

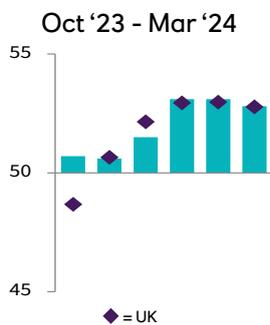


NatWest

NatWest West Midlands PMI[®]

West Midlands sees slower rise in output as demand growth falters

West Midlands Business Activity Index



Key findings

Business activity growth softens to three-month low

New orders nearly stagnate

Inflationary pressures retreat

Muted demand for West Midlands goods and services negatively impacted economic growth in the region, NatWest PMI[®] showed. Output still rose in March, but did so to the least extent in three months and at a below-trend pace, while hiring freezes, redundancies and downsizing caused the fastest decline in employment for over three years. Encouragingly, inflation rates receded.

The headline NatWest West Midlands PMI[®] 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 – was at 52.8 in March, down from 53.1 in February but highlighting expansion for the sixth month running. The rise was moderate, the slowest in the year-to-date and below the long-run series average. Growth was reportedly curbed by fading demand.

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

"West Midlands output expanded during March, more so due to the clearing of backlogs rather than any improvement in new business intakes. Demand was generally muted, with businesses often struggling to secure new work. Firms largely maintained their focus on trimming expenses, which happened via cuts to employee numbers. Several panellists cited downsizing, hiring freezes and redundancies at their units. The plus side to faltering demand was a reduction in price pressures locally, though input costs and selling prices still rose substantially since February."

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

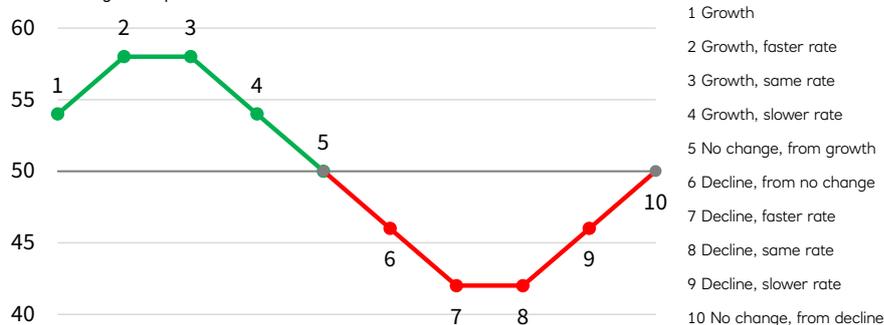
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

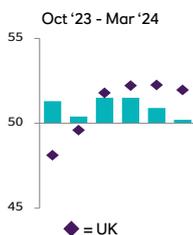
Index interpretation

50.0 = no change since previous month



Demand and outlook

New Business Index



New business growth nearly stalls in March

Private sector firms in the West Midlands signalled only a fractional rise in new business intakes during March. The respective seasonally adjusted index moved closer to the 50.0 no-change mark and was at its lowest for six months. Some firms indicated that prospects came to fruition while others observed weaker demand conditions.

Sales growth across the UK was stronger than that seen locally.

New Business Index

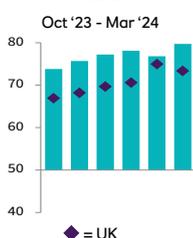
sa, >50 = growth since previous month

50.2

Mar '24



Future Activity Index



Business confidence improves to 26-month high

Companies operating in the West Midlands became more optimistic towards the year-ahead outlook for output. The overall level of positive sentiment climbed to a 26-month high. New client onboarding and expansion plans, alongside advertising and investment, were among the reasons cited for upbeat forecasts.

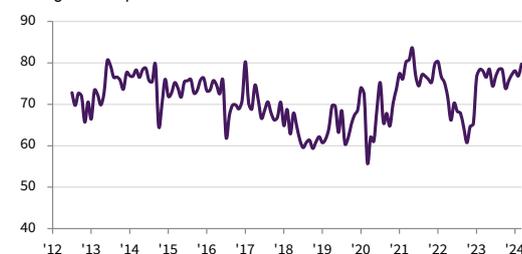
Out of the 12 monitored regions and nations, the West Midlands topped the rankings for business confidence.

Future Activity Index

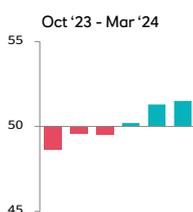
>50 = growth expected over next 12 months

79.7

Mar '24



Export Climate Index



Trade conditions at their best for ten months

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 West Midlands. This produces an indicator for the economic health of the region's export markets.

Rising from 51.3 in February to 51.5 in March, the seasonally adjusted ECI indicated the most favourable export climate for West Midlands companies since May 2023. Moreover, the current sequence of improvement was extended to three months.

Economic growth quickened in China with slowdowns evident in Ireland and the US. The other two (of five) top export markets, France and Germany, remained in contraction.

Export Climate Index

sa, >50 = growth since previous month

51.5

Mar '24



Top export markets, West Midlands

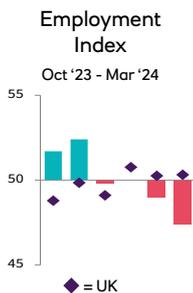
| Rank | Market | Weight | Output Index, Mar '24 |
|------|---------|--------|-----------------------|
| 1 | USA | 24.3% | 52.1 |
| 2 | Germany | 11.9% | 47.7 |
| 3 | China | 8.5% | 52.7 |
| 4 | France | 7.7% | 48.3 |
| 5 | Ireland | 7.2% | 53.2 |

Business capacity

Job cutting intensifies at end of first quarter

March data showed back-to-back declines in private sector employment across the West Midlands. Moreover, the pace of contraction was solid and the fastest in over three years. Anecdotal evidence highlighted downsizing, hiring freezes and redundancies amid faltering demand.

Regionally, the West Midlands recorded the worst trend for payroll numbers and Northern Ireland the best.



Outstanding business falls solidly again

Despite lower headcounts, West Midlands companies continued to clear their backlogs during March amid muted demand conditions. Little-changed from February, the pace of depletion was solid but softer than the long-run series average. Some panellists suggested that efficiency gains supported the latest drop.

The local decline in work pending completion was faster than that recorded at the UK level.



Prices



Input costs increase to lesser extent

The overall expenses of West Midlands companies continued to rise sharply in March. Despite receding since February, the respective seasonally adjusted index remained well above the 50.0 threshold and the long-run series trend. Survey members reported greater commodity, fuel, labour, semiconductor and wood costs. In some instances, hikes were attributed to input shortages at vendors and disruptions in the Red Sea.

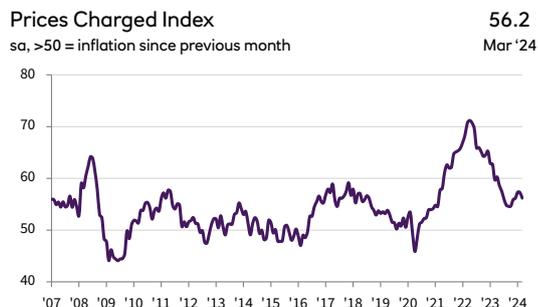
There was a stronger increase in cost burdens at the national level than that seen in the West Midlands.



Prices charged for local goods and services rise further

Reflecting ongoing increases in operating expenses, West Midlands firms again lifted their selling prices at the end of the first quarter. The overall rate of inflation was marked and remained historically elevated, despite slipping to a three-month low.

The local rate of charge inflation was broadly aligned with the UK average.



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, Mar '24 |
|------|------------------------|------|--------------------------|
| 1 | Transport | 2.09 | 48 |
| 2 | Basic Metals | 1.58 | 48 |
| 3 | Mechanical Engineering | 1.20 | 52 |
| 4 | Other Manufacturing | 0.94 | 52 |
| 5 | Timber & Paper | 0.77 | 52 |
| 6 | Electrical & Optical | 0.63 | 45 |
| 7 | Textiles & Clothing | 0.58 | 45 |
| 8 | Food & Drink | 0.57 | 52 |
| 9 | Chemicals & Plastics | 0.48 | 52 |

West Midlands specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Mar '24 |
|------|--------------------------------|------|-------------------------------------|
| 1 | Transport & Communication | 1.26 | 52 |
| 2 | Personal & Community Services | 1.16 | 48 |
| 3 | Hotels, Restaurants & Catering | 1.14 | 55 |
| 4 | Computing & IT Services | 1.04 | 55 |
| 5 | Business-to-business Services | 0.96 | 52 |
| 6 | Financial Intermediation | 0.68 | 55 |

UK sector focus

Hotels, Restaurants & Catering

The Hotels, Restaurants & Catering sector was one of the UK economy's strongest growth areas in the opening quarter of 2024. Business activity rose sharply, building on a solid end to 2023 and marking a reversal of fortunes following a sharp decline in activity last summer.

Furthermore, businesses in the sector looked to the future with increasing optimism, with confidence towards the 12-month outlook for activity reaching the highest for nearly two years. It did however remain just below the long-run series average.

Input prices continued to rise sharply across the Hotels, Restaurants & Catering sector in the three months March, linked to wage pressures and increased fuel and transportation costs. The rate of inflation was faster than in any other broad services sub-sector monitored by the survey, albeit below the averages in 2022 and 2023. Firms raised their output prices accordingly, although the increase was likewise among the weakest in the past three years.

Output Index

sa, >50 = growth since previous month (3mma)[†]



[†] 3-month moving average



UK Regional PMI overview

Business Activity

Business activity rose almost universally across the UK in March. Growth was recorded in 11 of the 12 monitored nations and regions, led by London. Close behind was Northern Ireland, which gathered considerable momentum to post its steepest rise in output for over two years. Yorkshire & Humber went against the trend and saw a second straight monthly contraction.

Employment

The fastest rate of job creation in March was recorded in Northern Ireland where it reached the quickest since August last year. Six other nations and regions saw staffing levels rise during the month, although employment growth was generally only modest. The West Midlands meanwhile registered the most marked drop in workforce numbers, the fastest there in over three years.

Future Activity

Business expectations remained positive in all areas in March, with confidence levels generally exceeding their long-run series averages. The West Midlands returned to the top of the rankings as the degree of optimism in the region reached the strongest since the start of 2022. In the majority of cases, however, sentiment slipped from the highs seen in February.

Business Activity Index

sa, >50 = growth since previous month, Mar '24



Employment Index

sa, >50 = growth since previous month, Mar '24



Future Activity Index

>50 = growth expected over next 12 months, Mar '24



* 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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Oct '23 | 50.7 | 51.3 | 48.6 | 73.8 | 51.7 | 46.8 | 55.2 | 54.6 |
| Nov '23 | 50.6 | 50.4 | 49.6 | 75.7 | 52.4 | 45.7 | 57.1 | 55.9 |
| Dec '23 | 51.5 | 51.5 | 49.5 | 77.2 | 49.8 | 46.7 | 58.1 | 56.2 |
| Jan '24 | 53.1 | 51.5 | 50.2 | 78.1 | 50.0 | 47.4 | 59.9 | 57.3 |
| Feb '24 | 53.1 | 50.9 | 51.3 | 76.8 | 49.0 | 47.7 | 61.3 | 57.2 |
| Mar '24 | 52.8 | 50.2 | 51.5 | 79.7 | 47.4 | 47.5 | 60.4 | 56.2 |

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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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