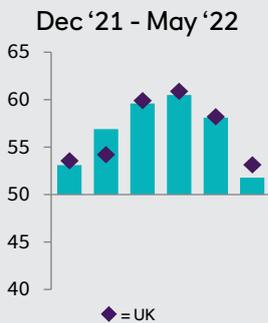


NatWest East Midlands PMI[®]

Business activity growth slows to only marginal pace in May

East Midlands Business Activity Index



Key findings

Output expansion slows amid decline in new business

Inflationary pressures remain marked

Business confidence drops to lowest since June 2020

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 – registered 51.8 in May, down notably from 58.1 in April. The latest upturn was the slowest in the current 15-month sequence of expansion and only marginal overall. Although some firms stated that the rise in output was supported by the delivery of inputs and clearing of backlogs, others mentioned that hikes in prices and a drop in new orders weighed on the increase in activity.

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

“May data signalled a notable loss of growth momentum across the East Midlands private sector, as the expansion in output slowed following the first contraction in new business since February 2021. Hikes in prices and uncertainty reportedly hampered client demand, with customer purchasing power reduced. As a result, business confidence slumped to the lowest since mid-2020.”

“Cost burdens rose at one of the sharpest rates on record as higher fuel, material and wage bills drove inflation. Despite weak client demand, companies raised their selling prices at the fastest pace in 22-and-a-half years of data collection, as many sought to pass-through greater costs to customers.”

East Midlands Business Activity Index

sa, >50 = growth since previous month



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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

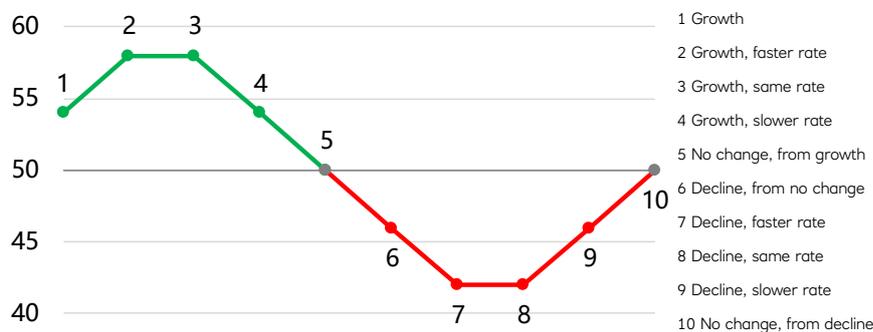
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New orders fall for first time since February 2021

Private sector firms in the East Midlands recorded a decline in new business for the first time since February 2021 in May. The fall in client demand was only marginal but followed a loss of growth momentum from February's recent peak. Weak demand conditions were linked to lower purchasing power among customers and supply-chain disruption.

The East Midlands was one of only three UK regions to register a contraction in new orders, alongside the North East and Northern Ireland.

Business confidence drops to near two-year low in May

Output expectations among East Midlands private sector firms weakened in May, as the degree of optimism slipped to the lowest since June 2020. Companies remained upbeat, however, with positive sentiment linked to new product development and hopes of an uptick in client demand. That said, concerns regarding hikes in prices and the impact on customer spending weighed on confidence.

At the sub-sector level, service providers registered the weaker level of optimism.

Exports

Strong improvement in export conditions during May

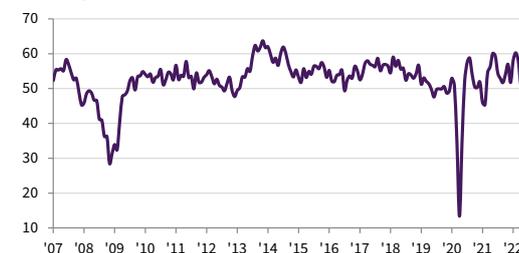
The East Midlands Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the East Midlands. This produces an indicator for the economic health of the region's export markets.

The Export Climate Index posted 55.1 in May, unchanged from April, to signal a strong upturn in the export climate for East Midlands private sector firms. The rate of improvement was the joint-sharpest since last November.

Supporting more positive export conditions were steeper increases in activity in Hong Kong and Singapore, with the former recording the sharpest upturn in output since March 2011.

Meanwhile, the expansion in activity in France remained strong despite easing from that seen in April. Output growth rates in Germany and the US softened, however.

New Business Index
sa, >50 = growth since previous month
49.4
May '22



Future Activity Index
>50 = growth expected over next 12 months
65.0
May '22



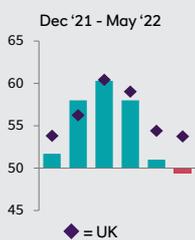
Export Climate Index
sa, >50 = growth since previous month
55.1
May '22



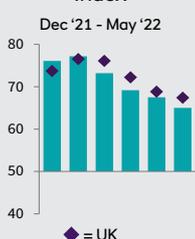
Top export markets, East Midlands

Rank	Market	Weight	Output Index, May '22
1	USA	12.8%	53.6
2	Germany	10.7%	53.7
3	Hong Kong	7.9%	56.0
4	Singapore	7.4%	62.0
5	France	7.1%	57.0

New Business Index
Dec '21 - May '22



Future Activity Index
Dec '21 - May '22



Export Climate Index
Dec '21 - May '22



Business capacity

Strong rise in employment in May

Private sector firms across the East Midlands signalled a strong rise in workforce numbers during May. That said, the rate of job creation slowed to the softest since September 2021 as firms mentioned efforts to cut costs. The pace of employment growth was weaker than the UK average, despite being quicker than the region's long-run series trend.

Employment Index 55.1
sa, >50 = growth since previous month May '22

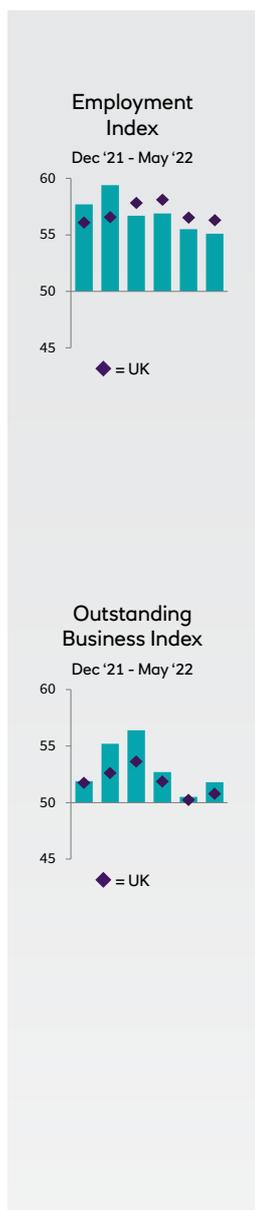
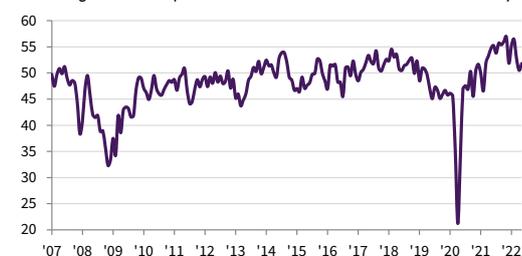


Growth in outstanding business quickens in May

May data indicated a marginal, but faster, rise in backlogs of work across the East Midlands private sector. The increase in incomplete business was quicker than the UK average, as firms noted that material delivery delays pushed up work-in-hand.

Manufacturers and service providers alike across the region recorded greater levels of unfinished business, with services companies leading the upturn.

Outstanding Business Index 51.8
sa, >50 = growth since previous month May '22



Prices

Substantial increase in cost burdens in May

Input prices faced by private sector firms in the East Midlands rose markedly midway through the second quarter, amid hikes in fuel, material and wage costs. The rate of cost inflation matched that seen in April and was well above the series trend. Of the 12 monitored UK regions, however, the pace of increase in input prices was among the slowest, with only the South West, the East of England and Scotland registering softer upticks.

Input Prices Index 84.7
sa, >50 = inflation since previous month May '22



Rate of charge inflation reaches new series high

Average output charges rose again across the East Midlands private sector during May. The rate of output price inflation quickened fractionally to reach a new series high that was sharper than the UK average. Companies stated that greater selling prices were due to the pass-through of higher costs to clients.

Prices Charged Index 70.3
sa, >50 = inflation since previous month May '22



At the sub-sector level, manufacturing firms in the East Midlands recorded a steeper rise than their service sector counterparts.



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

East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22 ⁺
1	Transport & Communication	1.18	50
2	Hotels, Restaurants & Catering	1.13	55
3	Personal & Community Services	1.11	55
4	Business-to-business Services	1.07	55
5	Computing & IT Services	0.91	55
6	Financial Intermediation	0.49	55

UK sector focus

Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland* and the North East.

Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '21	53.1	51.7	54.7	76.1	57.7	51.9	85.9	66.2
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

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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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