Subdued demand conditions curb inflationary pressures



Key findings

Second successive fall in sales

Output heads towards stagnation

Input cost inflation softens to 14-month low

Following a return to growth in June, business activity in the West Midlands was broadly stagnant at the start of the third quarter, according to the NatWest PMI®. 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 – fell from 51.1 to 50.3, moving closer to the 50.0 no-change mark and signalling a broad stagnation in local output. Survey participants indicated that growth was constrained by adverse demand conditions, subdued market confidence, input shortages and inflationary pressures.

John Maude, NatWest Midlands & East Regional Board, commented:

"Economic conditions in the West Midlands remained challenging in July as consumers trimmed expenses due to rising interest rates, acute price pressures and an uncertain outlook. Recession fears and political uncertainty dampened business sentiment, which was at its second-lowest level since October 2020. The combination of lower new business and subdued confidence resulted in near-stagnant output, but firms continued to fill-up local positions that were made vacant due to the pandemic. With demand cooling, inflationary pressures receded at the start of the third quarter. Although still sharp, the latest upturn in input costs was the slowest in 14 months and output charges increased at the weakest rate in the year-to-date."

Contents

[About the report](#)

[Demand and outlook](#)

[Exports](#)

[Business capacity](#)

[Prices](#)

[UK Sector PMI](#)

[UK Regional PMI](#)

[Data summary](#)

[Contact](#)

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.

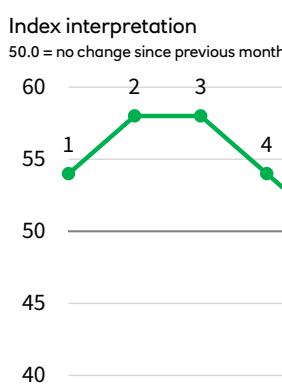
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.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

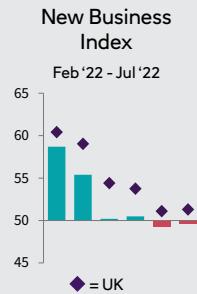
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.



- 1 Growth
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline



Demand and outlook



New business decreases for second straight month in July

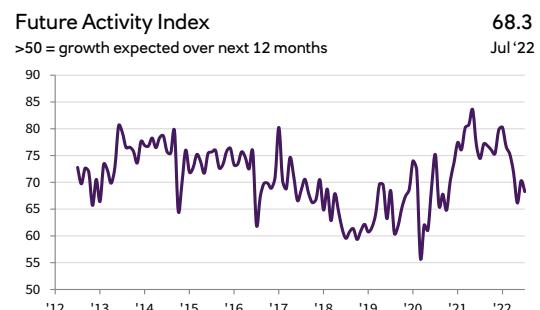
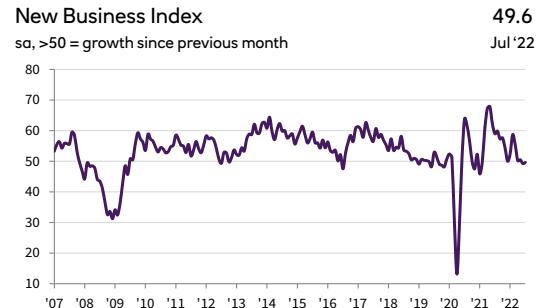
West Midlands companies signalled a second consecutive fall in new work intakes during July. The downturn was associated with reduced trading activity, rising interest rates, acute price pressures, subdued demand conditions and client uncertainty. That said, the overall rate of contraction was only marginal and broadly similar to June.

The West Midlands saw the weakest decline in sales out of the nine UK regions that registered contractions. Growth was sustained in the other three areas.



Business sentiment among local firms slips from June

July data indicated that West Midlands companies remained confident of a rise in output over the coming 12 months. Optimism was supported by predictions of demand improvements, new product launches and investment in people and systems. That said, easing from June, the degree of positivity was at its second-weakest since October 2020. Recession fears, political uncertainty, inflationary pressures and the war in Ukraine reportedly curbed sentiment.



Exports

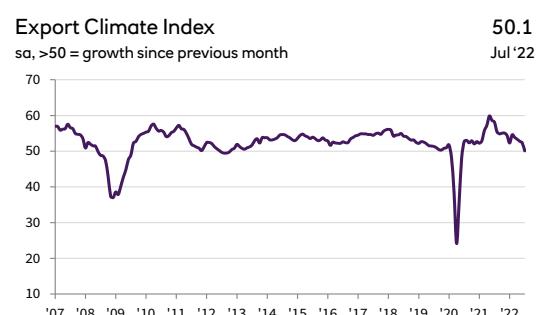


Export prospects dampened by challenging global conditions

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.

The Export Climate Index decreased for the fifth month running in July, sliding from 52.3 in June to 50.1, only fractionally above the neutral 50.0 threshold and thereby signalling a lack of export opportunities for West Midlands firms.

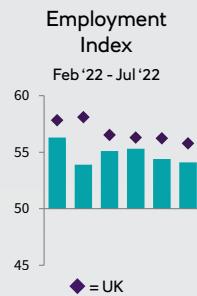
When looking at the top export markets for the West Midlands, the drop in the ECI mainly reflected outright contractions in output in the US and Germany, though growth softened in China and France.



Top export markets, West Midlands

Rank	Market	Weight	Output Index, Jul '22
1	USA	21.2%	47.7
2	Germany	11.1%	48.1
3	China	8.7%	54.0
4	France	6.1%	51.7
5	Ireland	6.2%	52.9

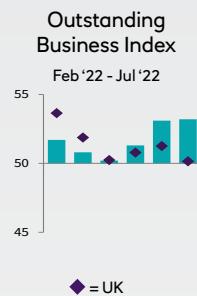
Business capacity



Hiring activity extends to July

Despite a fall in new work intakes, private sector companies in the West Midlands continued to add to their payrolls amid the fill-up of roles lost due to the pandemic and efforts to clear backlogs. The latest increase took the current sequence of job creation to 17 months, with the rate of expansion broadly similar to June's marked pace.

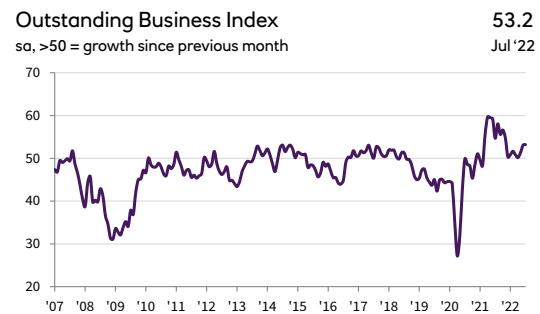
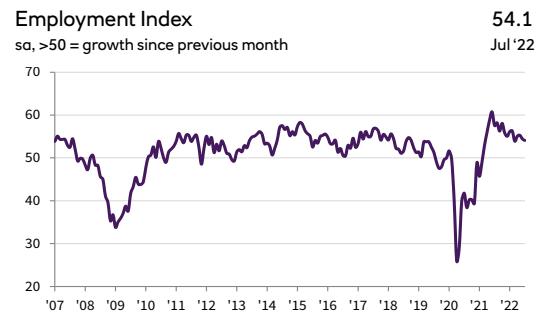
However, local jobs rose at a slower rate than that recorded at the national level, a trend that has been registered in each of the latest nine months.



Solid increase in outstanding business

PMI data for July continued to point to capacity pressures at companies in the West Midlands, as outstanding business volumes rose further. The expansion was the seventeenth in successive months, with the rate of accumulation picking up to the strongest since last November. Longer delivery times, input shortages and absenteeism were among the reasons cited for growing backlogs.

Only London saw a faster upturn in unfinished work than the West Midlands, with most areas recording depletion.



Prices



Notable slowdown in input cost inflation

Although reaming sharp, the overall rate of input cost inflation in the West Midlands softened considerably to a 14-month low in July. Anecdotal evidence pointed to higher commodity, energy, food, logistic, material and staff costs — often a result of sterling weakness, labour shortages and the war in Ukraine. Price pressures were reportedly curbed by a reduction in input supply and demand imbalances.

When it comes to input cost inflation, the West Midlands was at the bottom of the regional rankings.

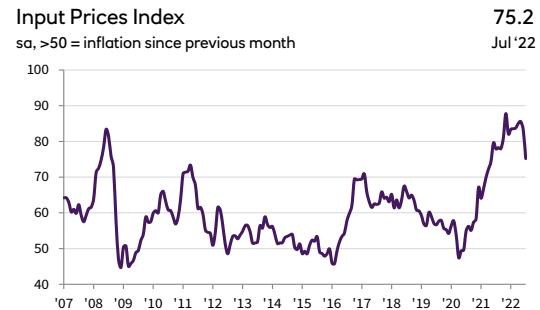


Charge inflation restrained by demand weakness

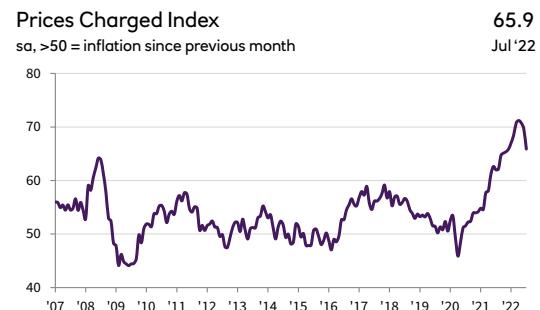
The combination of a slower upturn in average input costs and faltering demand led to a weaker increase in average prices charged for goods and services in the West Midlands. The rate of output price inflation eased to a seven-month low, but remained historically high as several firms sought to transfer greater cost burdens through to clients.

The local rate of selling price inflation matched the UK average.

Input Prices Index
sa, >50 = inflation since previous month



Prices Charged Index
sa, >50 = inflation since previous month



UK Sector PMI

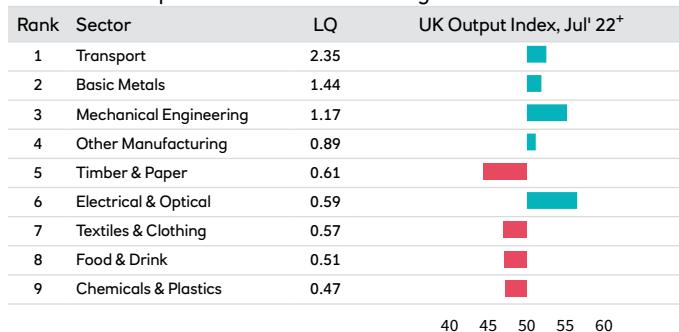
Sector specialisation: West Midlands

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.

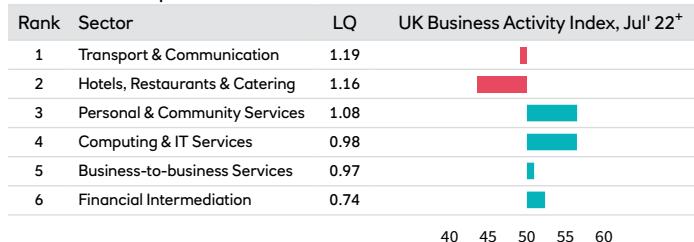
Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised 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



West Midlands specialisation: Services



UK sector focus

Financial Intermediation

The UK's Financial Intermediation sector saw an increase in business activity in the three months to July. However, having been solid throughout the opening half of the year, the rate of growth slowed sharply and was among the softest seen since the current sequence of expansion began in the spring of last year.

The loss of momentum reflected a deepening decline in inflows of new work across the sector, with reports from surveyed firms highlighting the influence market and economic uncertainty, high inflation and rising interest rates. Expectations towards future activity deteriorated accordingly, dropping to their lowest in over two years.

On the price front, Financial Intermediation firms raised charges at a near-record rate in the three months to July, with underlying cost pressures close to the highest seen in over 25 years of data collection.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Eight of the 12 monitored UK regions recorded higher business activity in July, the lowest number since February 2021 (four). London saw by far the strongest growth, but even here the rate of expansion slowed, as was the case in six other areas. Northern Ireland* remained at the bottom of the rankings, while lower output was also seen in the North East, East of England and East Midlands.

Employment

Rates of job creation generally remained robust across the UK in July. In fact, four regions even saw slightly faster increases in employment than the month before, including the South East which moved to the top of the rankings. The North East once again went against the broader trend, registering another marginal decline in workforce numbers, its third in the past four months.

Future Activity

Firms' expectations for future activity remained positive for the most part in July, with only those in Northern Ireland anticipating a decline in output over the next 12 months. Businesses in Yorkshire & Humber were the most optimistic about the outlook, despite confidence in the region have weakened from the previous month. Expectations also fell in the West Midlands, South East, East Midlands and South West.

Business Activity Index

sa, >50 = growth since previous month, Jul '22



Employment Index

sa, >50 = growth since previous month, Jul '22



Future Activity Index

>50 = growth expected over next 12 months, Jul '22



* 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
Feb '22	58.4	58.7	54.6	76.7	56.3	51.7	83.6	68.5
Mar '22	59.1	55.4	53.9	75.2	53.9	50.8	83.8	70.7
Apr '22	54.5	50.2	53.4	71.8	55.1	50.2	85.0	71.2
May '22	49.7	50.5	52.8	66.1	55.3	51.3	85.6	70.7
Jun '22	51.1	49.2	52.3	70.3	54.4	53.1	83.3	69.6
Jul '22	50.3	49.6	50.1	68.3	54.1	53.2	75.2	65.9

Contact

Marion Rannard
 Regional Campaign Manager
 NatWest
 +44 (0) 7966 300 969
marion.rannard@natwest.com

Pollyanna De Lima
 Economics Associate Director
 S&P Global Market Intelligence
 +44 149 146 1075
pollyanna.delima@spglobal.com

Sabrina Mayeen
 Corporate Communications
 S&P Global Market Intelligence
 T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

About NatWest

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.

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.