

11 March 2025

NatWest East Midlands Growth Tracker

**Sharpest fall in output
in over four years**



NatWest

PMI[®]

by **S&P Global**

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NatWest East Midlands Growth Tracker

Contents

Key findings

Business activity

Comment

Demand and outlook

Export markets

Jobs and capacity

Inflation

UK Regional Growth Tracker

UK sectors

Methodology and data

Further information



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Key findings

February 2025

Steeper reductions in output and new orders

Jobs cut amid efforts to limit costs

Output price inflation at 20-month high

The NatWest East Midlands Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Sharpest fall in output in over four years

Latest Regional Growth Tracker survey data from NatWest pointed to a deepening downturn in the East Midlands private sector.

The headline NatWest East Midlands Business Activity Index dropped to 44.7 in February from 49.8 in January, signalling a second successive monthly reduction in output and one that was much sharper than at the start of the year. In fact, the pace of contraction was the steepest since January 2021.

The reduction in activity in the East Midlands was the fastest of the 12

monitored areas of the UK.

Where output fell, survey respondents generally linked this to lower new orders and a lack of market confidence. New orders also decreased at a faster pace.

The rate of input cost inflation remained elevated, leading firms to raise charges sharply. Efforts to limit expenses contributed to a marked reduction in employment.

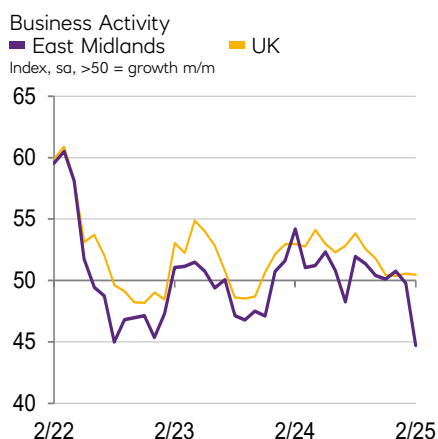
On a more positive note, East Midlands firms were among the most optimistic for the year-ahead outlook.

NatWest East Midlands Business Activity Index February 2025

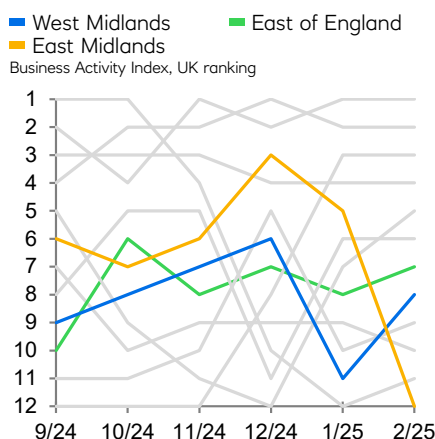
44.7

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 10-26 February



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Comment

Lisa Phillips, Regional Managing Director, Midlands and East, Commercial Mid Markets, commented:

"It is tricky to find positives in the February Growth Tracker for the East Midlands as companies in the region suffered amid a lack of market confidence and hesitancy among customers.

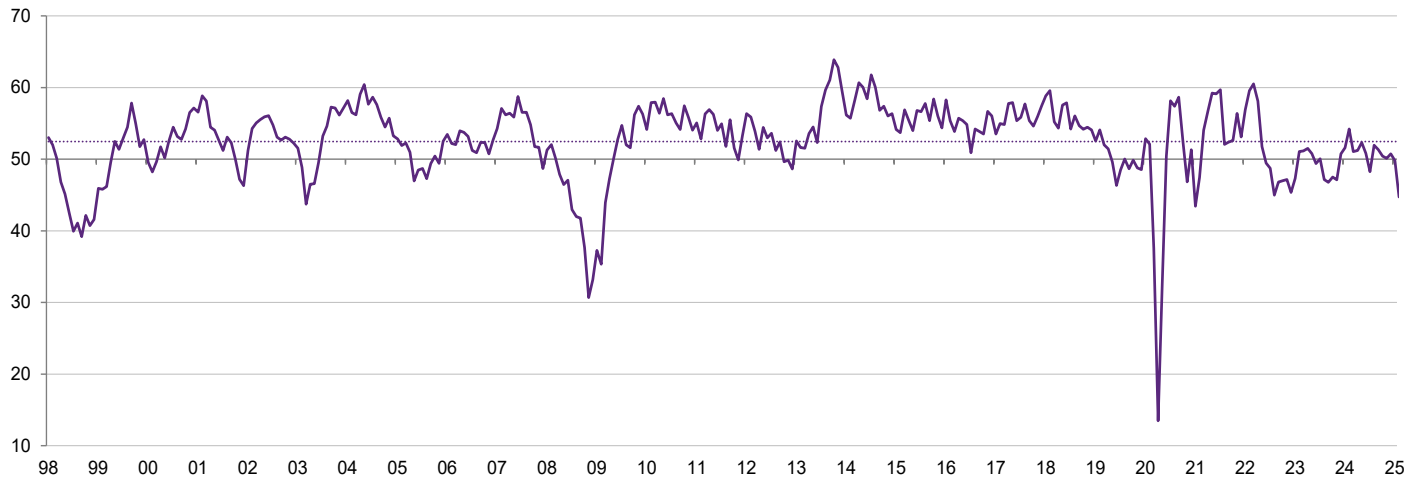
"The muted demand picture was accompanied by worries about costs. Although firms were able to limit the rise in input prices to some

extent, this was in part done on the back of job cutting. In fact, if you exclude the pandemic period, the reduction in employment was the largest since the Global Financial Crisis. Meanwhile, selling price inflation hit a 20-month high.

"One area of relative positivity came when firms were asked about the year-ahead outlook. Here, East Midlands companies were among the most optimistic in the country, second only to their neighbours in the West Midlands."

Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

Sharper reduction in new orders during February

Companies in the East Midlands continued to see new orders decrease in February, thereby extending the current sequence of contraction to five months.

Moreover, the latest reduction in new business was the fastest since October 2023. Where new orders decreased, panellists linked this to deteriorating market conditions and hesitancy among customers.

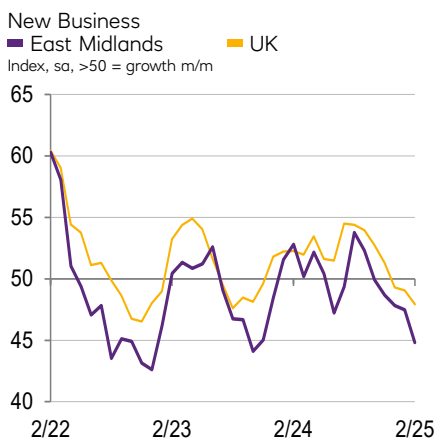
Despite weakness in output and new orders during February, companies

remained confident that output will increase over the coming year.

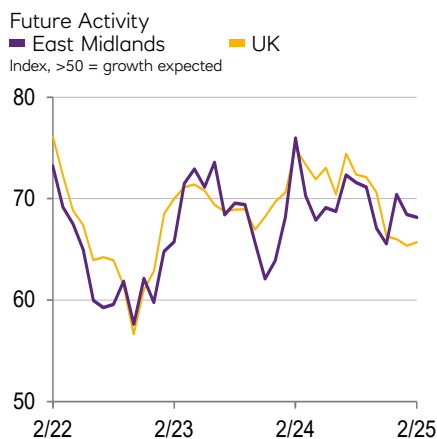
Confidence ticked down only slightly from January and was the second-highest of the 12 monitored UK regions and nations, behind only the West Midlands.

More than 48% of respondents predicted a rise in output over the coming year, with optimism centred on hopes of an improvement in market demand. New product development is also set to help support growth of business activity.

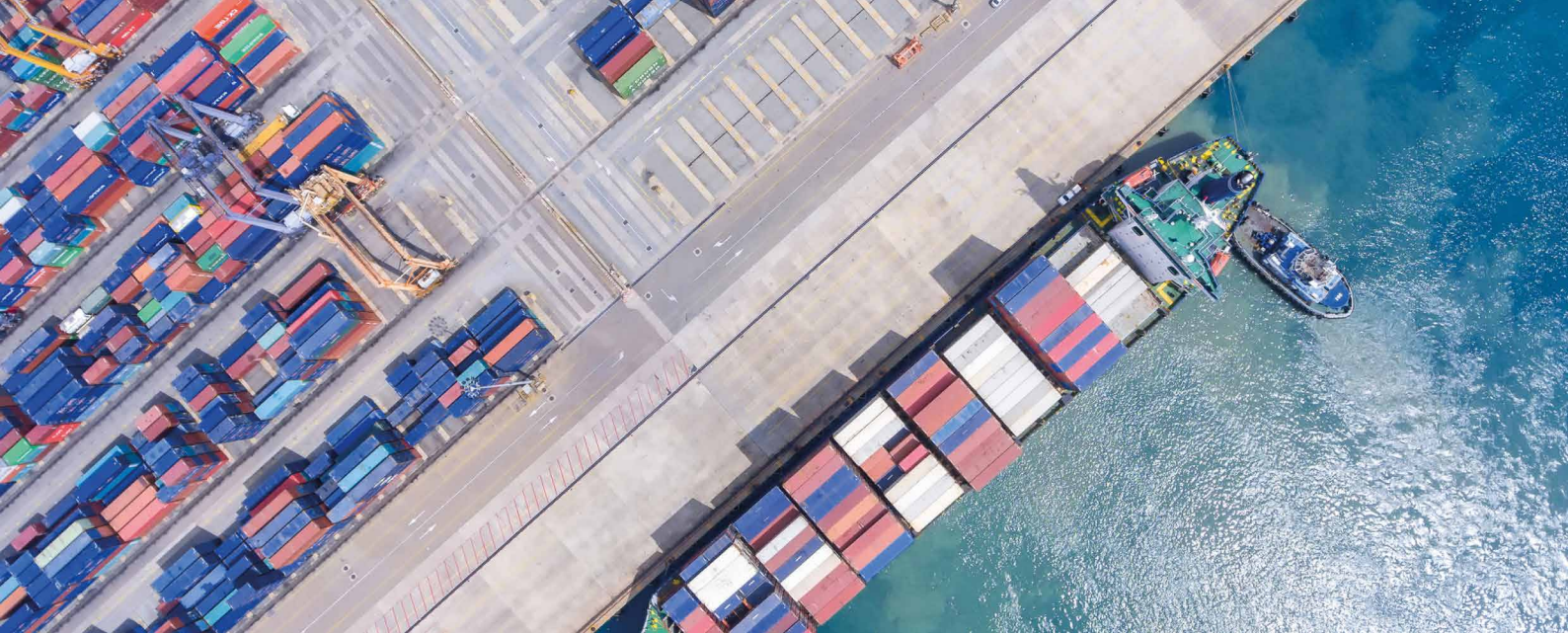
"East Midlands companies were among the most optimistic in the country, second only to their neighbours in the West Midlands."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Export markets

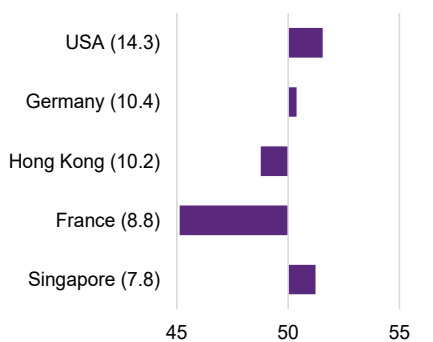
Slight improvement in export climate

The headline ECI ticked down to 50.6 in February from 50.8 in January, signalling a marginal and slightly less pronounced strengthening of the export demand climate midway through the opening quarter of the year.

Softer increases in output were seen in the USA and Germany, while Singapore posted a return to growth following a marginal reduction in January.

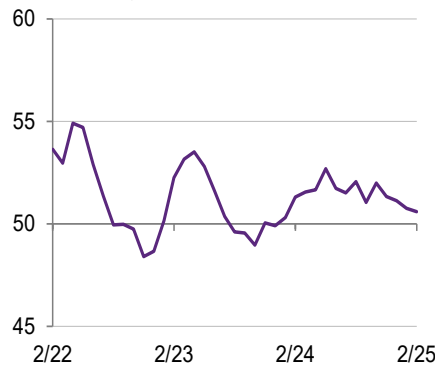
France recorded a marked and accelerated fall in output, while activity decreased in Hong Kong SAR for the first time in five months.

Top export markets, East Midlands
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

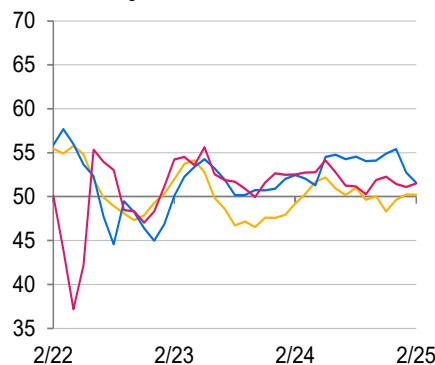
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

The East Midlands Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the East Midlands. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Output
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

Cost saving efforts lead to drop in employment

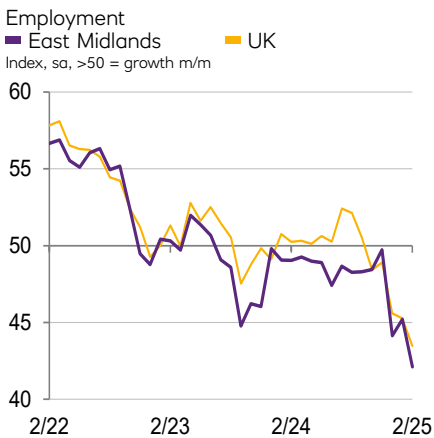
Staffing levels fell sharply in the East Midlands during February, with the pace of job shedding accelerating to the fastest since May 2020. In fact, excluding the pandemic period, the reduction was the steepest since July 2009. Companies often linked lower staffing levels to efforts to limit labour costs ahead of the upcoming rises in employer National Insurance Contributions and the National Minimum Wage.

Employment fell across both the manufacturing and services sectors.

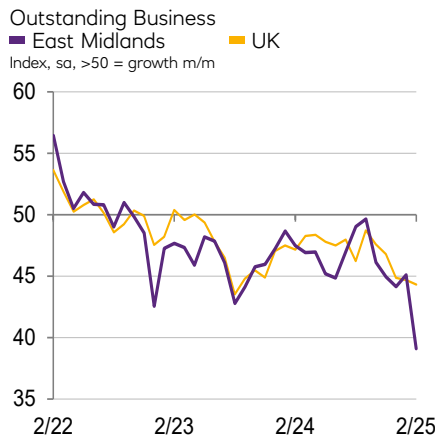
With new orders declining, companies used spare resources to work on outstanding business. As a result, backlogs of work decreased for the twenty-ninth consecutive month. Moreover, the pace of depletion was substantial and the most pronounced since May 2020.

Only the North West posted a faster reduction in outstanding business than the East Midlands.

"If you exclude the pandemic period, the reduction in employment was the largest since the Global Financial Crisis."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

Output prices rise at fastest pace in 20 months despite softer input cost inflation

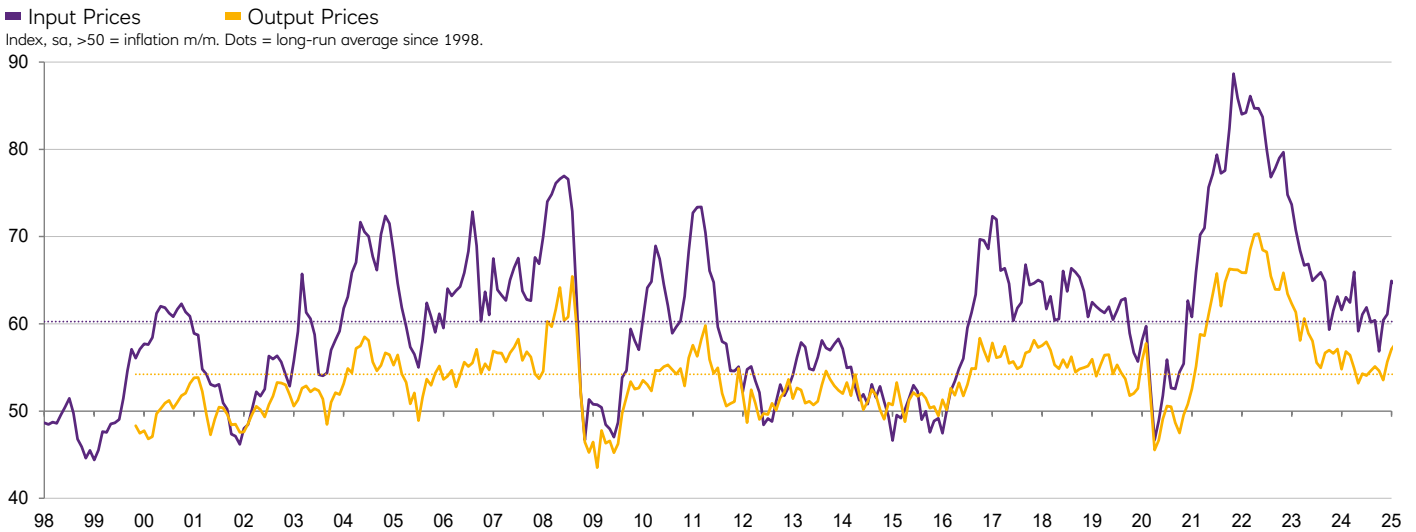
Although input costs continued to rise sharply in the East Midlands during February, the pace of inflation eased slightly from the nine-month high seen in January and was just below the average for the UK as a whole.

Where input prices did rise, this

was often linked by panellists to higher labour costs, but also raw material prices. Cost pressures were much more pronounced at service providers than at manufacturers.

Efforts to cover increasing input costs meant that output prices rose again during February. Moreover, the pace of inflation quickened for the third consecutive month and was the steepest since June 2023.

"Although firms were able to limit the rise in input prices to some extent, this was in part done on the back of job cutting."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

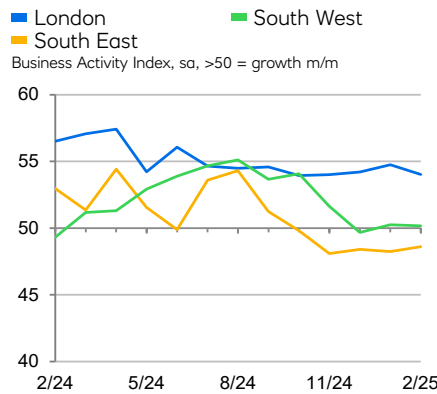
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



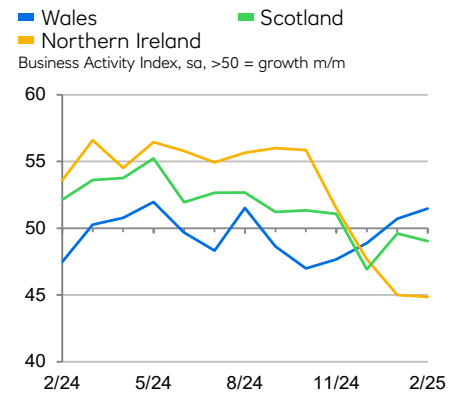
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



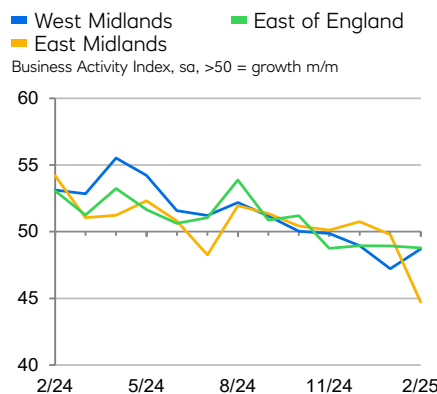
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



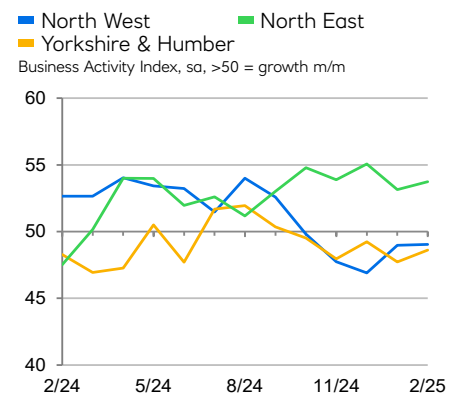
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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Growth Tracker heat map

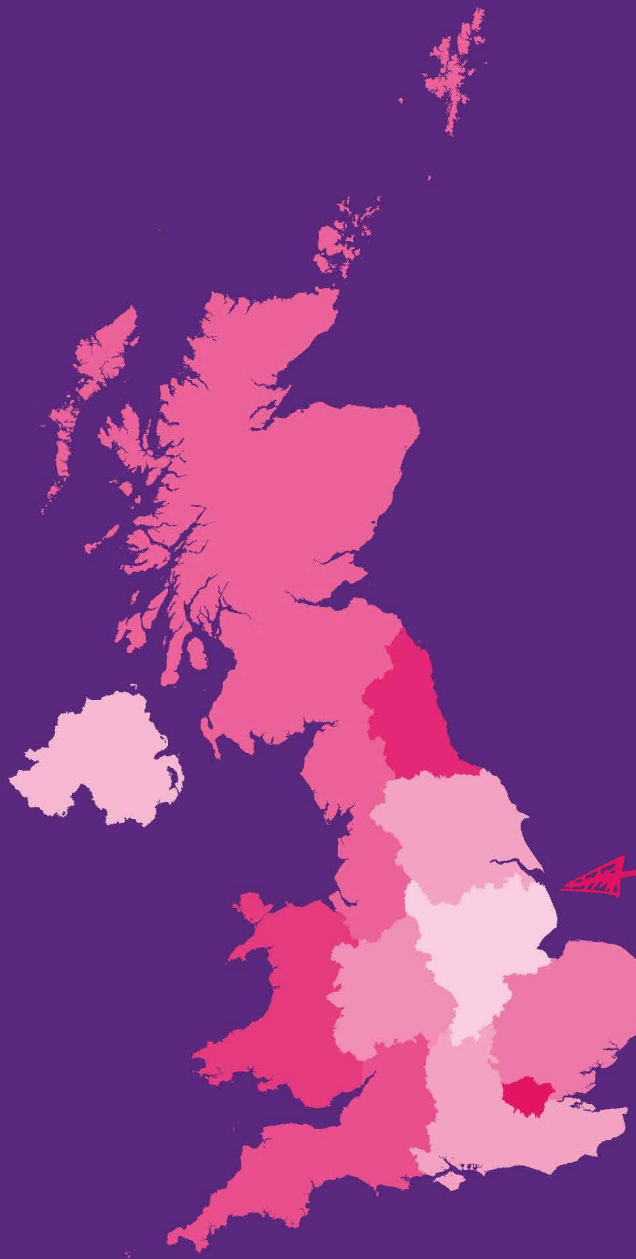
February 2025

Darker colour = higher business growth

East Midlands

Business Activity Index
sa, >50 = growth m/m

44.7



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

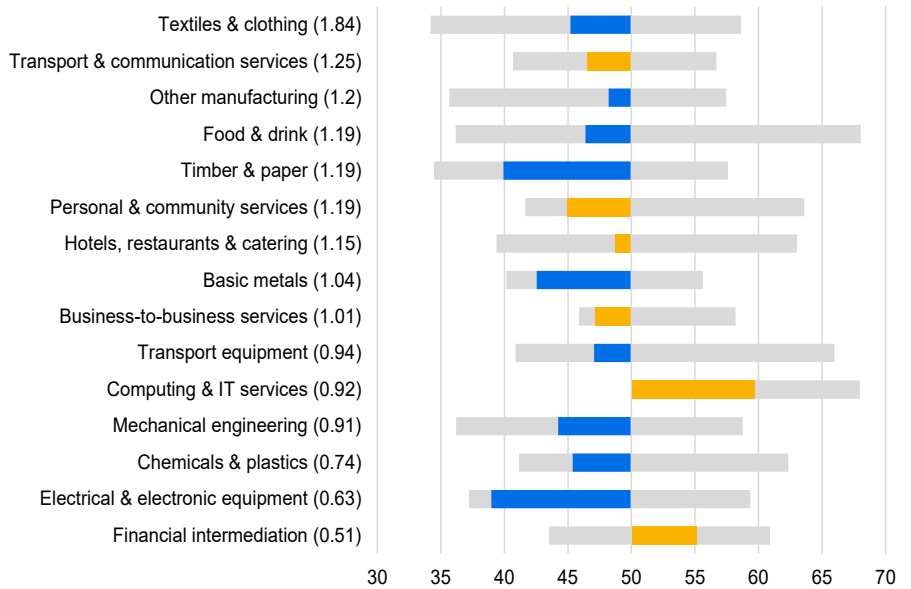
UK sectors

Sector specialisation: East Midlands

The chart shows UK output indices by sector, ranked by location quotients for the East Midlands. Location quotients (LQs) 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.

UK sectors ranked by importance to the East Midlands economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Feb '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 Location quotients for the East Midlands are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn.

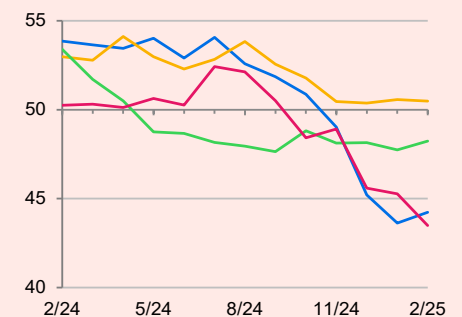
Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs.

Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level.

Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.

Output / Employment
 ■/■ Mechanical engineering*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



*Data are smoothed as three-month moving average
 Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Methodology

The NatWest East Midlands Growth Tracker 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

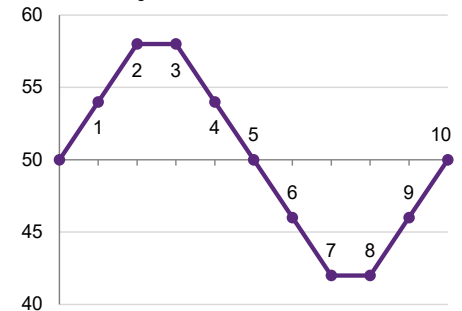
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Key

- 1 Growth, from no change
- 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

Data

East Midlands manufacturing and services Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity*	Input Prices	Output Prices
9/24	51.4	52.3	51.1	48.3	49.6	71.1	60.4	55.1
10/24	50.4	49.9	52.0	48.4	46.1	67.1	56.8	54.6
11/24	50.1	48.7	51.3	49.7	44.9	65.6	60.4	53.6
12/24	50.7	47.8	51.1	44.1	44.2	70.4	61.1	55.7
1/25	49.8	47.5	50.8	45.2	45.1	68.4	64.9	57.1
2/25	44.7	44.8	50.6	42.1	39.1	68.2	64.4	57.8

Further information

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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.

www.natwest.com/business/insights/economics

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Contact

Kate Visser
Regional Media & Campaigns
Manager
NatWest
+44 (0) 7970 947 694
kate.visser@natwest.com

Siân Jones
Principal Economist
S&P Global Market Intelligence
+44 1491 461 017
sian.jones@spglobal.com

Corporate Communications
S&P Global Market Intelligence
press.mi@spglobal.com

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