

# NatWest East Midlands PMI®

## Output falls for first time in 16 months

### East Midlands Business Activity Index



### Key findings

Both output and new orders decline in June

Business confidence lowest since first pandemic lockdown

Rate of job creation quickens

The headline NatWest East Midlands 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 below the 50.0 no-change mark in June, down to 49.4 from 51.8 in May. This signalled the first reduction in business activity across the region in 16 months. The East Midlands was one of only three monitored regions to post a decline in output, alongside the East of England and Northern Ireland. Respondents mainly linked lower activity to a lack of new orders.

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

*“The latest East Midlands PMI data paint a worrying picture of the region’s near-term economic outlook, with output joining new orders in contraction at the end of the second quarter. Business confidence is draining away, falling for the fifth month running to a level above only the spell seen during the initial wave of the COVID-19 pandemic. The potential for the cost of living crisis to cause an economic downturn was at the forefront of firms’ minds.*

*“One bright spot from the latest survey was a sharp and accelerated rise in employment as companies continue to play catch-up when it comes to workforce numbers following the pandemic. It remains to be seen whether this positive labour market picture will continue should the declines in demand be sustained in the months ahead.”*

East Midlands Business Activity Index

sa, >50 = growth since previous month



## Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

## About the East Midlands PMI® report

The NatWest East Midlands PMI® is compiled by S&P Global from responses to questionnaires sent to East of England 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

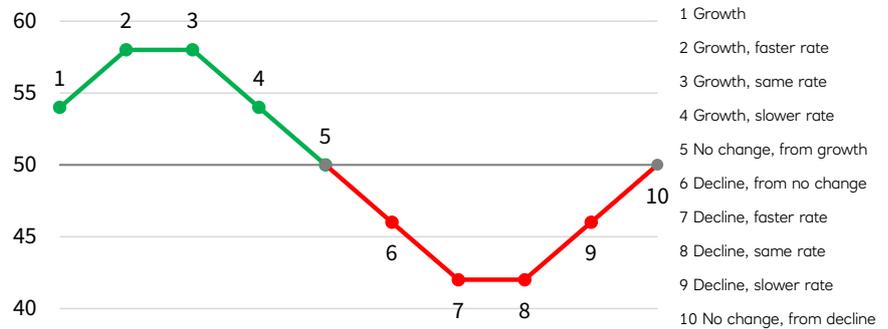
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



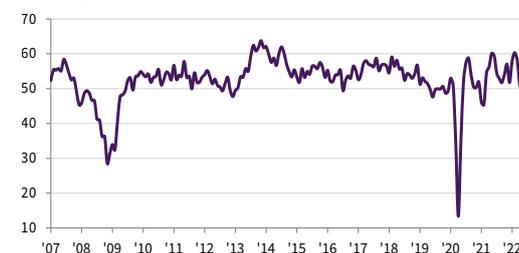
## Demand and outlook

### Sharper decline in new business

After falling for the first time in 15 months during May, new orders decreased again in June. Moreover, the rate of contraction was solid and faster than that seen in the previous month. A lack of confidence among customers and rapid price increases were reportedly behind the decline.

Sector data suggested that the overall contraction was centred on the service sector, while manufacturing new orders were stable.

New Business Index 47.1  
sa, >50 = growth since previous month Jun '22



### Optimism falls for fifth successive month

Concerns around a slowdown in the wider economy and the impact of cost of living increases on demand led to a further downgrading of confidence in the East Midlands private sector. Sentiment dropped for the fifth month running and was the lowest since the spell during the first wave of the COVID-19 pandemic.

Those firms that projected an increase in output over the coming year hoped for demand improvements.

Future Activity Index 60.0  
>50 = growth expected over next 12 months Jun '22



## Exports

### Export climate strengthens at softer pace

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 dipped to 53.4 in June from 55.1 in May, signalling a further solid improvement in export conditions for East Midlands firms, but one that was the least marked in three months.

There were signs of a slowdown in key developed markets, with the US, Germany and France all posting weaker growth in June. The slowdown was particularly pronounced in France.

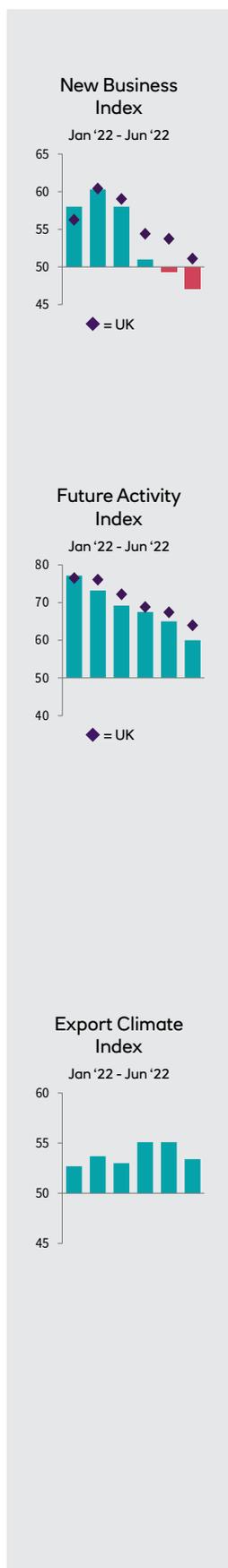
Hong Kong continued to see output recover from COVID-19 disruption earlier in the year, while Singapore registered a further sharp expansion in activity.

Export Climate Index 53.4  
sa, >50 = growth since previous month Jun '22



Top export markets, East Midlands

Rank	Market	Weight	Output Index, Jun '22
1	USA	12.8%	52.3
2	Germany	10.7%	51.3
3	Hong Kong	7.9%	52.6
4	Singapore	7.4%	60.3
5	France	7.1%	52.5



## Business capacity

### Employment Index



### Rate of job creation accelerates

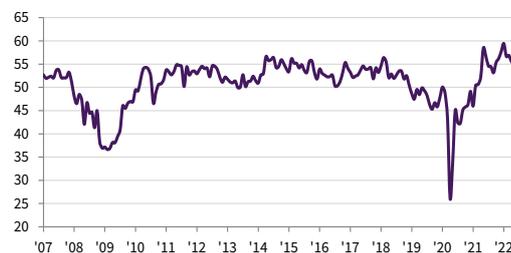
Although output and new orders decreased in June, East Midlands companies continued to increase their staffing levels. Moreover, the rate of job creation was sharp and the fastest since March. The rise in the region was broadly in line with that seen across the UK as a whole. Some respondents indicated that they were still trying to rebuild workforces and fill vacant positions following the pandemic.

### Employment Index

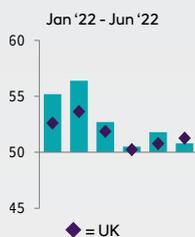
sa, >50 = growth since previous month

56.0

Jun '22



### Outstanding Business Index



### Backlogs of work continue to rise

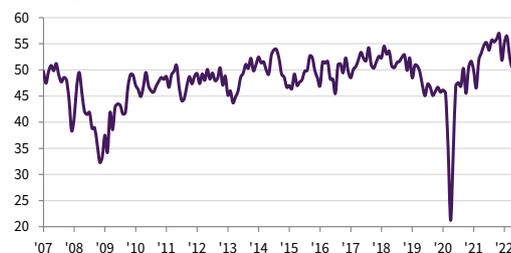
As has been the case in each of the past 16 months, outstanding business increased at the end of the second quarter. Anecdotal evidence suggested that the latest rise was often due to material shortages, with manufacturers posting the sharper rise of the two sectors.

### Outstanding Business Index

sa, >50 = growth since previous month

50.8

Jun '22



That said, the accumulation in June was only marginal and weaker than that seen in May.



## Prices

### Cost inflation remains elevated

East Midlands companies recorded a further steep increase in input costs during June, with the rate of inflation slowing only marginally over the month. Higher costs for fuel, raw materials and labour were reported by panellists. The rise in input prices in the region was softer than the UK average.

Input Prices Index **83.7**  
 Jun '22  
sa, >50 = inflation since previous month



### Further sharp increase in output charges

Although the rate of output price inflation eased from the previous month's series record in June, it remained elevated and stronger than at any point prior to the current spike in inflation. According to respondents, higher charges often reflected the passing on of increased input costs to customers.

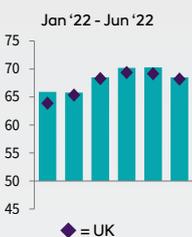
Prices Charged Index **68.5**  
 Jun '22  
sa, >50 = inflation since previous month



Input Prices Index  
 Jan '22 - Jun '22



Prices Charged Index  
 Jan '22 - Jun '22



## 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, Jun '22 <sup>+</sup>
1	Textiles & Clothing	2.09	50
2	Food & Drink	1.41	50
3	Other Manufacturing	1.27	55
4	Mechanical Engineering	1.05	58
5	Timber & Paper	1.02	50
6	Transport	0.92	55
7	Basic Metals	0.87	58
8	Electrical & Optical	0.67	58
9	Chemicals & Plastics	0.58	50

#### East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '22 <sup>+</sup>
1	Transport & Communication	1.18	55
2	Hotels, Restaurants & Catering	1.13	55
3	Personal & Community Services	1.11	58
4	Business-to-business Services	1.07	55
5	Computing & IT Services	0.91	58
6	Financial Intermediation	0.49	55

## UK sector focus

### Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

#### Output Index

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



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



## UK Regional PMI overview

### Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland\*, where output fell for the second month running and at the quickest rate since February 2021.

### Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell - albeit fractionally - for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

### Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

Business Activity Index

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



Employment Index

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



Future Activity Index

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



\* 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
Jan '22	56.9	58.0	52.7	77.2	59.4	55.2	84.0	65.9
Feb '22	59.6	60.3	53.7	73.2	56.7	56.4	84.2	65.8
Mar '22	60.5	58.0	53.0	69.2	56.9	52.7	86.1	68.5
Apr '22	58.1	51.0	55.1	67.5	55.5	50.5	84.7	70.2
May '22	51.8	49.4	55.1	65.0	55.1	51.8	84.7	70.3
Jun '22	49.4	47.1	53.4	60.0	56.0	50.8	83.7	68.5

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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.

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