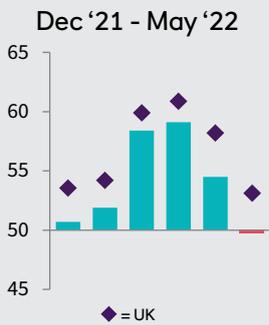




NatWest West Midlands PMI[®]

Acute price pressures weigh on economic performance of West Midlands in May

West Midlands Business Activity Index



Key findings

Business activity back in contraction territory

New orders increase only marginally

Input costs and output charges rise at near-record rates

The latest results showed a renewed decline in private sector output across the West Midlands, according to the NatWest PMI[®]. Down from 54.5 in April to 49.7, 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 – pointed to the first contraction in 16 months. Comments from survey participants highlighted inflationary pressures, subdued demand, challenging economic conditions and input shortages as the main drags on business activity. That said, the overall rate of reduction was only marginal.

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

"Inflation and ensuing budget cuts among households and businesses pushed the West Midlands private sector economy back into contraction during May. New work received by local firms rose only marginally and output fell for the first time since January 2021. Another worrying sign was seen with regards to business confidence, which slipped to the lowest since October 2020 as panellists became increasingly concerned that mounting price pressures, tough economic conditions and the Russian invasion would weigh on output in the year ahead. Price indices indicate that inflation is yet to peak, as a sharper upturn in input costs hints at more pronounced increases in charges in the coming months."

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

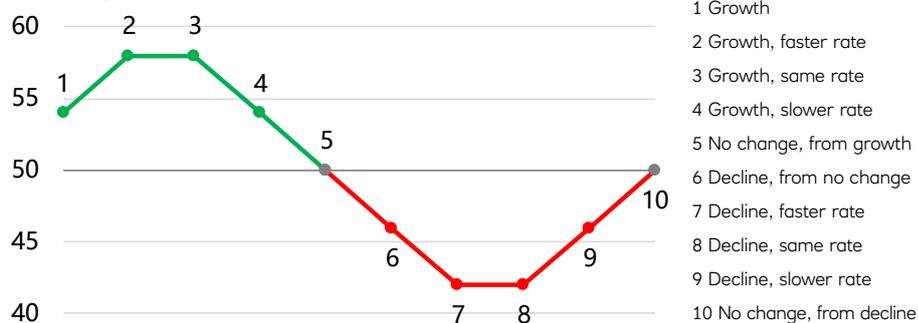
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

May sees marginal rise in new business intakes

As has been since the start of 2022, West Midlands companies indicated an increase in new orders during May. Where growth was signalled, panellists cited better demand conditions and greater international travel. That said, despite accelerating from April, the rate of expansion remained only marginal and below its long-run average. Subdued market confidence, inflationary pressures, the cancellation of projects and input shortages reportedly curbed the upturn.

Firms downgrade assessments towards growth prospects

Private sector firms in the West Midlands remained confident of a rise in output over the course of the coming 12 months. However, overall sentiment slipped to a 19-month low and was below the long-run series average. Acute inflationary pressures, issues with transportation, a challenging economic climate and the Russian invasion all reportedly dampened optimism in May.

New Business Index
sa, >50 = growth since previous month
50.5
May '22



Future Activity Index
>50 = growth expected over next 12 months
66.1
May '22



Export Climate Index
sa, >50 = growth since previous month
52.8
May '22



Top export markets, West Midlands

Rank	Market	Weight	Output Index, May '22
1	USA	21.2%	53.6
2	Germany	11.1%	53.7
3	China	8.7%	42.2
4	France	6.1%	57.0
5	Ireland	6.2%	57.5



Exports

Export conditions improve at slower pace in May

The West Midlands Export Climate Index 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.

At 52.8 in May, the Export Climate Index pointed to another improvement in export conditions at West Midlands firms. However, falling from 53.4 in April, the latest reading highlighted the slowest rate of expansion in four months.

Economic growth was sustained in four of the top five export markets for the West Midlands, but rates of increase eased in all cases. Parallel to this, there was a sharp but softer contraction in China.

Business capacity

Job creation remains strong in the private sector

West Midlands companies indicated that hiring activity continued to increase halfway through the second quarter, taking the current sequence of job creation to 15 months. Moreover, the pace of growth was marked, above its long-run trend and the fastest since February. Survey participants linked the upturn in headcounts to the rebuilding of workforces, sustained improvements in new business, expansion plans and the replacement of voluntary leavers.

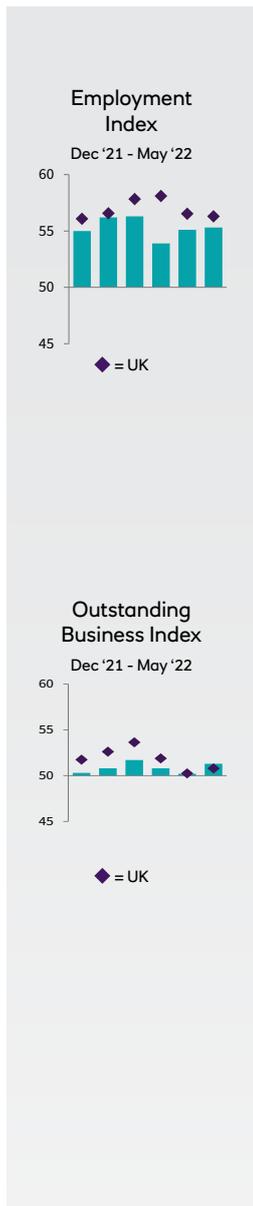
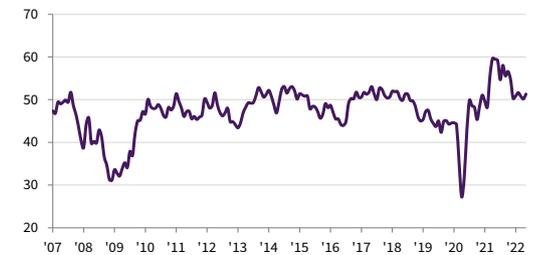
Employment Index
sa, >50 = growth since previous month
55.3
May '22



Marginal increase in outstanding business

Backlogs of work rose further in May, thereby stretching the current sequence of accumulation to 15 months. Despite accelerating to the fastest since February, the pace of expansion was only slight. New contract wins, greater bookings, labour shortages, supply-chain issues and a lack of raw material availability all reportedly caused the latest uptick in unfinished business volumes.

Outstanding Business Index
sa, >50 = growth since previous month
51.3
May '22



Prices

Cost pressures show no signs of abating

May data highlighted another monthly increase in input costs facing West Midlands private sector firms. Moreover, the rate of inflation accelerated to the second-strongest since the series started in January 1997, beaten only by November 2021. According to panellists, electronic component, energy, food, fuel, transportation and wage costs were the key drivers of price pressures.

Local input prices rose at a broadly similar rate to that seen nationally.

Input Prices Index
sa, >50 = inflation since previous month
85.6
May '22

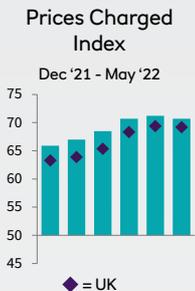
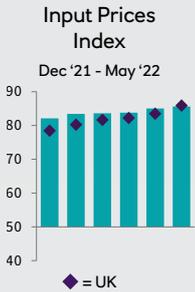


Output charges increase at near-record rate

Similar to the trend for input costs, output prices rose at a sharp rate that was among the fastest in the series history (since November 1999) during May. A higher index reading was only seen last month. Around 47% of monitored firms signalled higher fees, citing the pass-through of rising cost burdens to clients.

Output charge inflation in the West Midlands outpaced the UK average.

Prices Charged Index
sa, >50 = inflation since previous month
70.7
May '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, May' 22 ⁺
1	Transport	2.35	55
2	Basic Metals	1.44	58
3	Mechanical Engineering	1.17	55
4	Other Manufacturing	0.89	55
5	Timber & Paper	0.61	48
6	Electrical & Optical	0.59	58
7	Textiles & Clothing	0.57	48
8	Food & Drink	0.51	50
9	Chemicals & Plastics	0.47	52

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May' 22 ⁺
1	Transport & Communication	1.19	50
2	Hotels, Restaurants & Catering	1.16	58
3	Personal & Community Services	1.08	58
4	Computing & IT Services	0.98	55
5	Business-to-business Services	0.97	52
6	Financial Intermediation	0.74	52

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.

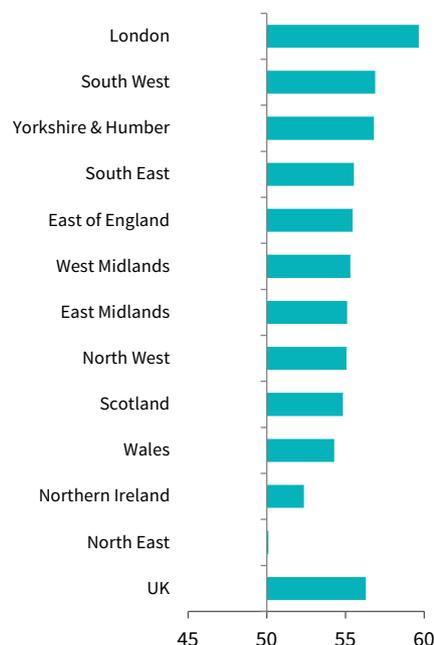
Business Activity Index

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

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
Dec '21	50.7	50.0	54.4	79.8	55.0	50.3	82.1	65.9
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

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