

# NatWest East Midlands PMI<sup>®</sup>

## Solid decline in activity amid further fall in new business

### East Midlands Business Activity Index



### Key findings

Cost of living crisis weighs on customer demand and activity

Cost inflation picks up, but selling prices rise at softer pace

Business confidence rises to four-month high

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 – rose from 45.0 in August, to 46.8 in September. The latest headline index figure signalled a solid contraction in business activity, and the second-fastest since the start of 2021. Lower output was attributed to the impact of inflation and hikes in energy costs on customer spending. Of the 12 monitored UK regions, only Northern Ireland and the South West recorded quicker declines in output.

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

“September data indicated another difficult month for East Midlands firms, with the cost of living crisis reportedly weighing on customer spending. Demand for goods and services fell, leading to a fourth consecutive monthly decline in business activity. There was also an increase in cost pressures facing local firms, as a weaker pound added to factors pushing up prices.

“With companies recording the slowest rise in charges for goods and services for over a year in an effort to drive sales, the survey pointed to growing pressure on profit margins. Local businesses were hopeful of a pick-up in activity in the year ahead - and more so than in August - due to planned investment in new business lines and products, though the challenging economic backdrop meant that expectations remained historically low.”

East Midlands Business Activity Index

sa, >50 = growth since previous month



## Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

## 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

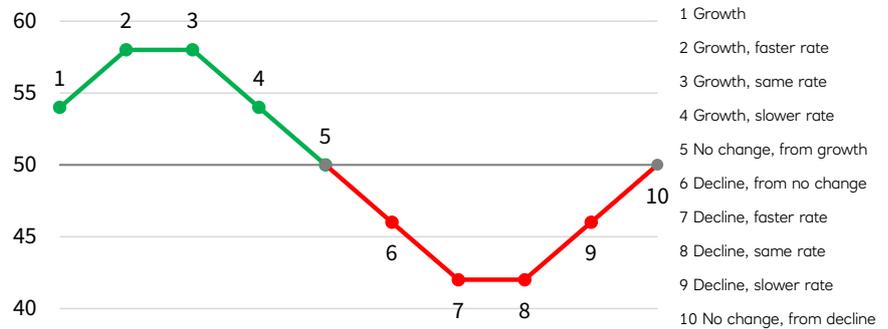
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### Second-fastest fall in new business since May 2020

Private sector firms in the East Midlands registered a further contraction in new business in September, thereby extending the current sequence of decline to five months. Firms linked the fall in new orders to the impact of the cost of living crisis on customer spending and relatively weak client confidence. The rate of decrease was strong overall and was the second-fastest since May 2020.

Manufacturers and service providers both recorded sharp contractions in new business.

### Business confidence reaches four-month high

September data signalled an uptick in output expectations regarding the year-ahead outlook across the East Midlands private sector. The degree of optimism reached the strongest since May, but was below the series average. Positive sentiment was attributed to planned investment in new product lines and marketing. That said, confidence was weighed down by ongoing concerns regarding inflation and pressure on customer disposable incomes.

Firms in the region were slightly more upbeat than the UK average.

## Exports

### Export climate broadly unchanged in September

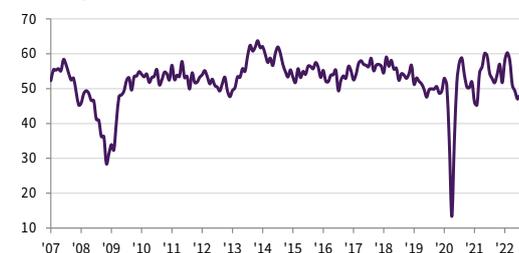
The East Midlands Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the East Midlands. This produces an indicator for the economic health of the region's export markets.

The Export Climate Index posted 50.2 in September, up only fractionally from August (50.0), to signal further broad stagnation in export conditions for East Midlands private sector firms.

Expansions in activity were registered in Singapore and France, with both recording quicker upturns in output.

That said, contractions were seen in the US and Germany. Although Germany indicated a faster decrease, the sharpest since May 2020, the US noted the softest downturn in activity for three months.

New Business Index  
sa, >50 = growth since previous month  
45.1  
Sep '22



Future Activity Index  
>50 = growth expected over next 12 months  
61.9  
Sep '22

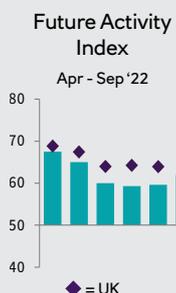
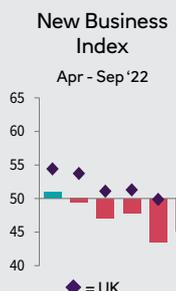


Export Climate Index  
sa, >50 = growth since previous month  
50.2  
Sep '22



Top export markets, East Midlands

Rank	Market	Weight	Output Index, Sep '22
1	USA	12.8%	49.5
2	Germany	10.7%	45.7
3	Hong Kong	7.9%	47.3
4	Singapore	7.4%	60.8
5	France	7.1%	51.2



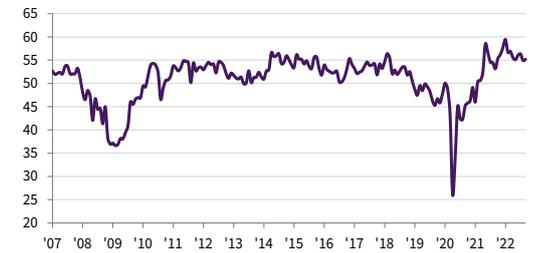
## Business capacity

### Further strong expansion in employment in September

Workforce numbers across the East Midlands private sector continued to increase at the end of the third quarter. The rate of job creation picked up slightly and was stronger than both the long-run series average and that seen across the UK as a whole. Service providers recorded a faster rise in staffing numbers than their manufacturing counterparts.

The pace of employment growth was among the sharpest of the 12 monitored UK regions.

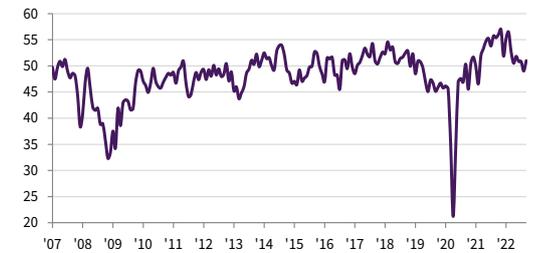
Employment Index 55.2  
sa, >50 = growth since previous month Sep '22



### Fastest rise in backlogs of work since May

Private sector firms in the East Midlands registered a renewed increase in backlogs of work during September. The marginal rise in outstanding business was the quickest for four months and contrasted with the UK average which signalled a slight contraction. Higher levels of work-in-hand were due to material shortages.

Outstanding Business Index 51.0  
sa, >50 = growth since previous month Sep '22



## Prices

Input Prices Index

Apr - Sep '22



◆ = UK

### Marked rise in input costs in September

East Midlands firms signalled a further substantial increase in cost burdens during September. Although the second-slowest for a year, the rate of inflation was marked and picked up from August. Hikes in input prices were linked to greater energy and supplier costs, with a weak pound exacerbating imported inflationary pressures.

Service providers continued to record sharper increases in operating expenses compared to their manufacturing counterparts.

Input Prices Index

sa, >50 = inflation since previous month

77.8

Sep '22



Prices Charged Index

Apr - Sep '22



◆ = UK

### Slowest rise in output charges since August 2021

Average selling prices across the East Midlands private sector rose markedly at the end of the third quarter. Anecdotal evidence suggested that higher output charges were linked to the pass-through of greater costs to clients. Although historically elevated, the rate of charge inflation eased for the fourth month running to the slowest since August 2021.

The pace of increase in selling prices was softer than the UK average which was similar to that seen in July and August.

Prices Charged Index

sa, >50 = inflation since previous month

63.9

Sep '22



## 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, Sep '22 <sup>+</sup>
1	Textiles & Clothing	2.09	48
2	Food & Drink	1.41	46
3	Other Manufacturing	1.27	49
4	Mechanical Engineering	1.05	48
5	Timber & Paper	1.02	46
6	Transport	0.92	47
7	Basic Metals	0.87	46
8	Electrical & Optical	0.67	51
9	Chemicals & Plastics	0.58	44

#### East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '22 <sup>+</sup>
1	Transport & Communication	1.18	48
2	Hotels, Restaurants & Catering	1.13	46
3	Personal & Community Services	1.11	49
4	Business-to-business Services	1.07	48
5	Computing & IT Services	0.91	54
6	Financial Intermediation	0.49	51

## UK sector focus

### Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

#### Output Index

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



<sup>+</sup> 3-month moving average



## UK Regional PMI overview

### Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland\* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

### Employment

Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

### Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
Jun '22	49.4	47.1	53.4	60.0	56.0	50.8	83.7	68.5
Jul '22	48.7	47.8	51.7	59.3	56.3	50.8	80.0	68.2
Aug '22	45.0	43.5	50.0	59.6	54.9	49.0	76.8	65.5
Sep '22	46.8	45.1	50.2	61.9	55.2	51.0	77.8	63.9

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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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