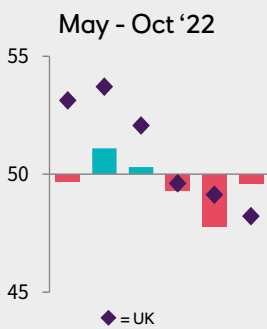




NatWest West Midlands PMI[®]

Contractions in new business and output soften in October

West Midlands Business Activity Index



Key findings

New business falls at slower and only slight pace

Business activity moves closer to stabilisation

Stronger cost pressures compare with softer rise in charges

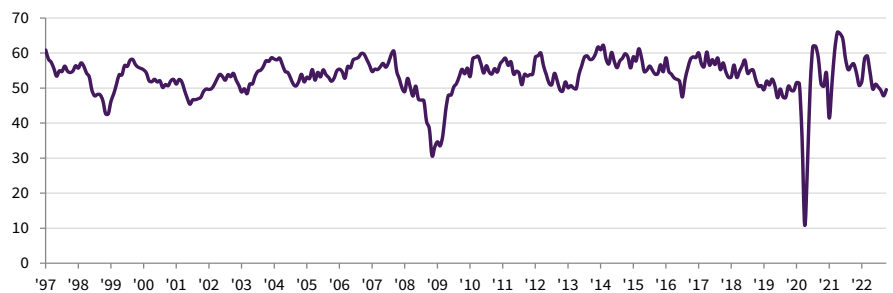
West Midlands companies again struggled to secure new business in October, which led them to trim output further, according to the NatWest PMI[®]. That said, the headline Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – rose from a 20-month low of 47.8 in September to 49.6, close to the 50.0 no-change mark and indicative of a marginal rate of contraction. Where a fall was reported, survey participants mentioned reduced spending at clients amid recession fears and financial difficulties.

Rashel Chowdhury, NatWest Midlands and East Regional Board, commented:

"Economic uncertainty and price pressures continued to negatively impact the performance of the West Midlands economy in October, with clients cutting spending and firms scaling back output again. To a certain degree, it was comforting to see that the downturn in the region wasn't as deep as in other areas of the UK and that rates of contraction at least softened from September. Yet, companies were increasingly worried about the economic outlook and customer spending behaviour, reasons which dragged down business confidence to a level unseen since April 2020. Of concern to local firms, cost pressures intensified while their pricing power diminished due to weak demand conditions."

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

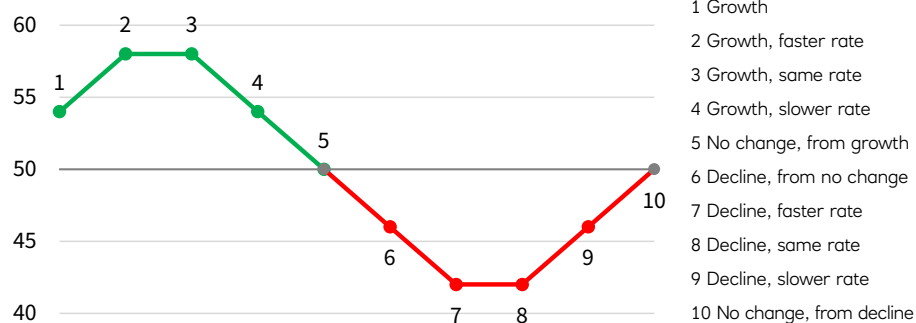
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Downturn in new business softens in October

Private sector firms in the West Midlands signalled another fall in new business intakes during October, the fifth in consecutive months. The cost-of-living crisis, price pressures and recession fears reportedly stymied demand. The overall rate of contraction was modest, however, and eased from September.

The reduction seen in the West Midlands was the second-slowest regionally, faster only than that recorded in London.

Level of business sentiment lowest since March 2020

West Midlands companies remained confident of a rise in output over the course of the coming 12 months. That said, the overall level of positive sentiment slipped to its lowest mark since the first COVID-19 lockdown in early-2020 and was historically subdued. Anecdotal evidence indicated that optimism was restricted by concerns over the economic outlook and customer spending.

Regionally, the West Midlands came third in the rankings for business confidence.

Exports

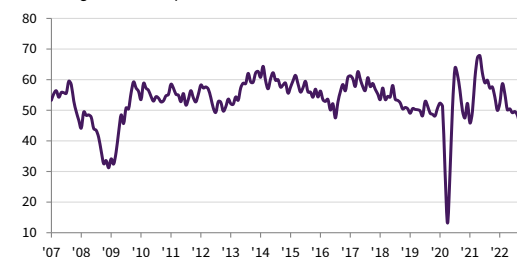
October sees further deterioration in export conditions

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.

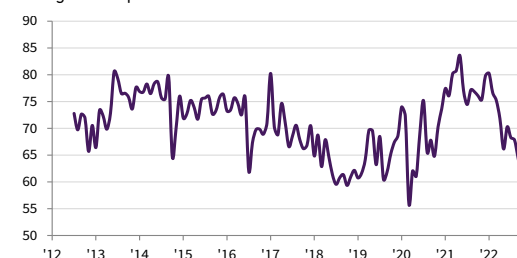
The ECI was in contraction territory for the third consecutive month in October. The latest reading was down to 48.2, from 49.1 in September, signalling the quickest deterioration in export opportunities since mid-2020.

Among the top five export markets for the West Midlands, economic growth was only seen in France and Ireland. Furthermore, rates of reduction quickened in China, Germany and the US.

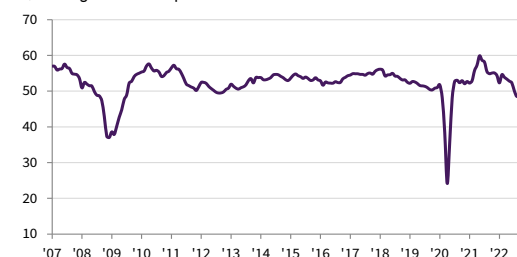
New Business Index
sa, >50 = growth since previous month
48.5
Oct '22



Future Activity Index
>50 = growth expected over next 12 months
60.7
Oct '22



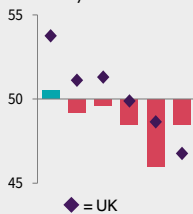
Export Climate Index
sa, >50 = growth since previous month
48.2
Oct '22



Top export markets, West Midlands

Rank	Market	Weight	Output Index, Oct '22
1	USA	21.2%	48.2
2	Germany	11.1%	45.1
3	China	8.7%	48.3
4	France	6.1%	50.2
5	Ireland	6.2%	52.1

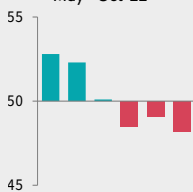
New Business Index
May - Oct '22



Future Activity Index
May - Oct '22



Export Climate Index
May - Oct '22



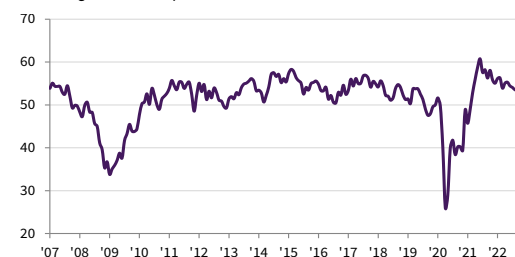
Business capacity

Job creation sustained at start of final quarter

Despite ongoing declines in new business, private sector companies in the West Midlands continued to take on additional workers in October. Furthermore, the rate of expansion was solid and the quickest in three months. Where growth was reported, survey participants indicated that vacant positions had been filled and voluntary leavers replaced.

In terms of job creation, the West Midlands came second in the regional rankings.

Employment Index 53.9
sa, >50 = growth since previous month Oct '22

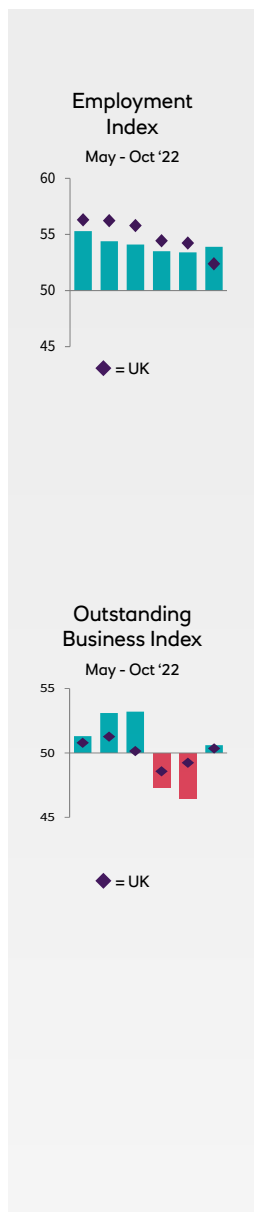
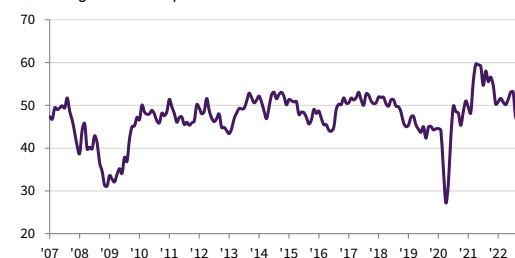


Marginal increase in outstanding business

October data highlighted a renewed upturn in unfinished business volumes among West Midlands companies, following declines in each of the prior two months. Where a rise was reported, survey members commented on input delivery delays, labour shortages and constrained capacity.

The local expansion in backlogs was broadly in line with the UK average.

Outstanding Business Index 50.6
sa, >50 = growth since previous month Oct '22



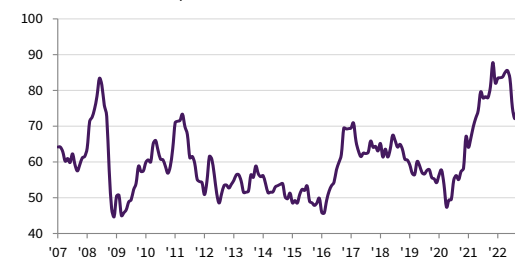
Prices

Input cost inflation ticks higher in October

There was another monthly increase in the operating expenses of private sector companies in the West Midlands during October. The rate of inflation quickened to a three-month high and was historically steep, but was softer than most of those seen over the past year. Panellists cited sterling weakness, wage pressures, energy price volatility, input shortages and a generally inflated market.

The West Midlands was one of four regions to record an accelerated rise in input costs, with slowdowns registered elsewhere.

Input Prices Index 75.1
sa, >50 = inflation since previous month Oct '22

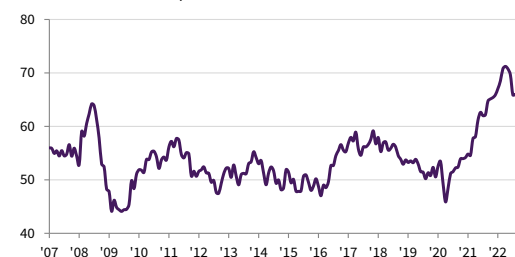


Charges rise at slowest rate in over a year

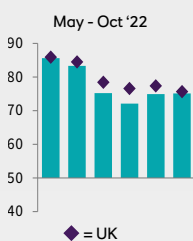
Prices charged for goods and services in the West Midlands increased sharply again at the start of the fourth quarter, albeit at the slowest rate since August 2021. Those companies that hiked their fees commonly mentioned the pass-through of rising expenses to customers.

In contrast to the trend for input costs, the local rate of charge inflation outpaced the national average.

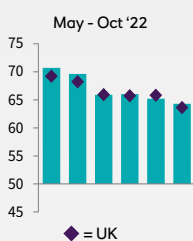
Prices Charged Index 64.3
sa, >50 = inflation since previous month Oct '22



Input Prices Index



Prices Charged Index



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, Oct' 22 ⁺
1	Transport	2.35	48
2	Basic Metals	1.44	48
3	Mechanical Engineering	1.17	50
4	Other Manufacturing	0.89	50
5	Timber & Paper	0.61	45
6	Electrical & Optical	0.59	50
7	Textiles & Clothing	0.57	48
8	Food & Drink	0.51	50
9	Chemicals & Plastics	0.47	45

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct' 22 ⁺
1	Transport & Communication	1.19	48
2	Hotels, Restaurants & Catering	1.16	48
3	Personal & Community Services	1.08	48
4	Computing & IT Services	0.98	55
5	Business-to-business Services	0.97	48
6	Financial Intermediation	0.74	48

UK sector focus

Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

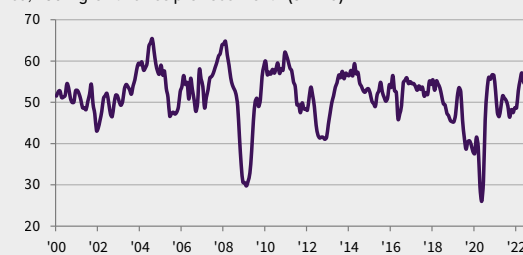
Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

Employment

Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

Business Activity Index

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



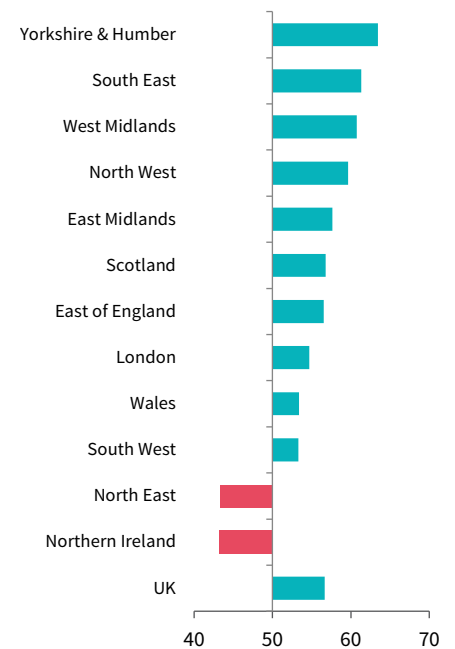
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Oct '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
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
Jul '22	50.3	49.6	50.1	68.3	54.1	53.2	75.2	65.9
Aug '22	49.3	48.5	48.5	67.8	53.5	47.3	72.1	66.0
Sep '22	47.8	46.0	49.1	64.4	53.4	46.5	74.9	65.2
Oct '22	49.6	48.5	48.2	60.7	53.9	50.6	75.1	64.3

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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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