

11 February 2025

NatWest West Midlands Growth Tracker

Output prospects brighten for businesses in
the West Midlands



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by S&P Global

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Key findings

January 2025

Firms forecast growth in year ahead

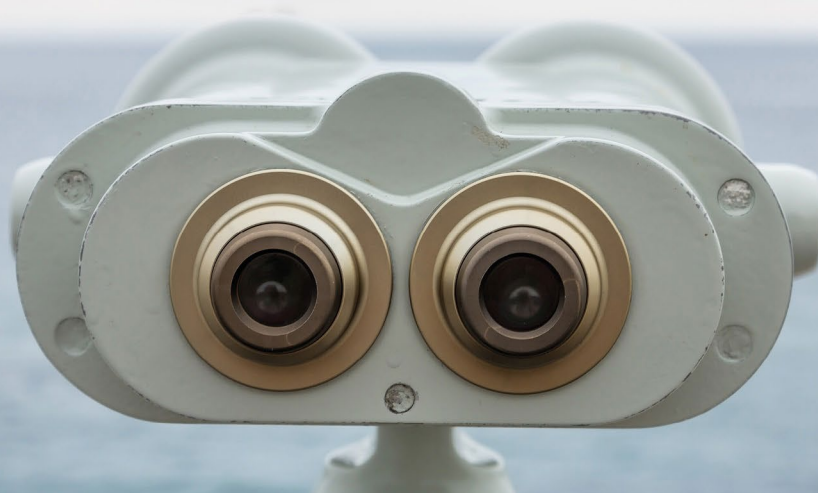
Customers become more conservative with new orders

Fastest increase in selling prices for 20 months

The NatWest West 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





Output prospects brighten for businesses in the West Midlands

Reduced customer spending and a contraction in new orders isn't dulling optimism amongst West Midlands' businesses according to the latest NatWest Regional Growth Tracker.

Falling from 48.9 in December to 47.2 in January, the West 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 – indicated the quickest rate of contraction for

four years. According to survey participants, the latest drop stemmed from subdued market confidence, the loss of existing clients and a general reduction in customer spending.

West Midlands and Northern Ireland experienced a pronounced drop compared to the other 12 monitored areas of the UK.

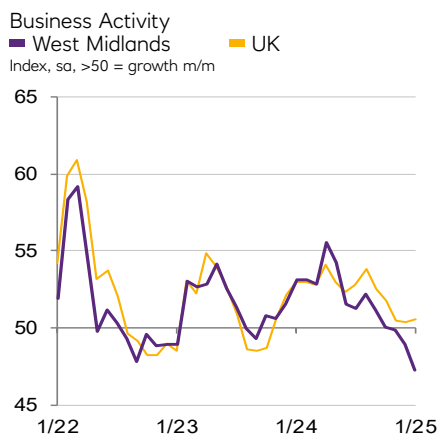
But West Midlands companies were hopeful that business conditions would improve over the course of the year, thereby supporting output volumes. Panellists reported advertising, investment intentions and the planned launch of new products.

NatWest West Midlands Business Activity Index January 2025

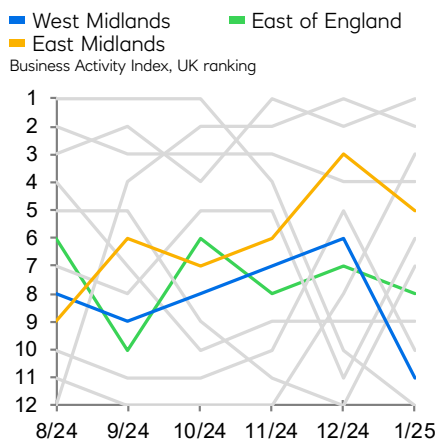
47.2

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

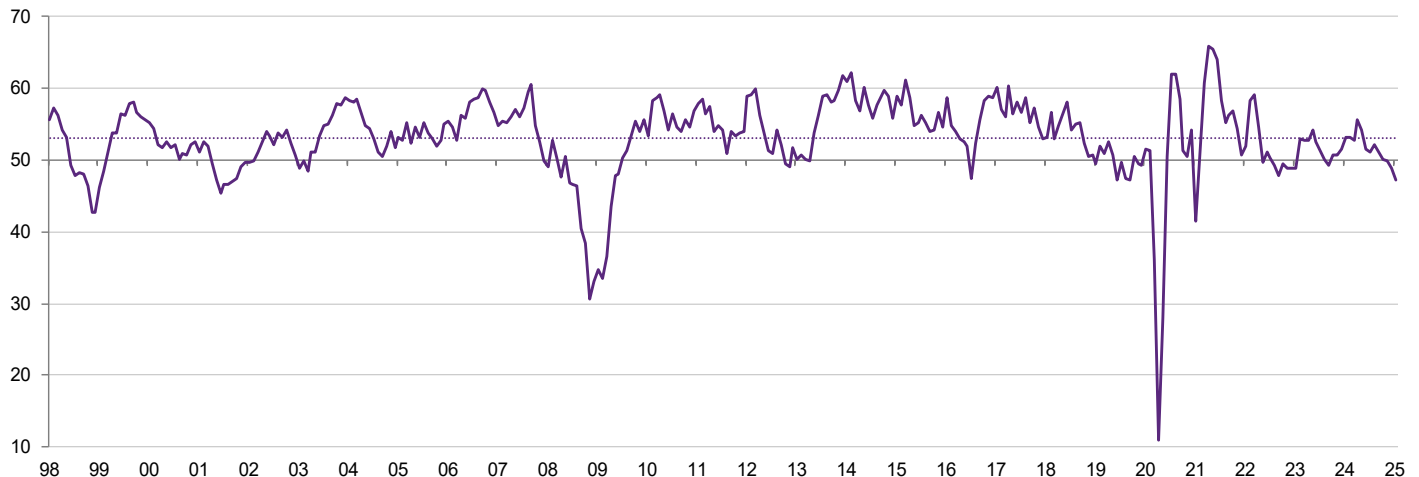
"West Midlands firms indicated that their customers became more conservative when placing new orders relative to December, according to our latest Regional Growth Tracker. Local companies are already feeling the impact of planned National Insurance changes for employers as their suppliers reportedly hiked fees ahead its

implementation.

"They were nevertheless optimistic that business activity will grow in the year ahead. 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 contract at quickest pace since September 2022

The downturn in new business placed with West Midlands companies gathered pace at the start of the year. The contraction was marked, the third in successive months and the most pronounced since September 2022. Relative to other parts of the UK, only Northern Ireland saw a faster drop.

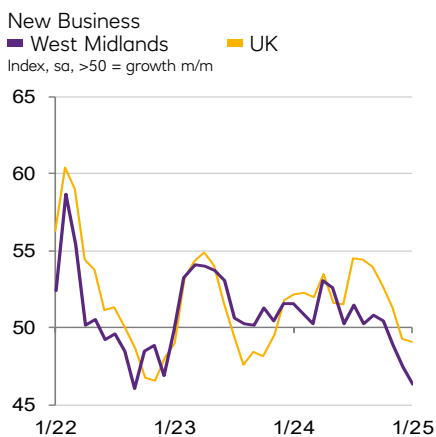
Anecdotally some of those businesses surveyed voiced concerns that interest rates will not fall as quickly as expected. Others indicated that weakness in the

automotive and construction sectors dampened sales.

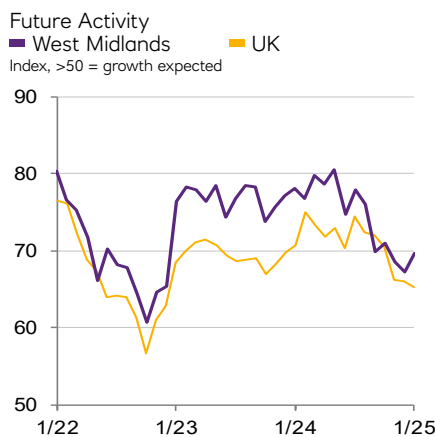
But West Midlands companies were hopeful that business conditions would improve over the course of the year, thereby supporting output volumes. Panellists reported advertising, investment intentions and the planned launch of new products.

The overall level of positive sentiment among West Midlands companies improved to a three-month high and was the second-highest of all monitored UK regions and nations.

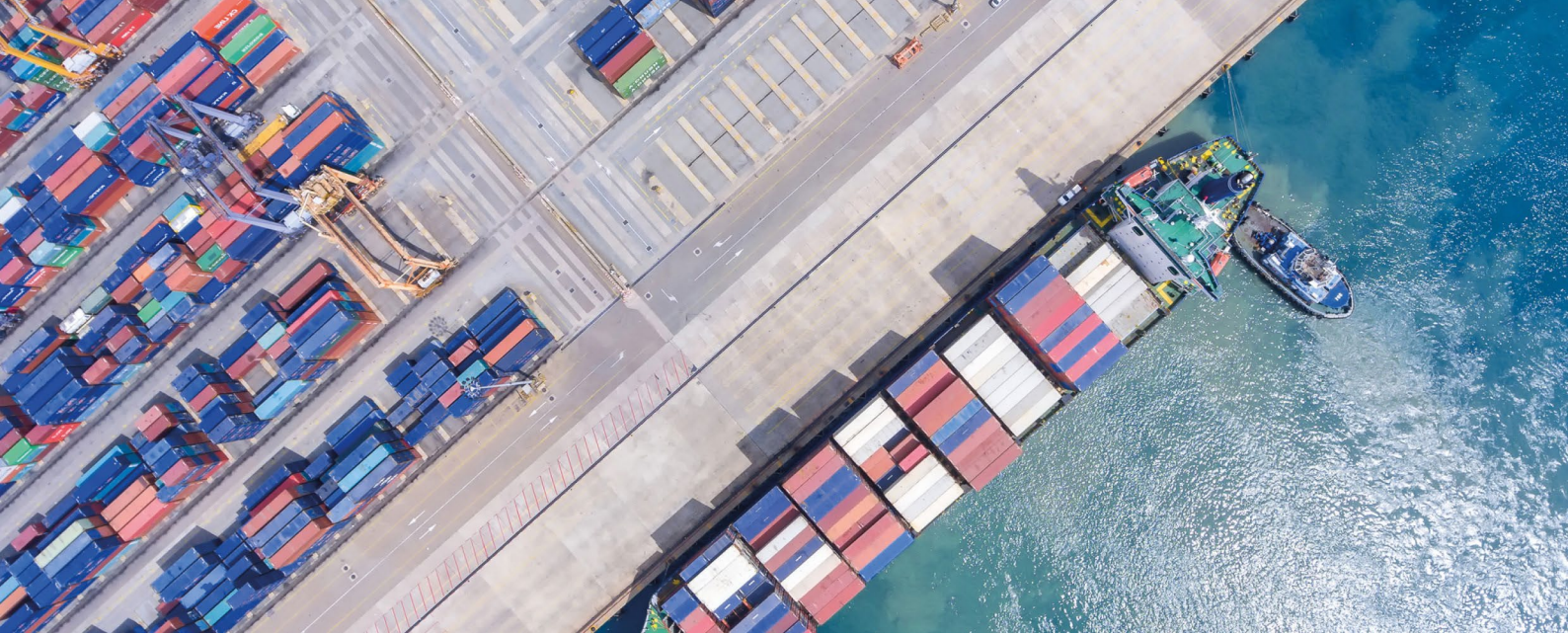
"West Midlands firms indicated that their customers became more conservative when placing new orders relative to December, according to our latest Regional Growth Tracker"



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



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



Export markets

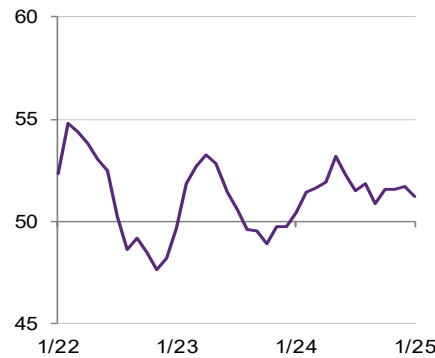
Trade conditions improve for thirteenth straight month

As has been the case since the start of 2024, export conditions for West Midlands companies strengthened in January. The rate of growth softened to a four-month low, however, as shown by the ECI falling from 51.7 in December to 51.2.

Three of the top five export markets for the West Midlands recorded economic growth: China, Germany and the US.

Concurrently, France and the Netherlands posted further contractions in private sector output.

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

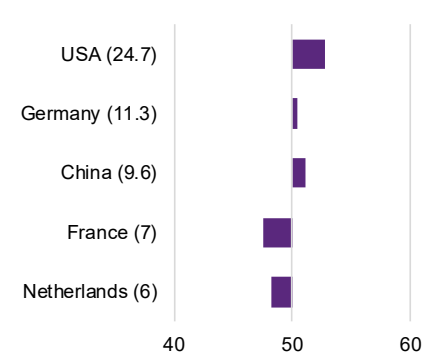


Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

The West 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 West Midlands. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, West Midlands

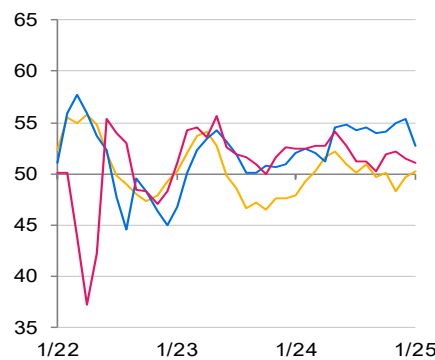
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



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

Faster contractions in outstanding business and employment

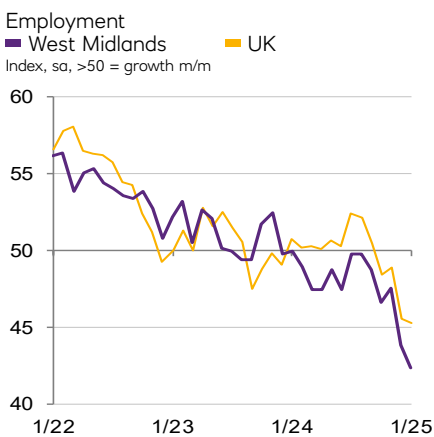
Ongoing declines in new business helped free-up capacity at West Midlands firms, who focused on the completion of pending projects.

Outstanding business volumes decreased at a sharp pace that was the quickest since May 2020. The rate of depletion was among the fastest across the UK, slower only than in Northern Ireland and the North West.

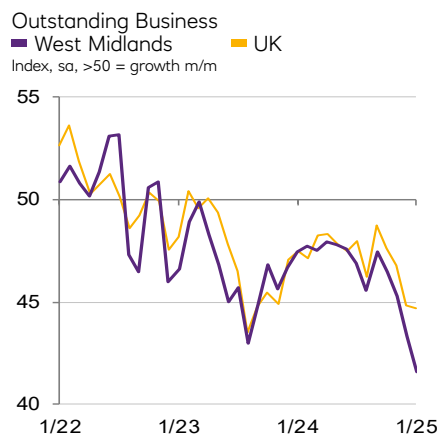
As a consequence of falling new orders, cost-cutting and the looming increase in payroll expenses, West Midlands companies shed jobs in January. Employment decreased at the fastest rate in over four years.

Although ten other areas of the UK also recorded job shedding in January, it was in the West Midlands that the steepest drop was registered.

"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"



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



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



Inflation

Selling charge inflation hits 20-month high in January

Prices charged for West Midlands goods and services continued to increase in January. Survey participants attributed the latest hike to the pass-through of rising fuel, material and labour costs to clients.

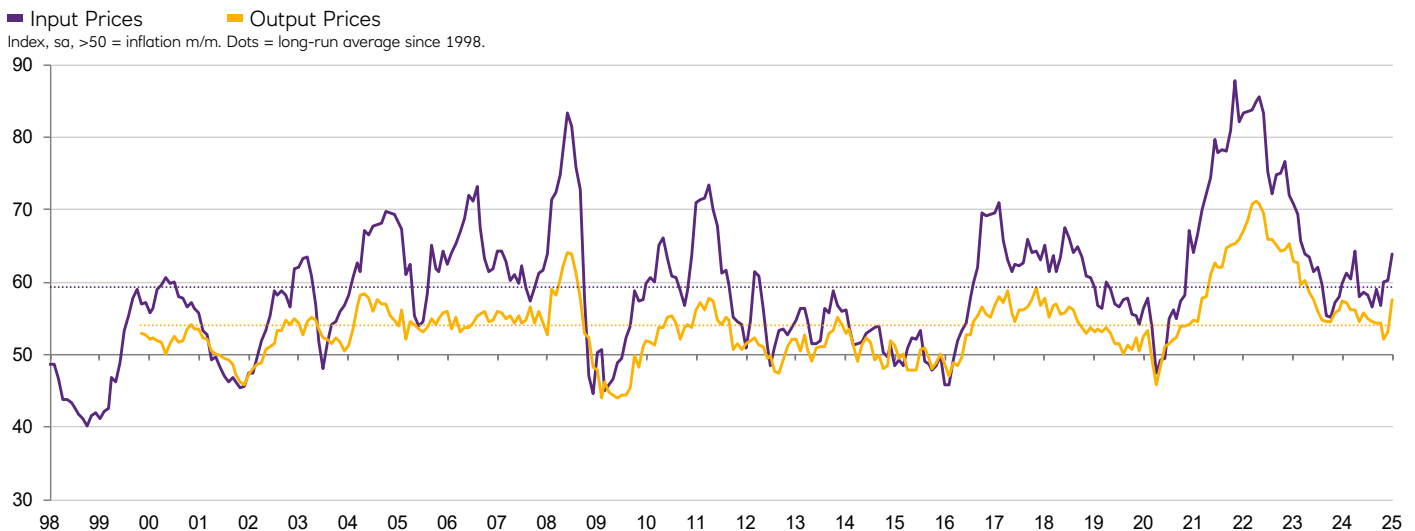
The West Midlands came fifth in the rankings for charge inflation.

Local firms continued to see their expenses rise in January, with firms noting greater outlays on

electronic components, food, freight, fuel and insurance premiums. In some instances, they indicated that suppliers were already raising their fees due to upcoming increases in labour costs.

Having accelerated from December, the rate of cost inflation was at a nine-month high. Yet, the increase was one of the weakest seen nationally, behind all but the North West and Wales.

"Local companies are already feeling the impact of planned National Insurance changes for employers as their suppliers reportedly hiked fees ahead its implementation"



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*.

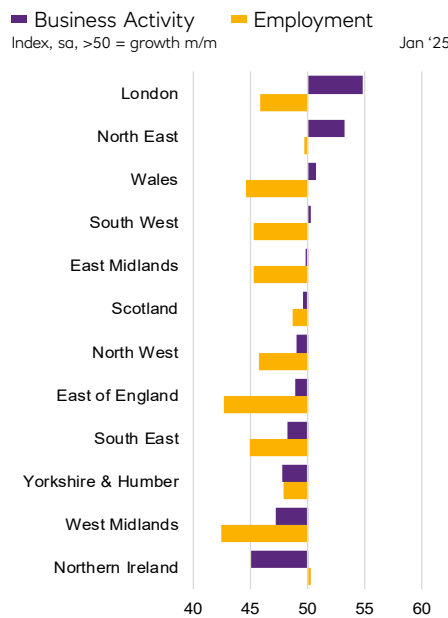
Employment

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.

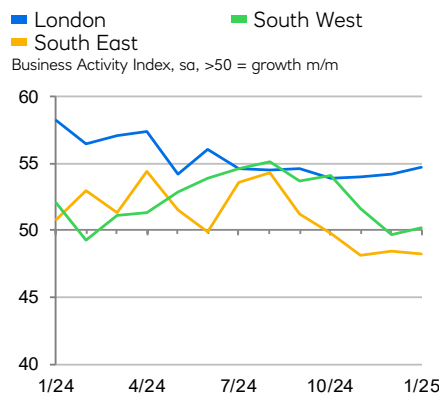
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



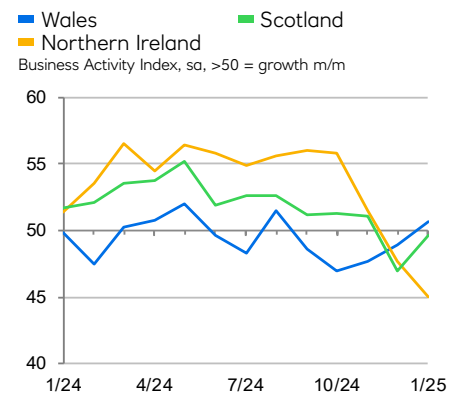
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



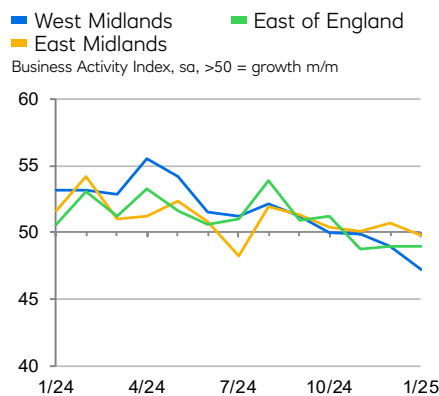
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



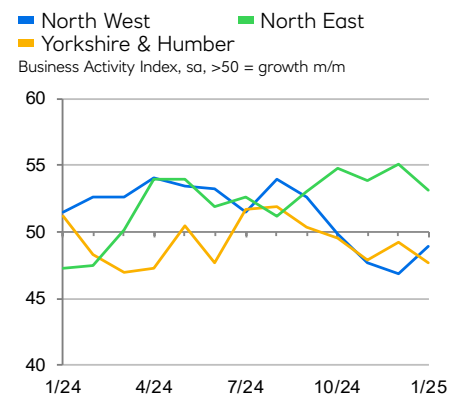
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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



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

Growth Tracker heat map

January 2025

Darker colour = higher business growth

West Midlands

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

47.2



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

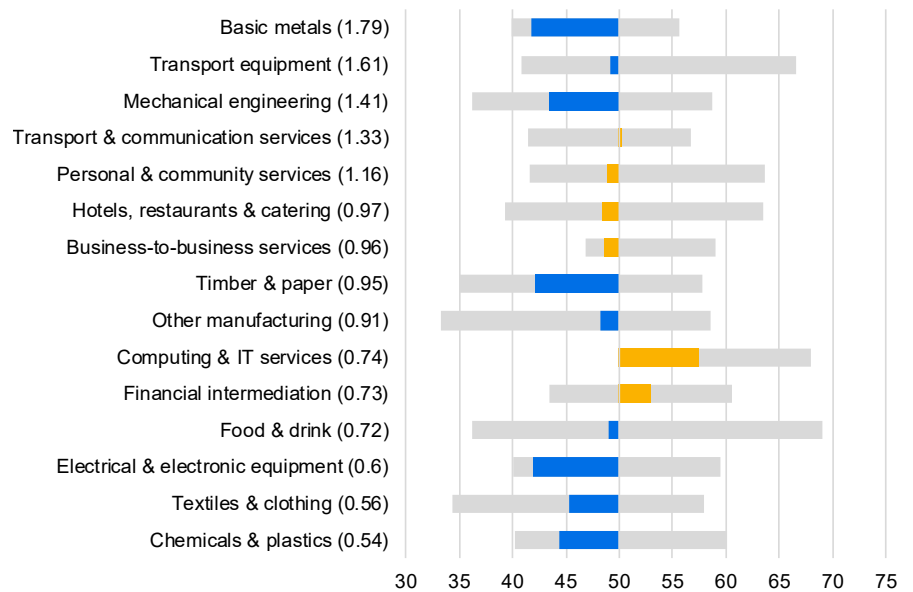
UK sectors

Sector specialisation: West Midlands

The chart shows UK output indices by sector, ranked by location quotients for the West 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 West 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 West Midlands are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Personal & community services

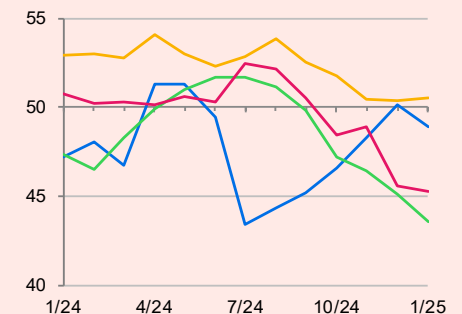
The UK's personal & community services sector underperformed the wider economy in the three months to January. Business activity fell back into contraction following some stability in the latter stages of 2024, weighed down by a marked decline in demand. Qualitative evidence gathered by the PMI surveys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



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 *Data are smoothed as three-month moving average (3mma).

Methodology

The NatWest West Midlands Growth Tracker 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

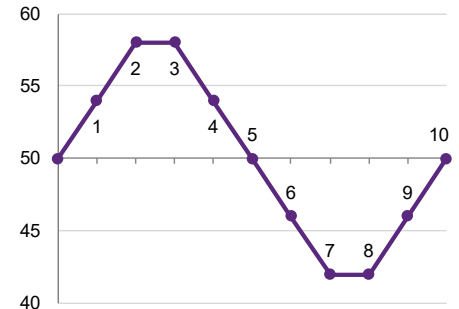
overall decrease. The indices are then seasonally adjusted.

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.

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

West 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	52.2	50.3	51.8	49.8	45.5	76.1	56.6	54.5
9/24	51.2	50.8	50.9	48.8	47.5	69.8	59.0	54.5
10/24	50.0	50.5	51.6	46.7	46.5	71.0	56.8	54.4
11/24	49.9	48.8	51.6	47.5	45.3	68.6	60.1	52.1
12/24	48.9	47.4	51.7	43.9	43.3	67.2	60.2	53.2
1/25	47.2	46.3	51.2	42.4	41.6	69.8	63.9	57.7

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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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