

11 February 2025

NatWest East Midlands Growth Tracker

**Demand conditions soften
as 2025 begins**



NatWest

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by S&P Global

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Key findings

January 2025

Business activity declines at only a fractional rate

Inflationary pressures strengthen

Optimism remains for year-ahead outlook for output

The NatWest East Midlands Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Demand conditions soften as 2025 begins

Latest Regional Growth Tracker survey data from NatWest signalled a renewed decline in business activity at the start of 2025 amid subdued demand conditions.

The headline NatWest East Midlands Business Activity Index registered at 49.8 in January, down from 50.7 in December, to signal a renewed fall in output at firms in the region. The decrease in activity was the first seen since July 2024, albeit only fractional overall.

Panellists noted that subdued

demand conditions drove the decline, as new orders fell again. Nonetheless, East Midlands firms remained confident of a rise in output over the next year.

Meanwhile, employment contracted further, as backlogs of work were depleted at a strong rate. However, rates of decline in each softened from December.

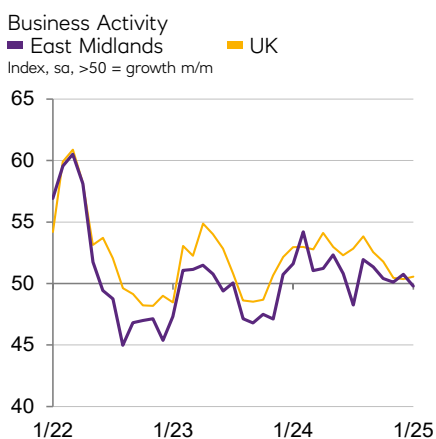
Cost burdens rose at a quicker pace in January. Although pressure was placed on margins, companies were able to push selling prices up at the sharpest pace since the end of 2023.

NatWest East Midlands Business Activity Index January 2025

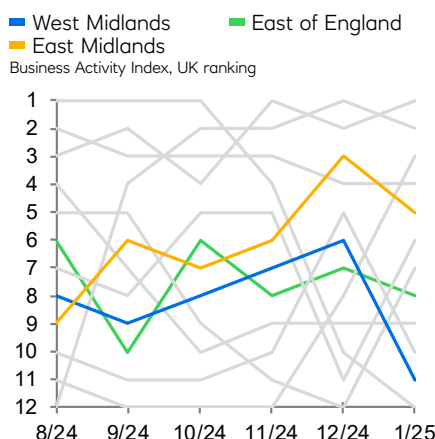
49.8

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 9-29 January



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Comment

Lisa Phillips, Regional Managing Director, Midlands and East, Commercial Mid Markets, commented:

"Whilst the opening month of 2025 saw a challenging demand environment for East Midlands firms, the region started the year in a more stable place than other parts of the country, however.

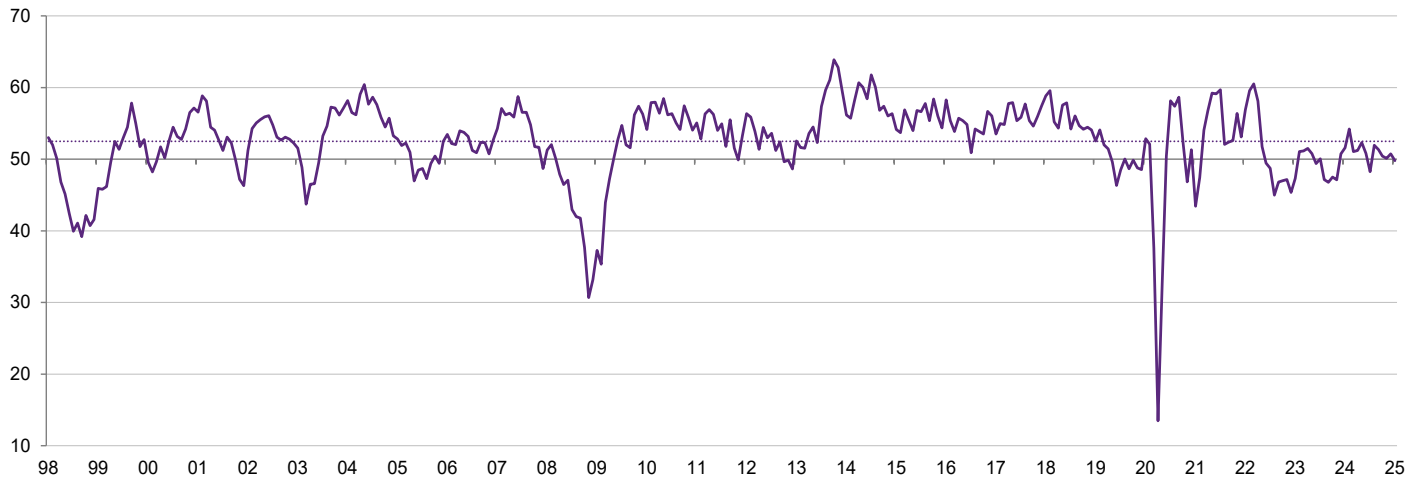
"Businesses remained upbeat in their outlook for the coming year.

"Encouragingly, firms were able to pass through some of the increase in costs to their customers, via higher selling prices. Inflationary pressures were strong, but nonetheless, input price and output charge hikes in the region were less marked than at the UK level.

"The Bank of England's interest rate cut last week means that policy is now less restrictive, with further loosening expected in the year ahead."

Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

New orders fall at steepest rate since mid-2024, but outlook for output remains positive

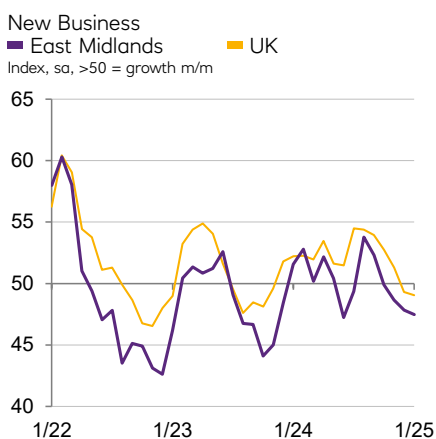
January data signalled a fourth successive monthly decline in new business at East Midlands firms. The decrease in new sales quickened and was the fastest since June 2024. Lower new orders were often attributed to weak customer confidence amid challenging economic conditions, and the resulting efforts by clients to reduce costs. The fall in new orders was stronger than the UK average,

meanwhile.

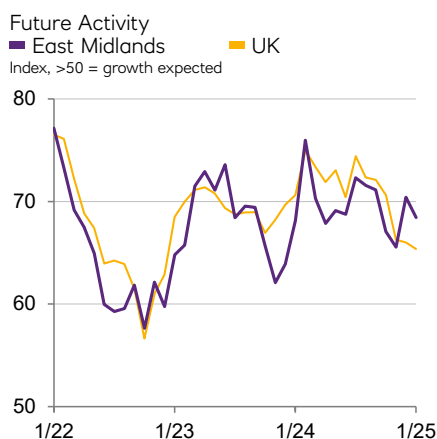
Nevertheless, businesses were positive in their expectations regarding the outlook for output over the coming year in January. Optimism among companies reportedly stemmed from new product development, investment in new facilities and hopes of stronger demand conditions. That said, the degree of confidence slipped from that seen in December.

Of the 12 monitored UK areas, only the West Midlands and London were more upbeat regarding their prospects.

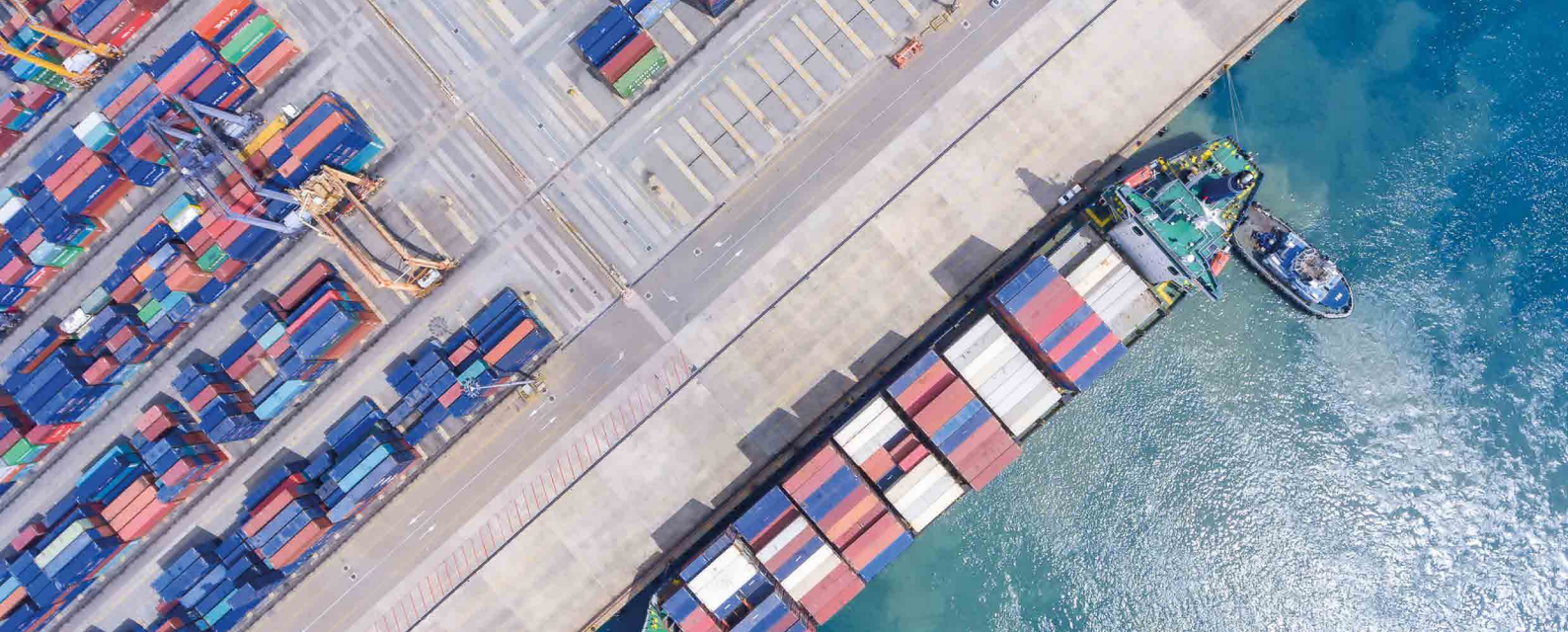
"The opening month of 2025 saw a challenging demand environment for East Midlands firms, as muted demand weighed on output levels..."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Export markets

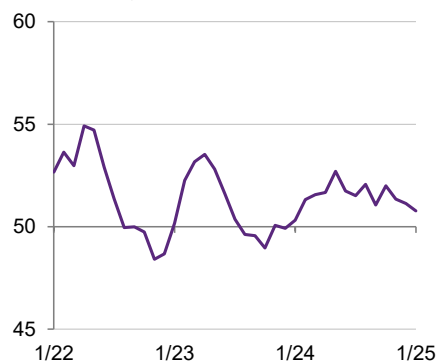
Export conditions improve at slowest pace in a year

The headline ECI posted 50.8 in January, down from 51.1 in December, to signal a marginal improvement in the health of the export climate for East Midlands goods and service providers.

Expansions in output were recorded in the USA, Hong Kong SAR and Germany, with the latter indicating the first rise in activity since last June.

Weighing on the export climate was a renewed drop in activity in Singapore and a further decline in French output.

Export Conditions
Index, sa, >50 = growth m/m



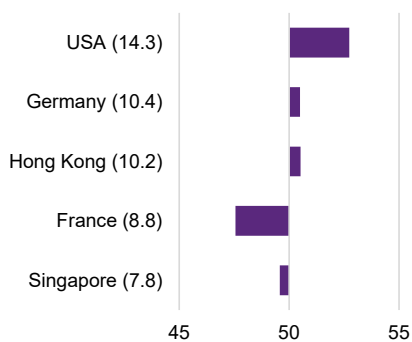
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

The East Midlands Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the East Midlands. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, East Midlands

% share of exports shown in brackets
Output Index, sa, >50 = growth m/m

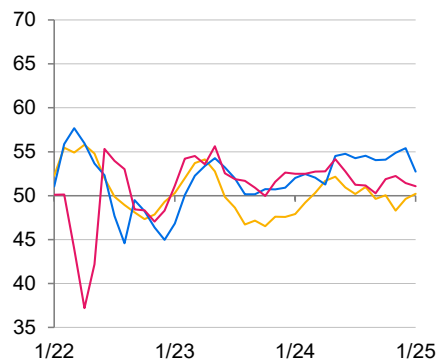
Jan '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Output

Legend: Eurozone (yellow), US (blue), China (red)
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

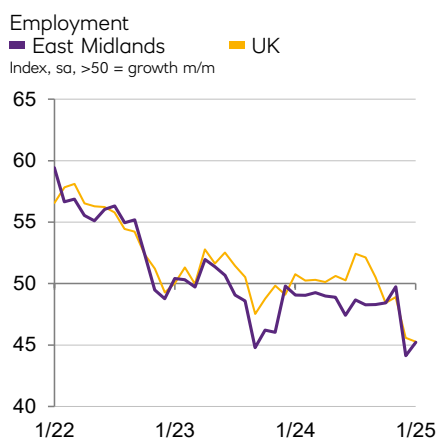
Rates of decrease in employment and backlogs of work slow in January

East Midlands businesses signalled a further decline in staffing numbers during January, albeit at a softer pace. Anecdotal evidence suggested that lower employment was due to reduced new order inflows and cut-backs to temporary and part-time workers. The rate of contraction was strong and the second-fastest since September 2023. The pace of

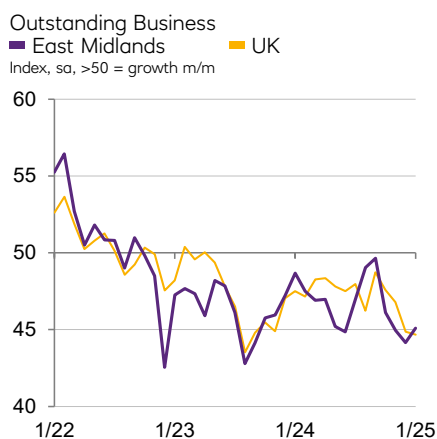
decline was broadly in line with the UK average, however.

Meanwhile, companies in the East Midlands depleted their backlogs of work at the weakest rate in three months at the start of the year. Panellists stated that subdued demand conditions enabled them to work through incomplete business. Although sharper than the long-run series average, the pace of decline was slower than the UK average.

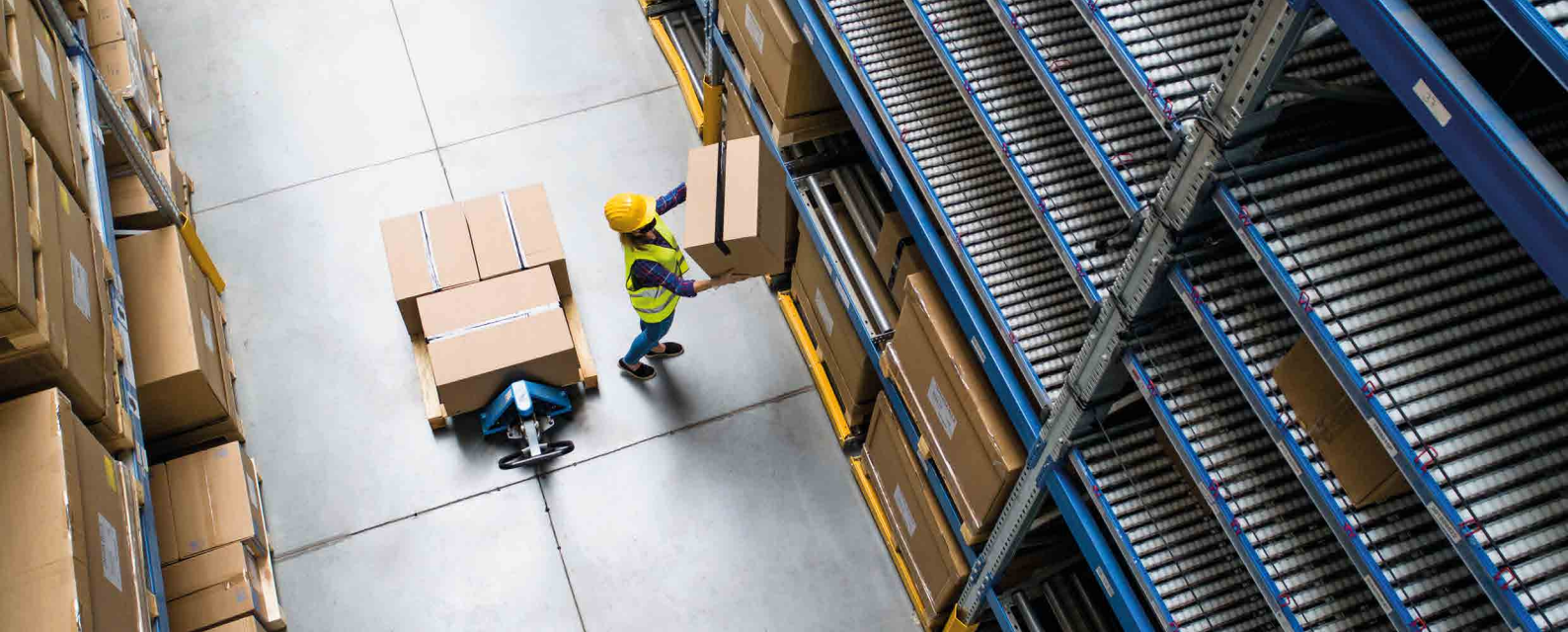
"...the extent of job shedding easing amid the slowest fall in backlogs for three months."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

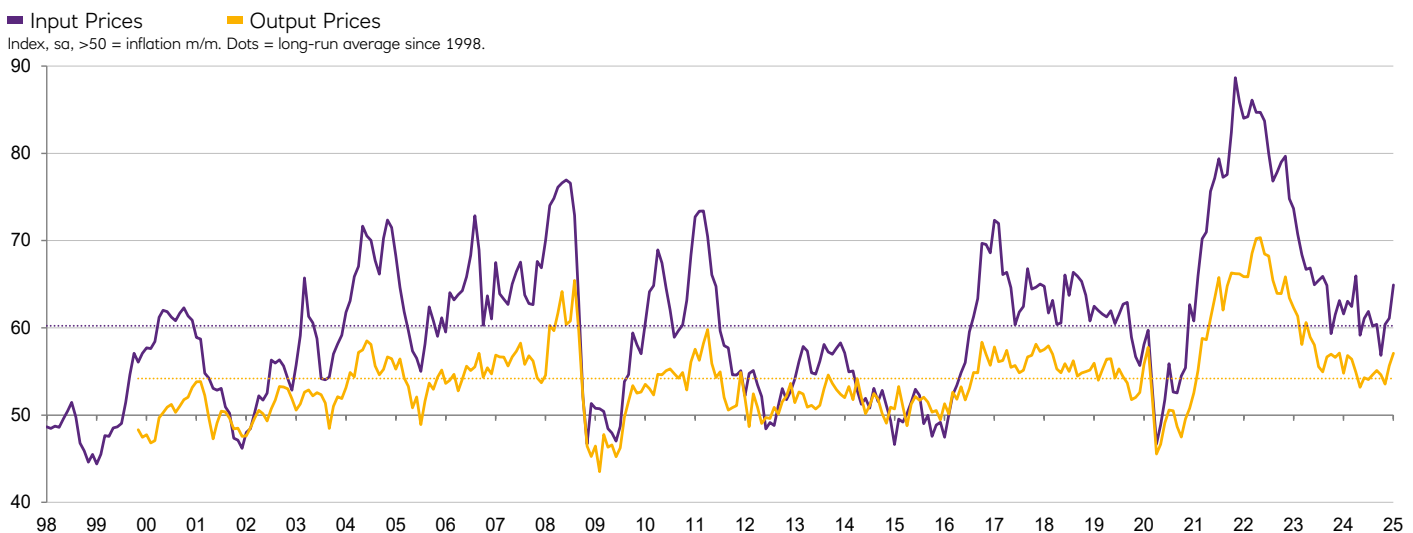
January data signals uptick in inflationary pressures, as costs and charges rise at quicker rates

Average cost burdens faced by East Midlands firms increased at a sharper pace in the opening month of 2025. Higher input prices were linked to greater wage bills and increased energy tariffs. The rate of input cost inflation was historically elevated and the fastest since April 2024, albeit just below the UK

average.

In a bid to protect margins, East Midlands firms raised their selling prices during January. The pace of charge inflation picked up to the fastest since December 2023 and was sharper than the series average. Panellists sought to pass through greater costs to customers, although the rate of increase in output prices was slightly less marked than the UK average.

"Inflationary pressures were among the strongest in a year, as businesses and their suppliers prepare for upcoming labour cost changes."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London was the fastest-growing region for business activity in January, followed by the North East. The only other areas to see increases in output were Wales and the South West, although in both cases rates of expansion were only marginal. Northern Ireland meanwhile moved to the bottom of the rankings, recording a steep and accelerated decrease in business activity*.

Employment

For the second month running, all but one of the 12 monitored nations and regions recorded a decrease in employment in January. The exception was once again Northern Ireland, although employment there rose only fractionally and at the slowest rate for over two years. The West Midlands saw the steepest drop in workforce numbers, followed closely by East of England.

Future Activity

Expectations towards growth in the coming year remained positive across the board, but optimism weakened in many cases. This included Northern Ireland, which recorded its lowest business confidence for just over two years. Firms in London were the most positive about the year-ahead outlook ahead of those in the West Midlands, with both regions going against the general trend and seeing sentiment improve.

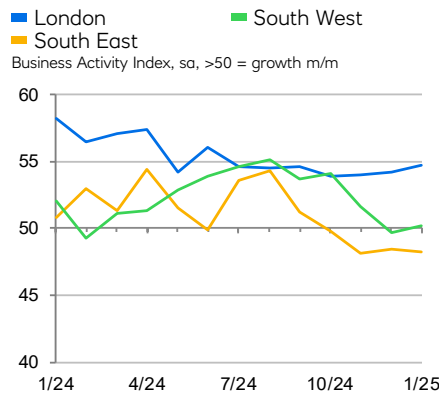
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



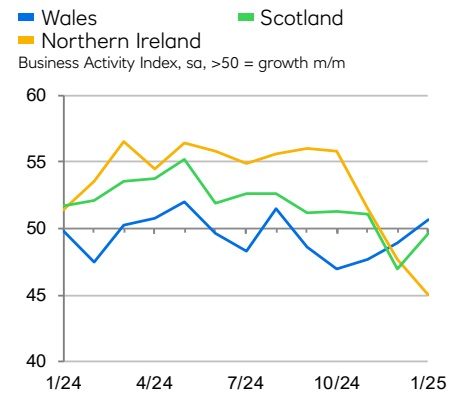
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



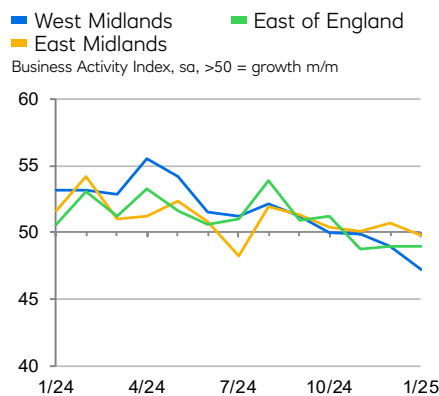
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



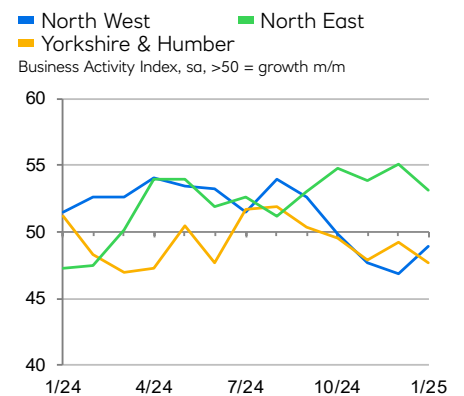
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Growth Tracker heat map

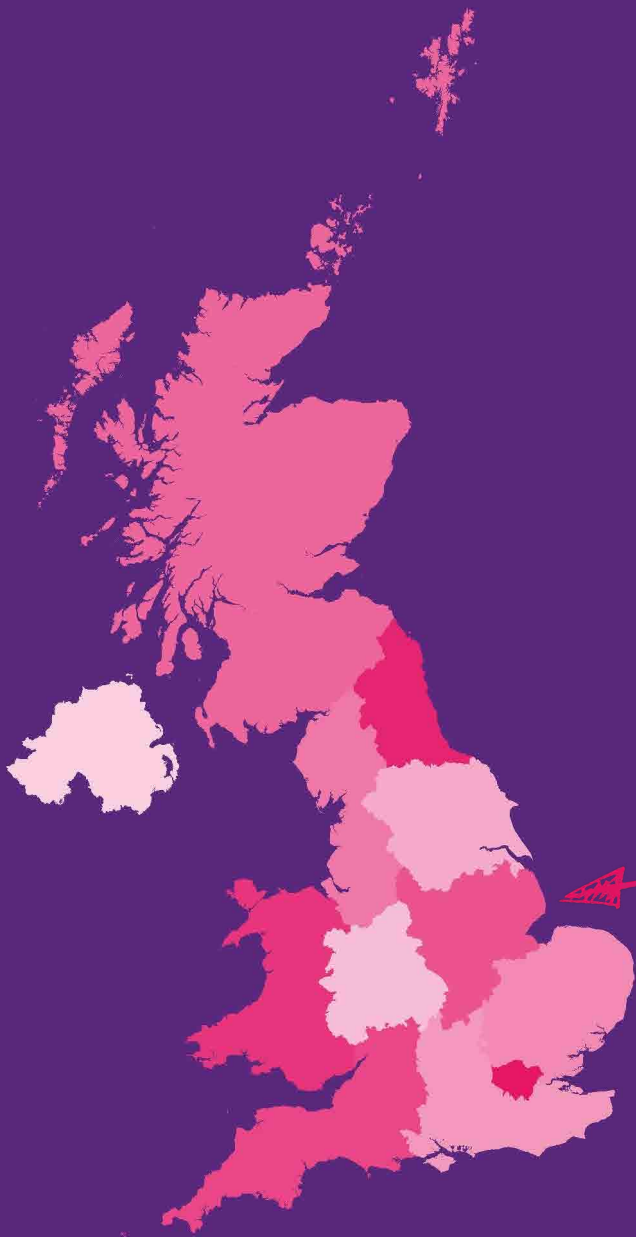
January 2025

Darker colour = higher business growth

East Midlands

Business Activity Index
sa, >50 = growth m/m

49.8



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

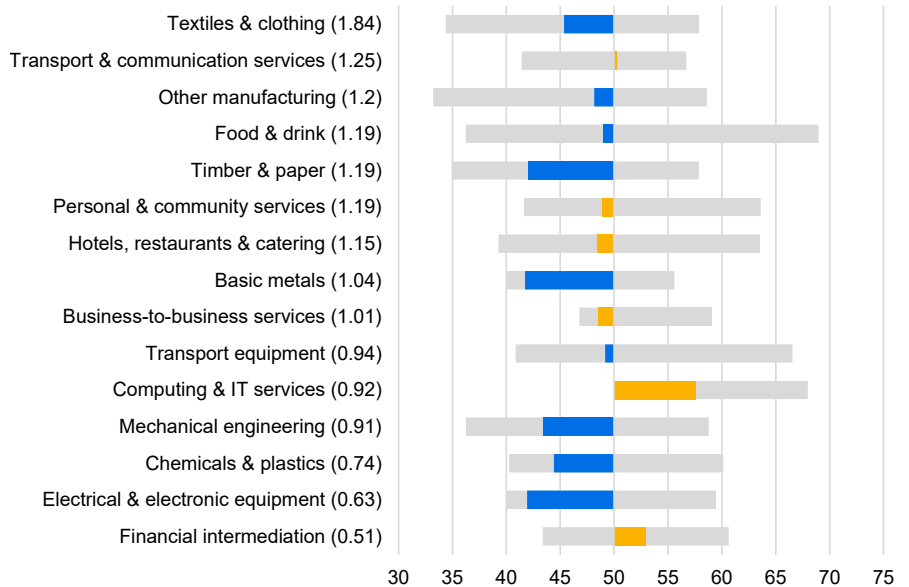
UK sectors

Sector specialisation: East Midlands

The chart shows UK output indices by sector, ranked by location quotients for the East Midlands. Location quotients (LQs) 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.

UK sectors ranked by importance to the East Midlands economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jan '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global. Location quotients for the East Midlands are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Personal & community services

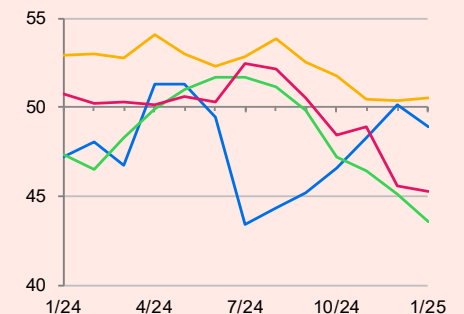
The UK's personal & community services sector underperformed the wider economy in the three months to January. Business activity fell back into contraction following some stability in the latter stages of 2024, weighed down by a marked decline in demand. Qualitative evidence gathered by the PMI surveys highlighted a reduction in confidence and discretionary spending among UK consumers in recent months.

At the same time, businesses in the sector came under pressure from rising costs, including increases in

energy prices and wages. Average prices charged by firms showed a slightly slower rate of inflation, however, pointing to a squeeze on profit margins.

Business confidence towards future growth prospects was meanwhile the lowest on record, excluding the initial phase of the pandemic. The combination of increasing labour costs and muted growth expectations led personal & community services firms to cut workforce numbers at the fastest rate for nearly four years.

Output / Employment
 ■/■ Personal & community services*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



*Data are smoothed as three-month moving average
 Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Methodology

The NatWest East Midlands Growth Tracker is compiled by S&P Global from responses to questionnaires sent to East 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

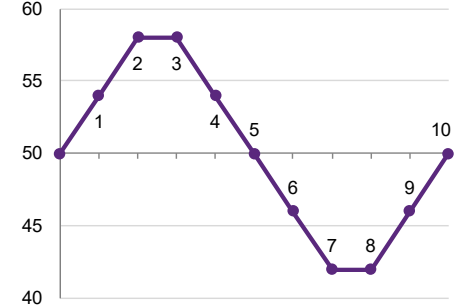
overall decrease. The indices are then seasonally adjusted.

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 East Midlands Business Activity Index is comparable to the UK Composite Output Index.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

East Midlands manufacturing and services Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity*	Input Prices	Output Prices
8/24	51.9	53.8	52.1	48.3	49.0	71.6	60.2	54.6
9/24	51.4	52.3	51.1	48.3	49.6	71.1	60.4	55.1
10/24	50.4	49.9	52.0	48.4	46.1	67.1	56.8	54.6
11/24	50.1	48.7	51.3	49.7	44.9	65.6	60.4	53.6
12/24	50.7	47.8	51.1	44.1	44.2	70.4	61.1	55.7
1/25	49.8	47.5	50.8	45.2	45.1	68.4	64.9	57.1

Further information

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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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