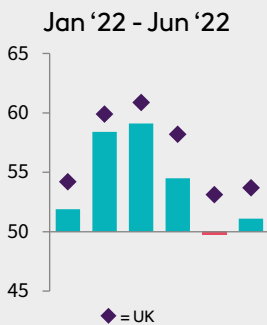


NatWest West Midlands PMI[®]

Renewed increase in business activity, despite decline in new orders

West Midlands Business Activity Index



Key findings

Output expands in June, albeit slightly

New business falls for first time in 16 months

Inflation rates retreat, but remain high

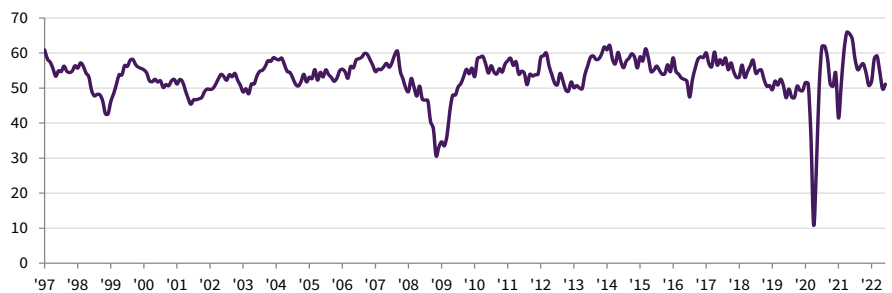
June data highlighted a return to growth of private sector output in the West Midlands, following a contraction in May, according to the NatWest PMI[®]. Up from 49.7 to 51.1 midway through the year, the headline Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – indicated a renewed rise in output. Where an increase was seen, survey participants mentioned improved demand from a few clients. That said, the overall rate of expansion was only slight, with growth centred on the service sector. Anecdotal evidence indicated that price pressures, higher energy costs and subdued demand for a wide range of products continued to restrict the upturn.

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

"The June results clearly show the damaging impact of price pressures on demand, with West Midlands firms noting the first decline in new orders since February 2021 as additional expenses continued to be transferred to customers while earnings growth is failing to keep up pace with price increases. The retreat in inflation provides little comfort for squeezed budgets, considering that both input costs and output charges again rose at near-record rates. There were some positive takeaways from the latest data as a mild recovery in business optimism supported local job creation and a slight upturn in output."

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

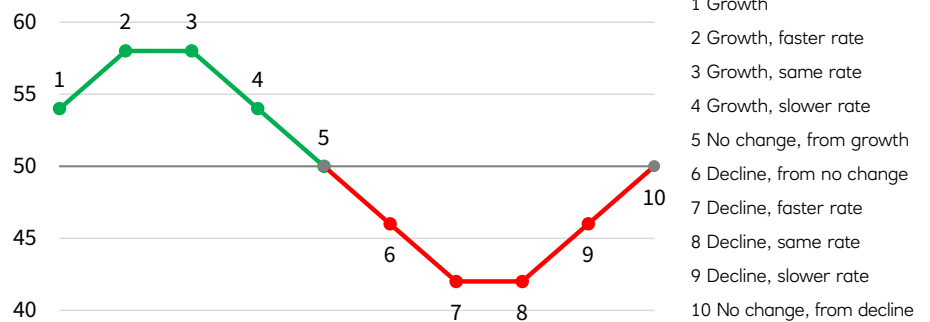
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

Current run of new business growth comes to an end in June

New business placed with West Midlands companies fell at the end of the second quarter, ending a five-month sequence of expansion. Where a decline was reported, survey members indicated that rising interest rates, acute price pressures and future uncertainty restricted demand. That said, the overall rate of reduction was only slight as growth in the service sector cushioned the drop in manufacturing.

The local decrease in sales contrasted with growth at the national level.

Marginal improvement in business confidence

The Future Activity Index rose from May's 19-month low, to signal a slightly stronger degree of optimism among private sector companies in the West Midlands in June. Upbeat growth projections stemmed from predictions of a pick-up in demand, improved tourism, new product releases, expanded capacities and quotations pending approval.

The overall level of sentiment among West Midlands firms was the second-best of all 12 monitored regions, behind that seen in Yorkshire & Humber.

Exports

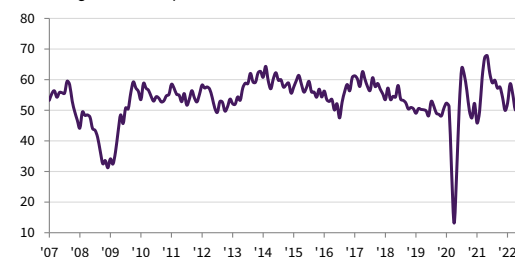
Export opportunities least favourable since November 2020

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.

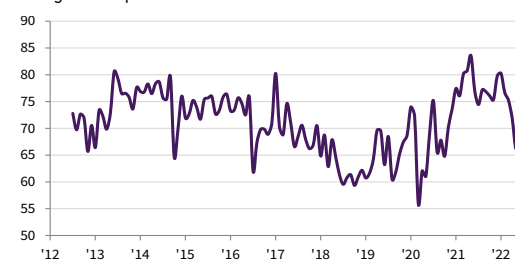
Slipping from 52.8 in May to 52.3 in June, the Export Climate Index was at a 19-month low. Remaining above the critical 50.0 threshold, however, the latest figure was still indicative of improving export conditions.

The downward movement in the ECI stemmed from slower economic growth in four of the top five export markets for the West Midlands. China saw a recovery in private sector output, following three successive monthly declines, and led the upturn.

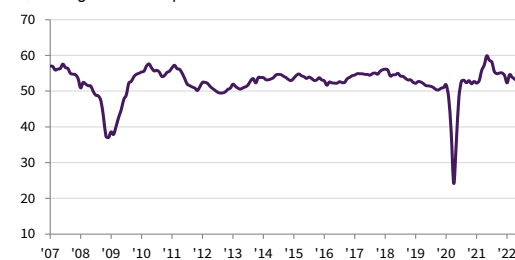
New Business Index
sa, >50 = growth since previous month
49.2
Jun '22



Future Activity Index
>50 = growth expected over next 12 months
70.3
Jun '22

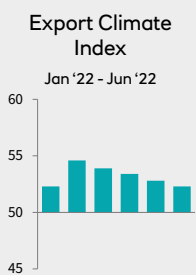
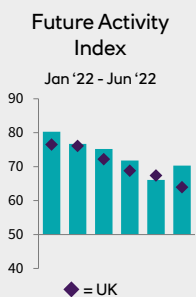
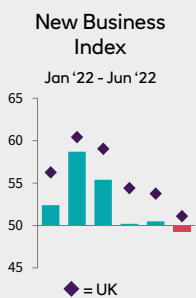


Export Climate Index
sa, >50 = growth since previous month
52.3
Jun '22



Top export markets, West Midlands

| Rank | Market | Weight | Output Index, Jun '22 |
|------|---------|--------|-----------------------|
| 1 | USA | 21.2% | 52.3 |
| 2 | Germany | 11.1% | 51.3 |
| 3 | China | 8.7% | 55.3 |
| 4 | France | 6.1% | 52.5 |
| 5 | Ireland | 6.2% | 52.8 |



Business capacity

Sharp increase in private sector jobs

June data pointed to another monthly rise in private sector employment across the West Midlands. According to panellists, ongoing hiring reflected staff adjustments following the end of pandemic restrictions, expectations of better demand conditions, capacity expansions and the opening of new units. Despite easing to a three-month low, the overall rate of job creation remained above its long-run average.

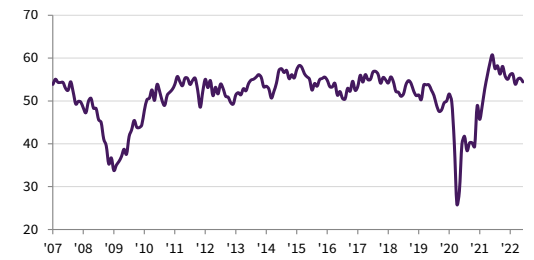
Local jobs grew at a slower pace than that registered nationally.

Outstanding business rises at fastest pace in seven months

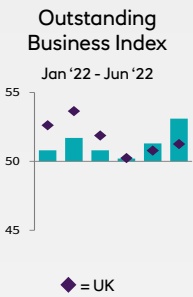
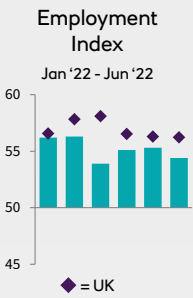
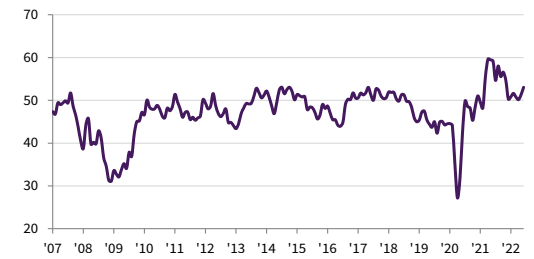
As has been the case on a monthly basis since March 2021, West Midlands firms signalled an increase in unfinished work during May. Moreover, the rate of accumulation was solid and the quickest since last November. Staff and material shortages were cited as the key reasons behind higher backlogs.

The rate of expansion in the West Midlands was the second-strongest of the five UK regions that posted higher outstanding business.

Employment Index
sa, >50 = growth since previous month
54.4
Jun '22

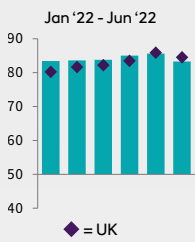


Outstanding Business Index
sa, >50 = growth since previous month
53.1
Jun '22



Prices

Input Prices Index
Jan '22 - Jun '22



Input cost inflation ticks lower

West Midlands companies continued to report greater operating expenses midway through 2022. Higher energy, food, infrastructure, material and staff costs were cited as the main sources of price pressures, alongside Brexit, material shortages and the war in Ukraine. The overall rate of inflation eased to a six-month low, but was among the strongest in the series history.

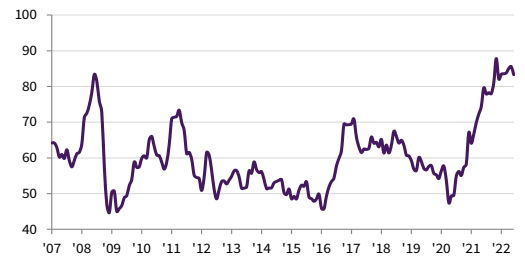
The rate of input cost inflation at the UK level also eased, but still outpaced that recorded in the West Midlands.

Input Prices Index

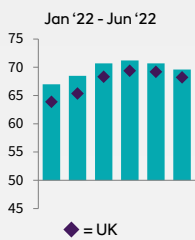
sa, >50 = inflation since previous month

83.3

Jun '22



Prices Charged Index
Jan '22 - Jun '22



Charge inflation softens, but remains elevated

Despite easing to a four-month low in June, the rate of charge inflation in the West Midlands private sector remained well above its long-run average and surpassed those seen prior March (the series started in late-1999). Among the 35% of companies that lifted their fees, there were mentions of the pass-through of rising costs burdens to clients.

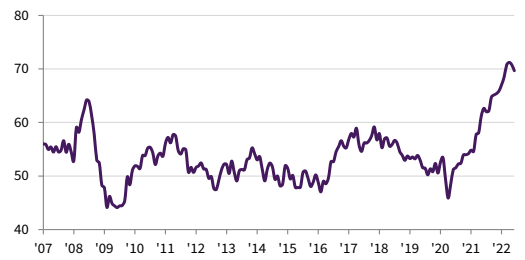
The rate of increase in prices charged for goods and services in the West Midlands continued to outpace the UK average.

Prices Charged Index

sa, >50 = inflation since previous month

69.6

Jun '22



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, Jun' 22 ⁺ |
|------|------------------------|------|---------------------------------------|
| 1 | Transport | 2.35 | 55 |
| 2 | Basic Metals | 1.44 | 55 |
| 3 | Mechanical Engineering | 1.17 | 55 |
| 4 | Other Manufacturing | 0.89 | 55 |
| 5 | Timber & Paper | 0.61 | 45 |
| 6 | Electrical & Optical | 0.59 | 55 |
| 7 | Textiles & Clothing | 0.57 | 45 |
| 8 | Food & Drink | 0.51 | 45 |
| 9 | Chemicals & Plastics | 0.47 | 50 |

West Midlands specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Jun' 22 ⁺ |
|------|--------------------------------|------|--|
| 1 | Transport & Communication | 1.19 | 55 |
| 2 | Hotels, Restaurants & Catering | 1.16 | 55 |
| 3 | Personal & Community Services | 1.08 | 55 |
| 4 | Computing & IT Services | 0.98 | 55 |
| 5 | Business-to-business Services | 0.97 | 55 |
| 6 | Financial Intermediation | 0.74 | 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.

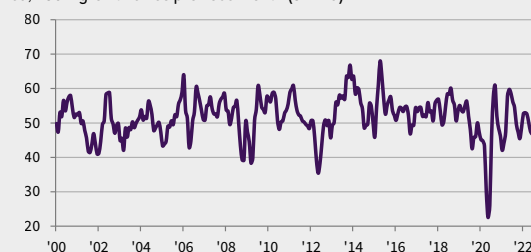
Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

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)⁺



⁺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

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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Jan '22 | 51.9 | 52.4 | 52.3 | 80.3 | 56.2 | 50.8 | 83.4 | 67.0 |
| 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 |

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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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