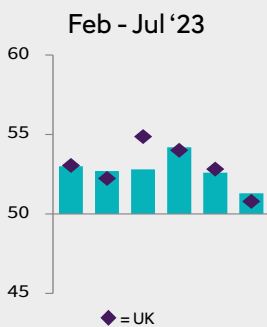


NatWest West Midlands PMI[®]

Softening demand growth curbs output charge inflation

West Midlands Business Activity Index



Key findings

Weakest rise in new business for six months restricts output growth

Employment levels stagnate in July

Output prices up at slowest rate since February 2021

Cooling demand for West Midlands goods and services restricted output growth and halted hiring in July, NatWest PMI[®] data showed. Despite quickening since June, the rate of input cost inflation was well below most of those seen over the past two-and-a-half years. Coupled with faltering demand, this led to the weakest increase in selling prices for 29 months.

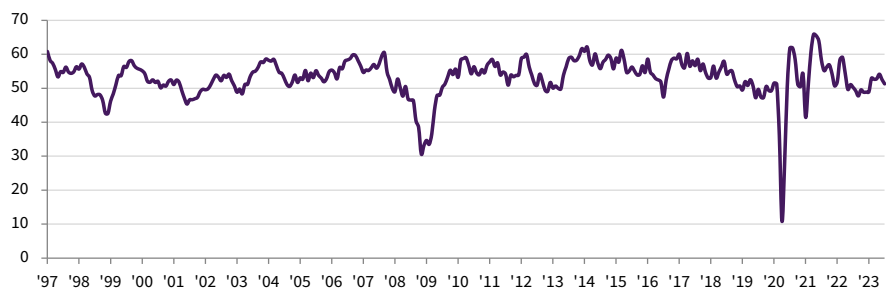
The headline Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – fell from 52.6 in June to 51.3 in July. The latest reading signalled a sixth successive rise in output, but the weakest over this period. Growth was attributed to the launch of new products and services and demand resilience. Dampening the expansion were signs of an economic slowdown, client destocking and unfavourable weather.

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

"West Midlands firms again indicated that client destocking and signs of an economic slowdown restricted demand for their goods and services in July. Although encouraging that growth here was sustained whilst ten other monitored UK regions posted contraction, the deceleration meant that economic activity expanded only slightly and job creation stalled. Encouragingly, however, dwindling demand helped curb output charge inflation and businesses maintained an optimistic view towards future activity."

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

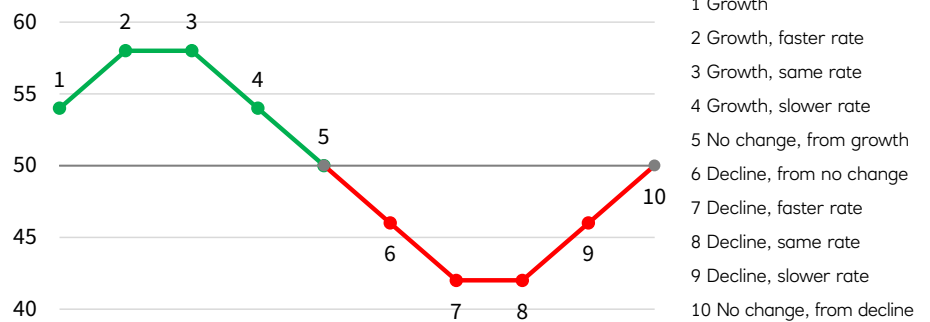
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business growth eases to six-month low in July

Private sector companies in the West Midlands indicated a further increase in new work intakes during July, stretching the current sequence of expansion to six months. That said, the uptick was slight and the weakest over that period. Where growth was signalled, panellists mentioned the offering of new services, demand resilience and greater client bases. Growth was reportedly restricted by destocking efforts at customers, signs of an economic slowdown, elevated borrowing costs and unfavourable weather.

Companies become more upbeat towards growth prospects

West Midlands firms anticipate output levels to be higher in one year's time, with the overall degree of optimism strengthening from June's six-month low. Upbeat forecasts stemmed from planned investment in staff and systems, expected gains in market shares and hopes that inflation would retreat.

The West Midlands recorded the highest level of positive sentiment out of the 12 monitored UK regions and nations.

Exports

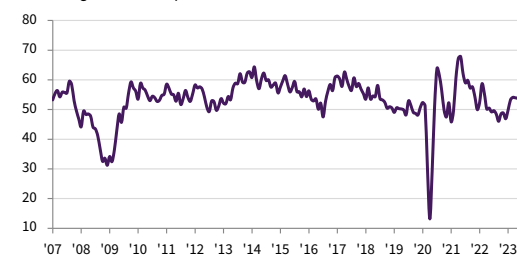
July sees dwindling opportunities for exports growth

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.

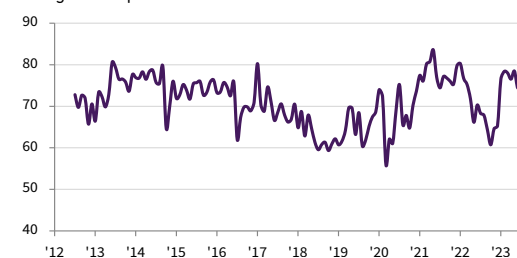
Falling from 51.2 in June to 50.4 in July, the ECI indicated only a marginal improvement in export prospects for West Midlands firms. The latest reading was the lowest for six months, and moved closer to the no-change mark of 50.0.

Out of the top five export markets for the West Midlands, only China and the US saw economic growth. In both cases rates of expansion softened in July. Germany joined France in contraction, while output stagnated in Ireland.

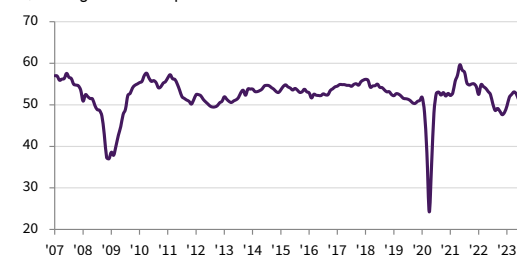
New Business Index 50.6
sa, >50 = growth since previous month Jul '23



Future Activity Index 76.8
>50 = growth expected over next 12 months Jul '23



Export Climate Index 50.4
sa, >50 = growth since previous month Jul '23



Top export markets, West Midlands

Rank	Market	Weight	Output Index, Jul' 23
1	USA	24.3%	52.0
2	Germany	11.9%	48.5
3	China	8.5%	51.9
4	France	7.7%	46.6
5	Ireland	7.2%	50.0



Business capacity

Employment Index
Feb - Jul '23

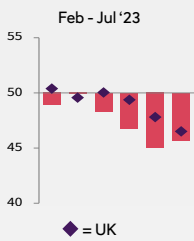


Employment stagnates at start of third quarter

Private sector employment in the West Midlands stagnated in July, after increasing in each of the past 28 months. Some companies took on extra staff, owing to anticipated improvements in sales and the replacement of workers who had resigned in late-2022. Others trimmed payroll numbers due to automation, wage cost pressures and efforts to improve cashflows.

The trend for jobs in the West Midlands compared with growth in nine regions and reductions in two areas (North East and East Midlands).

Outstanding Business Index
Feb - Jul '23



Clearing of pending workloads continues

As has been the case on a monthly basis since last December, West Midlands firms noted a decline in outstanding business volumes during July. Despite softening since June, the rate of backlog depletion was historically marked. According to survey participants, subdued sales growth facilitated the reduction in unfinished business.

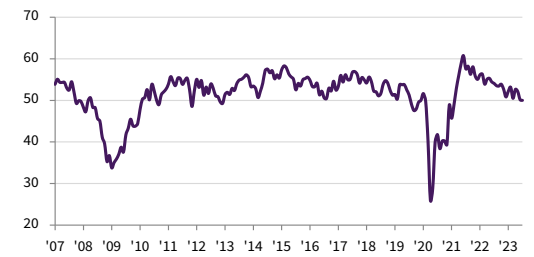
All 12 monitored UK regions and nations posted lower backlogs of work among private sector firms.

Employment Index

sa, >50 = growth since previous month

50.0

Jul '23

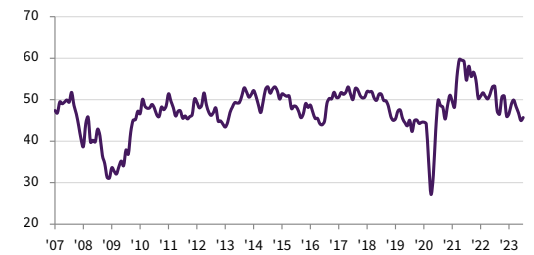


Outstanding Business Index

sa, >50 = growth since previous month

45.7

Jul '23



Prices

Cost inflation ticks higher in July

After easing in each of the prior seven months, the rate of input cost inflation facing private sector companies in the West Midlands quickened during July. Although sharp, the latest increase in expenses was considerably less pronounced than those seen over the past two-and-a-half years. Companies noted greater pressure from salaries and wages, but lower prices for freight, raw materials and utilities.

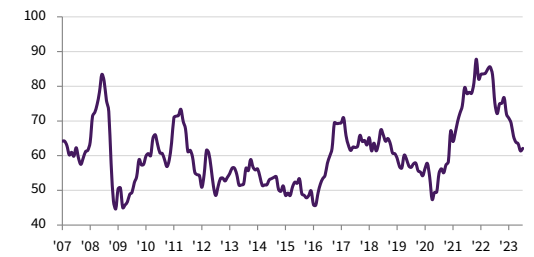
The West Midlands came eighth in the regional rankings for input cost inflation.

Output prices rise at slowest pace in 29 months

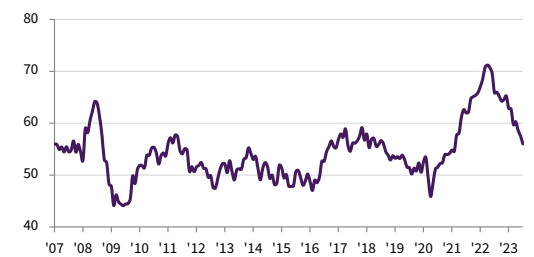
July data pointed to a marked increase in prices charged for goods and services in the West Midlands. That said, although historically elevated, the rate of inflation eased to the weakest since February 2021. Some panellists suggested that their fees had risen due to ongoing cost rises and the passing on of previously absorbed hikes to energy prices. Others lowered their charges amid subdued demand conditions and savings made from reduced raw material prices.

Local output prices rose at a slower pace than the UK average.

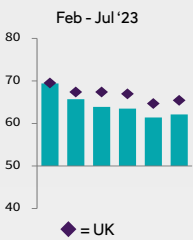
Input Prices Index 62.1
sa, >50 = inflation since previous month Jul '23



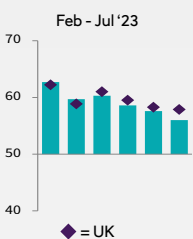
Prices Charged Index 56.0
sa, >50 = inflation since previous month Jul '23



Input Prices Index



Prices Charged Index



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, Jul' 23 ⁺
1	Transport	2.35	55
2	Basic Metals	1.44	48
3	Mechanical Engineering	1.17	48
4	Other Manufacturing	0.89	55
5	Timber & Paper	0.61	48
6	Electrical & Optical	0.59	45
7	Textiles & Clothing	0.57	55
8	Food & Drink	0.51	55
9	Chemicals & Plastics	0.47	48

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul' 23 ⁺
1	Transport & Communication	1.19	48
2	Hotels, Restaurants & Catering	1.16	48
3	Personal & Community Services	1.08	55
4	Computing & IT Services	0.98	55
5	Business-to-business Services	0.97	50
6	Financial Intermediation	0.74	60

UK sector focus

Financial Intermediation

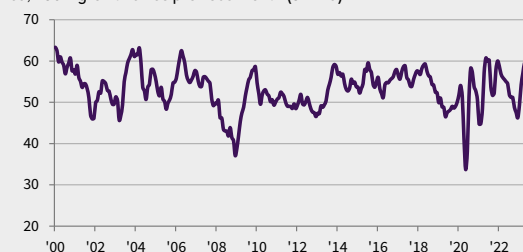
The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

Employment

The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

Business Activity Index

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



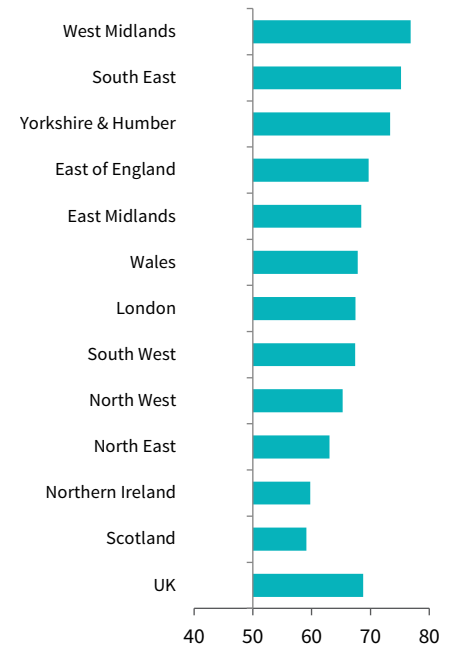
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jul '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
Feb '23	53.0	53.2	51.8	78.4	53.2	48.9	69.4	62.7
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

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