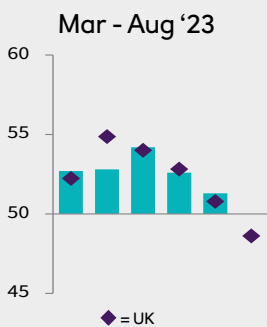


NatWest West Midlands PMI[®]

Output growth grinds to a halt amid dwindling demand

West Midlands Business Activity Index



Key findings

Business activity stagnates in August

New business growth slips to seven-month low

Rates of input cost and output charge inflation soften

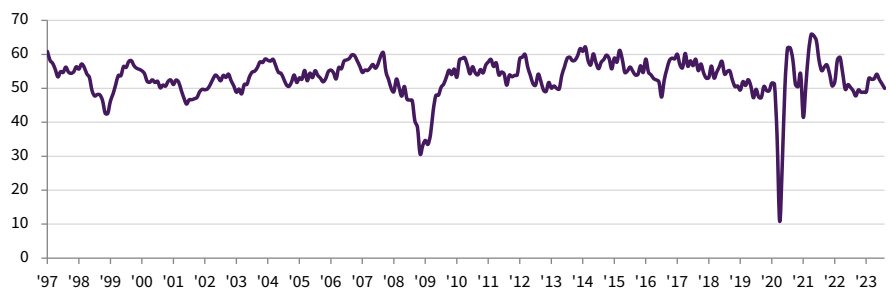
The NatWest PMI[®] data highlighted both favourable and adverse developments across the West Midlands in August. On the positive side, input costs rose at the slowest pace in 33 months, while charge inflation softened to its weakest in two-and-a-half years and business confidence ticked higher. Unfavourable shifts included a slower and only marginal uptick in sales, job shedding and stagnant output. 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 – posted at the no-change level of 50.0, down from 51.3 in July and ending a six-month sequence of growth. In some cases, output expanded amid the clearing of backlogs and new client wins. Other firms noted a reduction, owing to a lack of new business and elevated borrowing costs.

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

"A sense of future uncertainty among clients, coupled with elevated interest rates, dampened demand for West Midlands goods and services in August. This led to a stagnation in output and the unfortunate necessity to cut jobs as firms focused on improving cashflows. On a brighter note, the easing of charge inflation to a two-and-a-half-year low and strengthening business confidence offered some hopeful signs. Local companies could lift investments and focus on expansion plans, which might contribute to a swift rebound in activity. Addressing the challenges posed by client uncertainty and high borrowing costs could be crucial in shaping the region's future sales and economic performance."

West 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 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

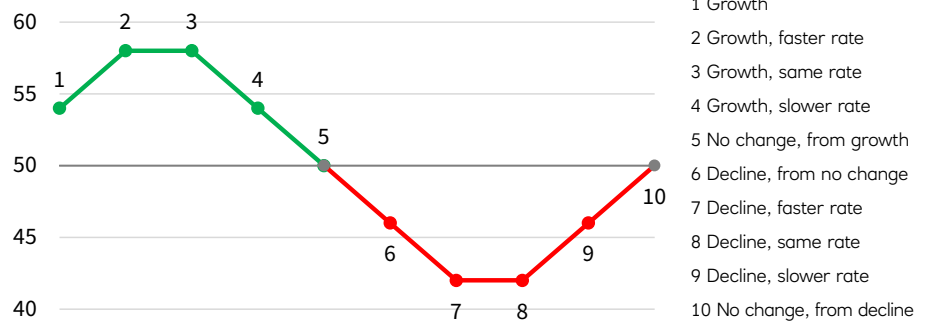
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

West Midlands firms signal fractional uptick in new orders

The seasonally adjusted New Business Index remained above the neutral level of 50.0 in August, signalling a further improvement in demand for West Midlands goods and services. That said, the latest reading was indicative of a fractional pace of increase that was the slowest in the current seven-month sequence of expansion. Growth was reportedly curbed by elevated interest rates, delayed decision making at clients and concerns among them regarding the economic outlook.

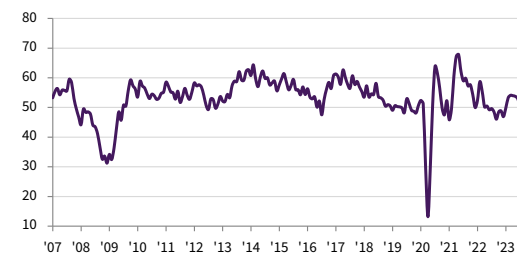
The West Midlands bucked the regional trend and was the only area to see a rise in sales.

Business optimism improves in August

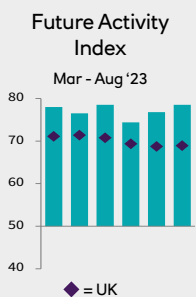
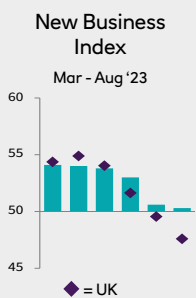
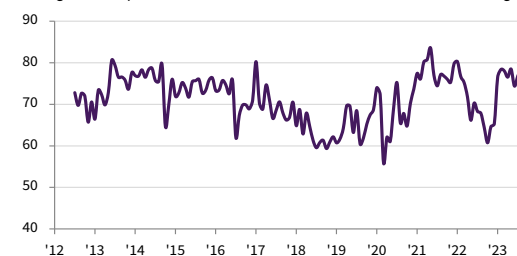
Private sector companies in the West Midlands remained confident that output would expand over the course of the coming 12 months. Moreover, the overall level of positive sentiment rose to its joint-highest since January 2022. Expectations of new business gains, product diversification and internal efficiency were some of the reasons mentioned by panellists for upbeat forecasts.

Local companies were the most optimistic out of the 12 monitored UK regions and nations.

New Business Index
sa, >50 = growth since previous month
50.3
Aug '23



Future Activity Index
>50 = growth expected over next 12 months
78.5
Aug '23



Business capacity

Employment falls for first time in two-and-a-half years

August data showed the first decline in West Midlands private sector jobs for two-and-a-half years. According to survey members, the contraction stemmed from a combination of cost considerations, efforts to improve cashflows and the non-replacement of voluntary leavers. That said, the overall rate of reduction in payroll numbers was only slight.

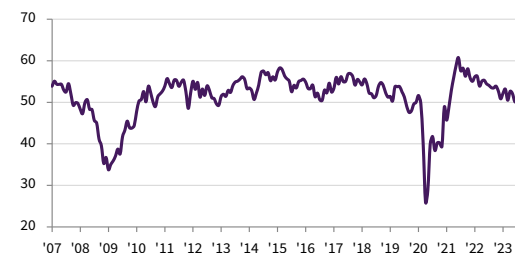
The West Midlands was one of four regions to see job shedding, as growth was sustained in the other eight areas.

Clearing of pending workloads continues

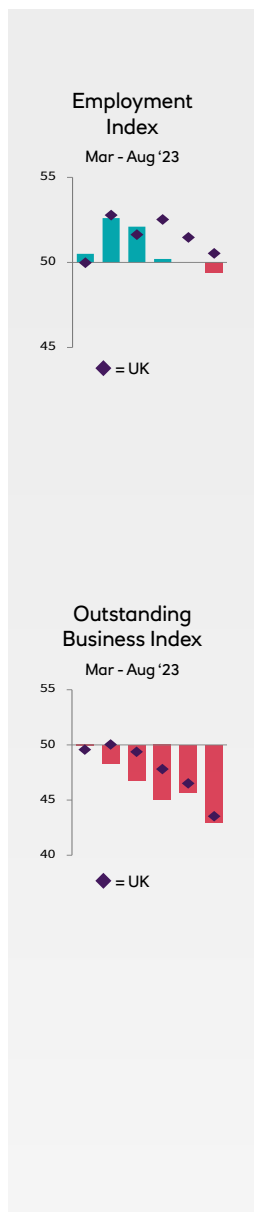
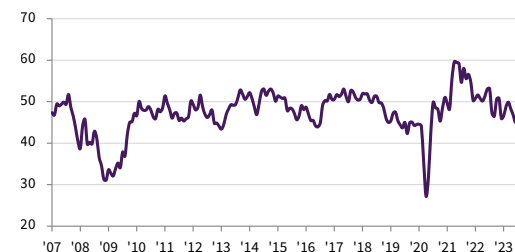
Orders pending completion across the West Midlands fell again halfway through the third quarter, extending the current sequence of contraction to nine months. Monitored companies indicated that a lack of new work and recent expansions in operating capacities enabled them to divert resources towards the clearing of backlogs. The overall rate of depletion was sharp and the fastest in over three years.

The local drop in unfinished business was more pronounced than that seen at the UK level.

Employment Index
sa, >50 = growth since previous month
49.4
Aug '23



Outstanding Business Index
sa, >50 = growth since previous month
43.0
Aug '23



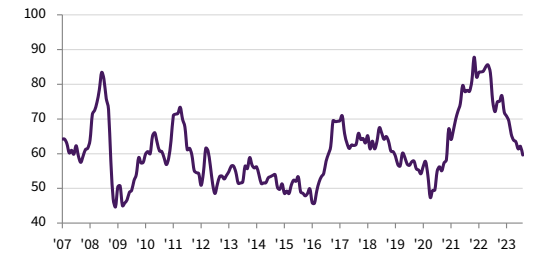
Prices

Cost burdens rise further, albeit to lesser extent

There was a further increase in the average expenses of West Midlands private sector companies during August. However, the overall rate of inflation softened to the weakest in 33 months. Surveyed firms noted higher transportation and wage costs, but reduced pressure from energy and raw materials.

The West Midlands came eighth out of 12 in the regional rankings for input cost inflation.

Input Prices Index 59.6
sa, >50 = inflation since previous month Aug '23

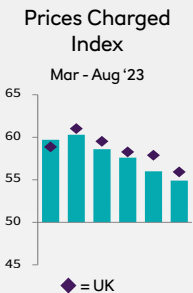
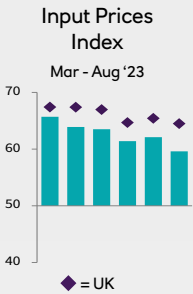
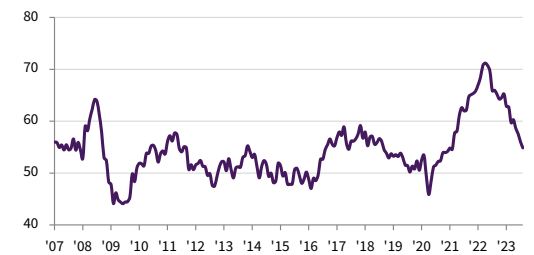


Prices charged by local firms rise at slower rate

West Midlands companies continued to adjust their prices upwards, but August saw a moderation in the overall rate of charge inflation. The latest increase was the weakest recorded in two-and-a-half years. Some firms hiked their fees amid the pass-through of increasing expenses to clients, while others offered discounts due to cost savings and competitive conditions.

Regionally, the West Midlands came ninth in the rankings for charge inflation.

Prices Charged Index 54.9
sa, >50 = inflation since previous month Aug '23



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, Aug' 23 ⁺
1	Transport	2.35	50
2	Basic Metals	1.44	50
3	Mechanical Engineering	1.17	50
4	Other Manufacturing	0.89	50
5	Timber & Paper	0.61	50
6	Electrical & Optical	0.59	45
7	Textiles & Clothing	0.57	50
8	Food & Drink	0.51	55
9	Chemicals & Plastics	0.47	50

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug' 23 ⁺
1	Transport & Communication	1.19	50
2	Hotels, Restaurants & Catering	1.16	45
3	Personal & Community Services	1.08	50
4	Computing & IT Services	0.98	50
5	Business-to-business Services	0.97	50
6	Financial Intermediation	0.74	55

UK sector focus

Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

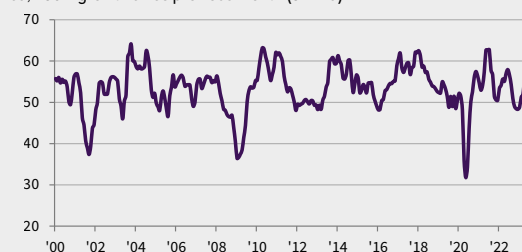
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland*, followed by the South West.

Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

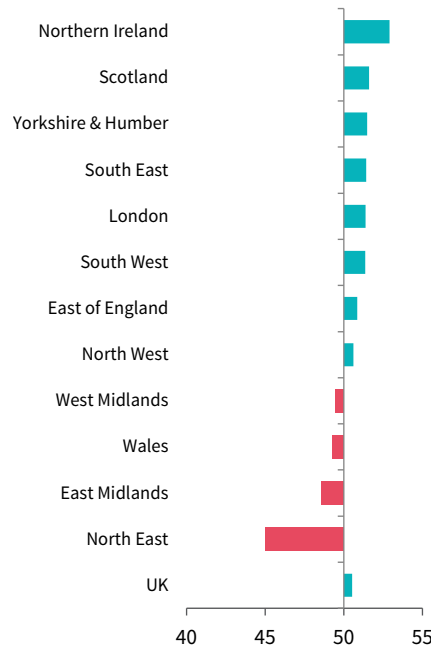
Business Activity Index

sa, >50 = growth since previous month, Aug '23



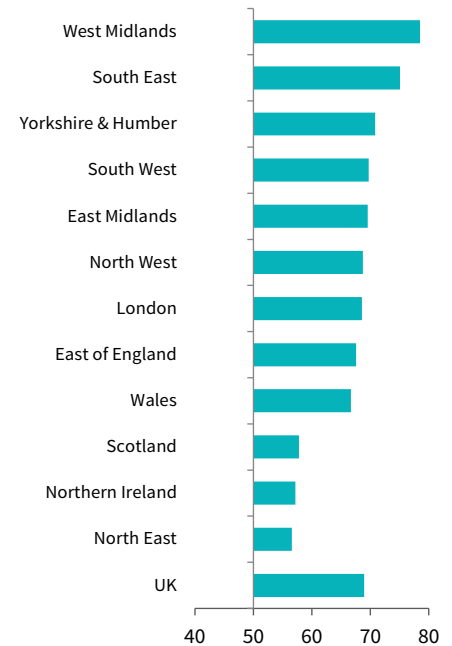
Employment Index

sa, >50 = growth since previous month, Aug '23



Future Activity Index

>50 = growth expected over next 12 months, Aug '23



* 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
Mar '23	52.7	54.1	52.5	78.0	50.5	49.9	65.7	59.7
Apr '23	52.8	54.0	53.1	76.5	52.6	48.3	63.9	60.3
May '23	54.2	53.8	52.6	78.5	52.1	46.8	63.5	58.6
Jun '23	52.6	53.0	51.2	74.4	50.2	45.0	61.4	57.6
Jul '23	51.3	50.6	50.4	76.8	50.0	45.7	62.1	56.0
Aug '23	50.0	50.3	49.5	78.5	49.4	43.0	59.6	54.9

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