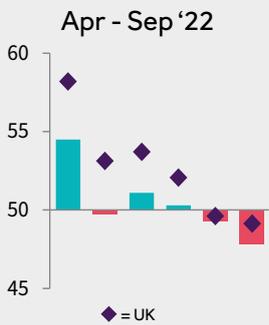




# NatWest West Midlands PMI<sup>®</sup>

## Downturn in West Midlands output deepens in September

### West Midlands Business Activity Index



### Key findings

Output falls at quickest pace since January 2021...

...as new orders contract at sharpest rate in 20 months

Input cost inflation ticks higher in September

Business conditions in the West Midlands worsened further in September, according to the NatWest PMI<sup>®</sup>, with companies trimming output due to reduced new order intakes, weak underlying demand and acute price pressures. 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 – fell from 49.3 in August to 47.8 in September. This signalled a second successive drop in output, and one that was the fastest since January 2021. Moreover, the rate of contraction was sharper than the UK average.

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

*"West Midlands companies reported increasingly challenging economic conditions at the end of the third quarter, as households continued to slash spending amid elevated inflationary pressures. With the downturn in new business intensifying and the outlook turning gloomier, firms scaled back output volumes in September. Local companies remained hopeful of a rebound in business activity in the coming 12 months, but sentiment slipped to its lowest level since early-2020 amid growing concerns that the UK economy is heading towards a recession and that acute price pressures will dampen sales. Worryingly, cost inflation re-accelerated in September after retreating in each of the prior three months."*

West Midlands Business Activity Index

sa, >50 = growth since previous month



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## About the West Midlands PMI<sup>®</sup> report

The NatWest West Midlands PMI<sup>®</sup> 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

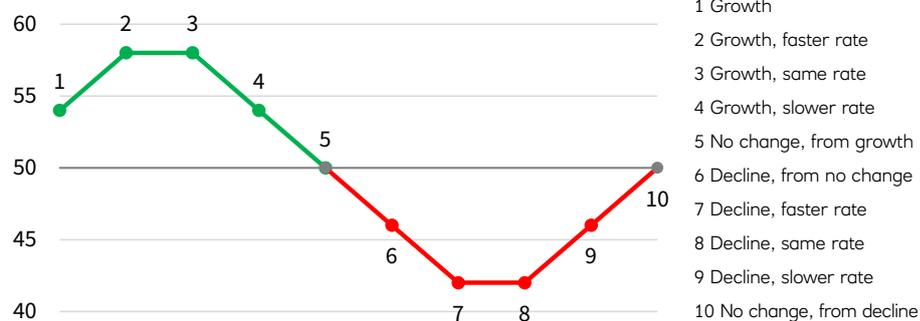
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business declines at fastest pace since January 2021

September data highlighted a fourth consecutive fall in new work intakes at West Midlands companies. The rate of contraction was solid and the fastest in 20 months. According to panellists, the downturn stemmed from rising energy costs, acute price pressures and troubles in financial markets.

The rate of reduction in sales across the West Midlands was sharper than the national average.

### New Business Index

sa, >50 = growth since previous month

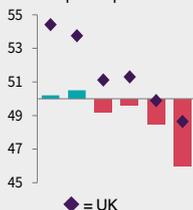
46.0

Sep '22



### New Business Index

Apr - Sep '22



### Business confidence slips to 28-month low

Private sector firms in the West Midlands were at their least upbeat towards growth prospects since May 2020 in September. Moreover, the Future Activity Index was below its long-run average. Anecdotal evidence indicated that recession worries, acute inflationary pressures, competitive conditions, subdued demand and spending fears among households all dampened optimism.

Nevertheless, sentiment among local firms was stronger than that seen at the UK level.

### Future Activity Index

>50 = growth expected over next 12 months

64.4

Sep '22



### Future Activity Index

Apr - Sep '22



## Exports

### Export conditions worsen further in September

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.

Posting 49.0 in September, the ECI pointed to a second successive deterioration in trade conditions for West Midlands firms. That said, rising from 48.5 in August, the latest figure highlighted a slower and only slight rate of contraction.

The US\* and Germany, the top two export markets for the West Midlands, recorded reductions in output at the end of the third quarter. Ireland and France posted sustained improvements in economic growth.

### Export Climate Index

sa, >50 = growth since previous month

49.0

Sep '22



### Export Climate Index

Apr - Sep '22



### Top export markets, West Midlands

Rank	Market	Weight	Output Index, Sep '22
1	USA	21.2%	49.3*
2	Germany	11.1%	45.7
3	China	8.7%	53.0**
4	France	6.1%	51.2
5	Ireland	6.2%	52.2

\*September 'flash' data.

\*\* August PMI data. Due to a later release date, September data for China were not available for inclusion in the ECI.

## Business capacity

### Private sector jobs increase further

For the nineteenth month in a row, West Midlands companies signalled job creation in September. The overall rate of increase was solid, but the weakest in a year-and-a-half. Where additional hiring was reported, survey participants mentioned the replacement of voluntary leavers and the expansion of some departments. A lack of capacity pressure, subdued demand, skill shortages and staff leaving for careers elsewhere reportedly weighed on overall employment growth.

Employment across the UK as a whole rose at a quicker pace than that seen locally.

### Spare capacity signalled for second straight month

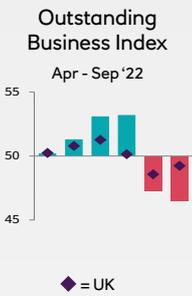
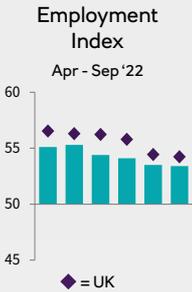
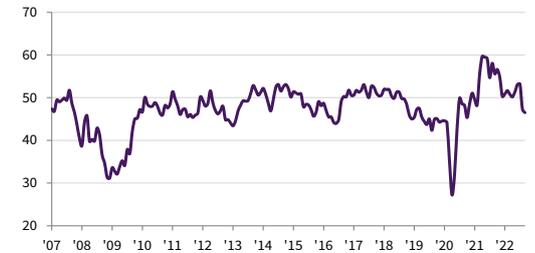
As was the case in August, private sector companies in the West Midlands noted a reduction in outstanding business volumes during September. Moreover, the rate of depletion was solid and the fastest in close to two years. Monitored companies indicated that improved efficiency, job creation and lower sales all drove the latest clearing of unfinished workloads.

Unfinished business also decreased at the national level, albeit at a slower pace than in the West Midlands.

Employment Index  
sa, >50 = growth since previous month  
53.4  
Sep '22



Outstanding Business Index  
sa, >50 = growth since previous month  
46.5  
Sep '22



## Prices

### Septembers sees reacceleration of cost inflation

After easing in each of the prior three months, the rate of input cost inflation accelerated during September. The latest increase was steep relative to the series average, but was among the weakest over the past year-and-a-half. Panellists blamed inflationary pressures on raw material scarcity, the war in Ukraine, sterling weakness and energy price volatility. There were also several mentions of higher food, fuel and labour costs.

The local rise in overall expenses was less pronounced than that seen at the UK level.

### Output charge inflation eases to 11-month low

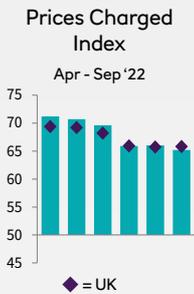
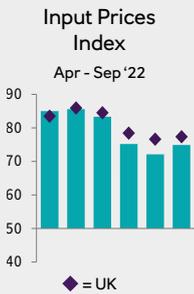
There was a substantial upturn in prices charged for goods and services in the West Midlands at the end of the third quarter. Although softening to the slowest since October 2021, the rate of inflation was much higher than its long-run average. Firms that lifted selling prices mentioned the pass-through of cost increases to clients.

Charge inflation in the West Midlands was a tick lower than that recorded across the UK.

Input Prices Index  
sa, >50 = inflation since previous month  
74.9  
Sep '22



Prices Charged Index  
sa, >50 = inflation since previous month  
65.2  
Sep '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, Sep' 22 <sup>+</sup>
1	Transport	2.35	50
2	Basic Metals	1.44	48
3	Mechanical Engineering	1.17	47
4	Other Manufacturing	0.89	46
5	Timber & Paper	0.61	45
6	Electrical & Optical	0.59	44
7	Textiles & Clothing	0.57	43
8	Food & Drink	0.51	42
9	Chemicals & Plastics	0.47	41

#### West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep' 22 <sup>+</sup>
1	Transport & Communication	1.19	50
2	Hotels, Restaurants & Catering	1.16	48
3	Personal & Community Services	1.08	47
4	Computing & IT Services	0.98	46
5	Business-to-business Services	0.97	45
6	Financial Intermediation	0.74	44

## 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

sq, >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

### 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
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
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	49.0	64.4	53.4	46.5	74.9	65.2

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### About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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