

13 August 2024

NatWest East Midlands Growth Tracker

Renewed fall in East Midlands business activity in July



NatWest

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by S&P Global

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Contents

Key findings

Business activity

Comment

Demand and outlook

Export markets

Jobs and capacity

Inflation

UK Regional Growth Tracker

UK sectors

Methodology and data

Further information



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Key findings

July 2024

Output falls for the first time since November 2023

Cost pressures pick up

Business confidence strongest since February

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





Renewed fall in East Midlands business activity in July

Latest Regional Growth Tracker survey data from NatWest showed a renewed contraction in output across the East Midlands private sector in July.

At 48.3, down from 50.8 in June, the latest headline East Midlands Business Activity Index signalled a modest downturn in output

at East Midlands firms, thereby ending a seven-month sequence of expansion. The latest fall was linked to subdued client demand and another drop in new orders.

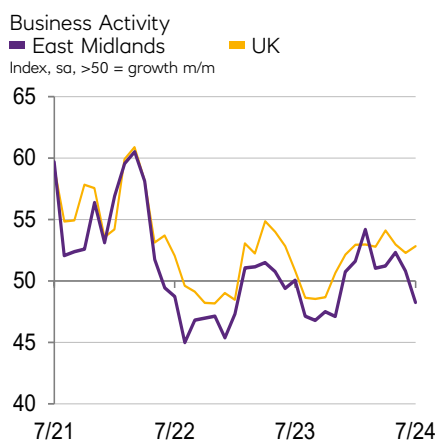
Moreover, firms in the region registered the joint-fastest decrease in activity of the 12 monitored UK areas, alongside Wales.

NatWest East Midlands Business Activity Index July 2024

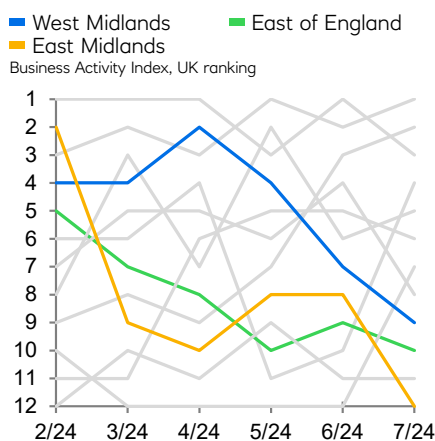
48.3

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 11-29 July



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Comment

Dipesh Mistry, Chair of the NatWest Midlands and East of England Regional Board, commented:

"The second half of the year started on a slightly damper note for East Midlands firms as output returned to contraction amid weak client demand. Evidence of spare capacity led firms to reduce staffing numbers. Although rates of decline in both employment and new business softened, the East Midlands was the only monitored UK area to see a fall in new orders.

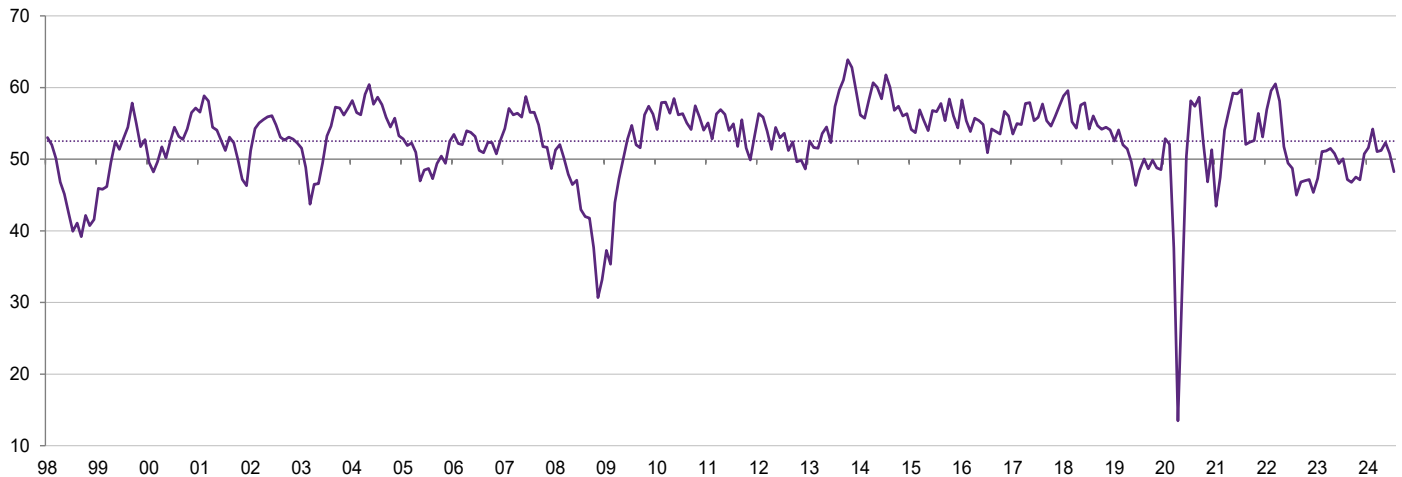
"Meanwhile, cost pressures picked up for firms. Whilst still seeking to pass higher operating expenses through to customers, selling prices rose at a softer pace. Strain on margins was potentially more keenly felt in the East Midlands as costs rose at a sharper rate than the UK average, but output charges were hiked to a lesser extent. Nevertheless, business optimism was the strongest since February."

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Business Activity

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Demand and outlook

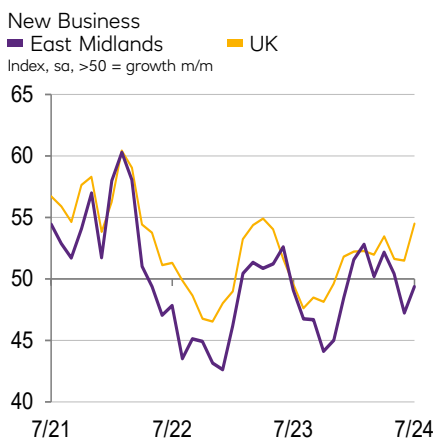
New business contracts at softer pace, with business confidence improving to greater extent

East Midlands firms signalled a second successive monthly decrease in new business in July, albeit at a slower rate. The fall in new orders was only marginal, with firms linking the contraction to weak client demand and increased competition. Manufacturers and service providers alike saw a drop in new sales, with the latter recording the sharper decline. When compared to the UK

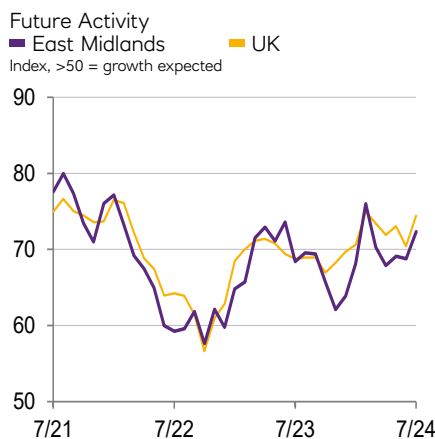
as a whole, the East Midlands was the only region monitored to record a drop in new orders.

Nonetheless, firms were more upbeat in their expectations regarding the outlook for output over the coming year. The degree of optimism picked up to the highest since February and was above the series average. Companies hoped that investment in advertising and new product launches would help boost client demand and overall activity.

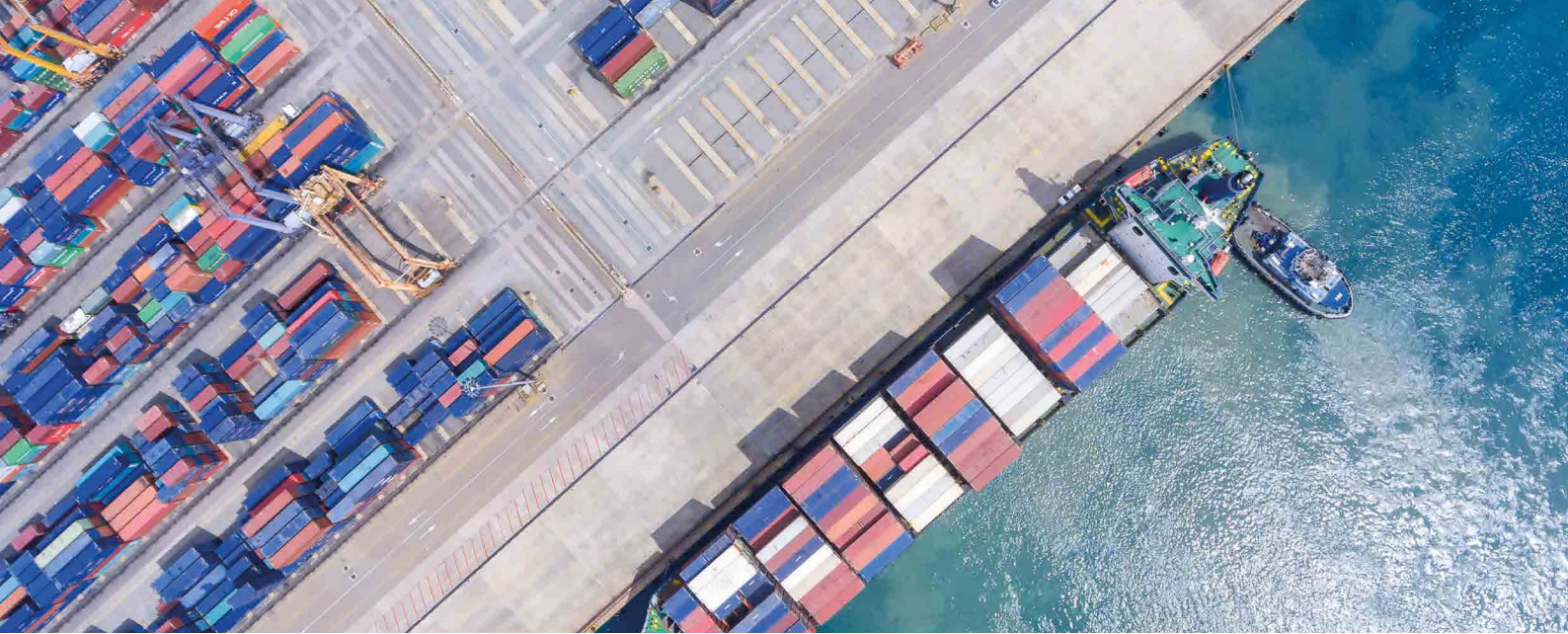
"...business optimism was the strongest since February."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



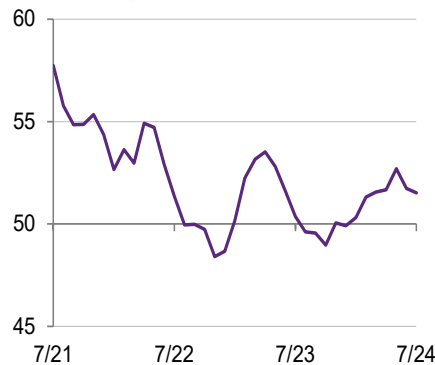
Export markets

Improvement in export conditions eases to slowest since February

The export climate for goods and services from the East Midlands strengthened during July, albeit to the least marked extent in five months. The ECI dropped fractionally from 51.7 in June to 51.5.

Firms in the US and Singapore continued to see output expand, but a renewed contraction in German business activity weighed on the overall upturn in export conditions. Meanwhile, output in France and Hong Kong SAR fell further.

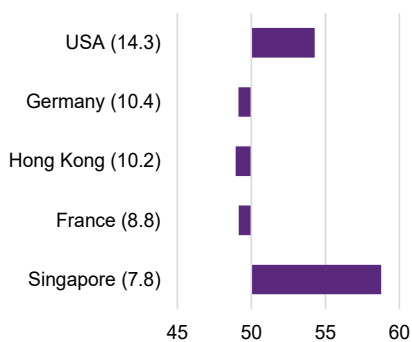
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

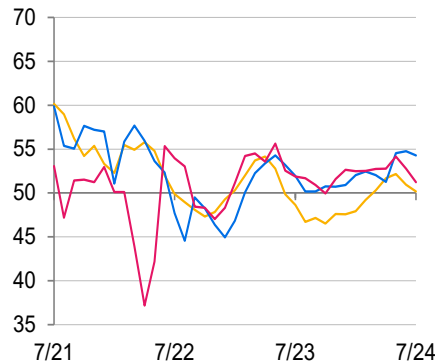
The East Midlands Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the East Midlands. A reading above 50 signals an improvement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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Jobs and capacity

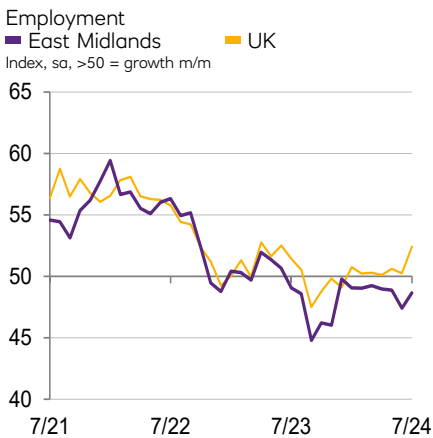
Employment falls at modest pace in July

Workforce numbers at East Midlands companies declined further in July, thereby extending the current sequence of contraction that began just over a year ago. In fact, the region was one of only two to see a drop in staffing levels (alongside the neighbouring West Midlands), with the fall contrasting with the UK trend which signalled a modest

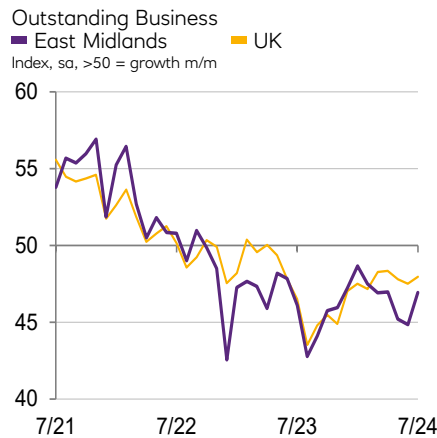
rise. Restructuring and the non-replacement of voluntary leavers reportedly drove the decrease.

Meanwhile, backlogs of work fell at a solid pace that was sharper than the UK average. The rate of depletion eased from June but was also quicker than the long-run series trend.

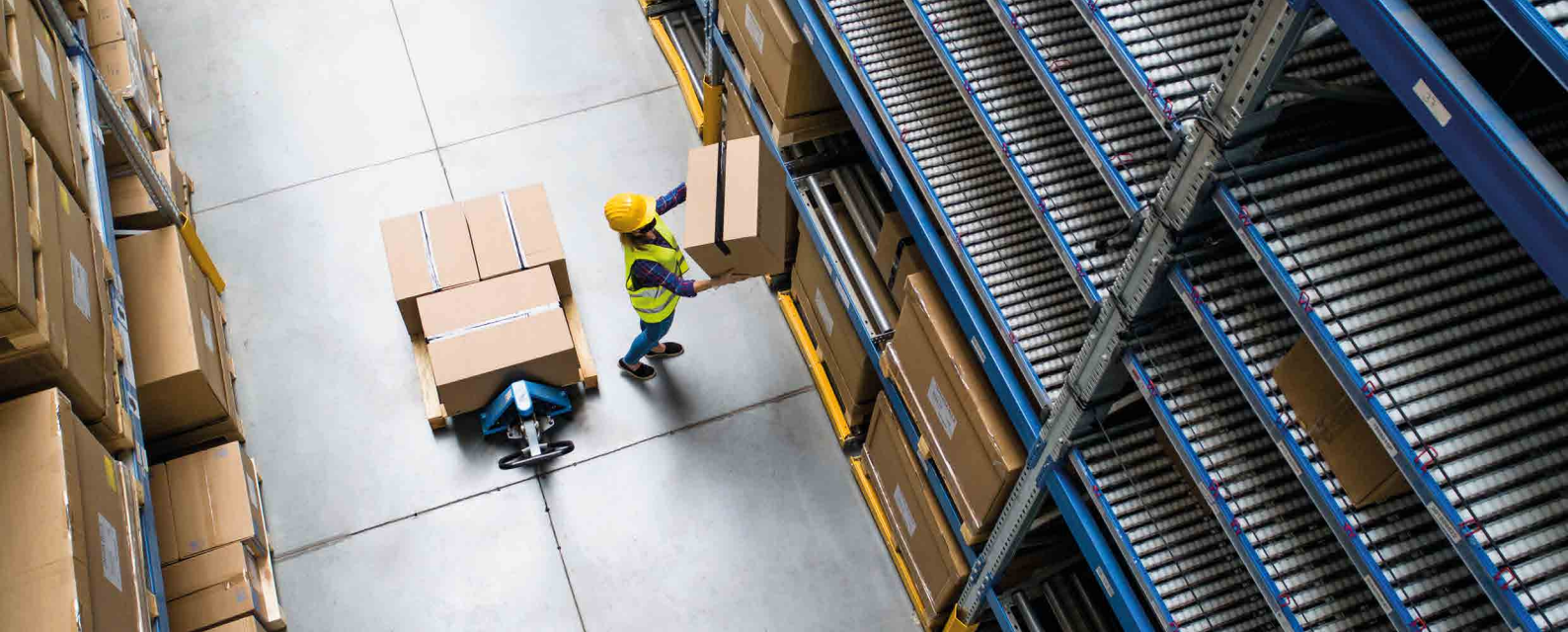
"Evidence of spare capacity led firms to reduce staffing numbers."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Inflation

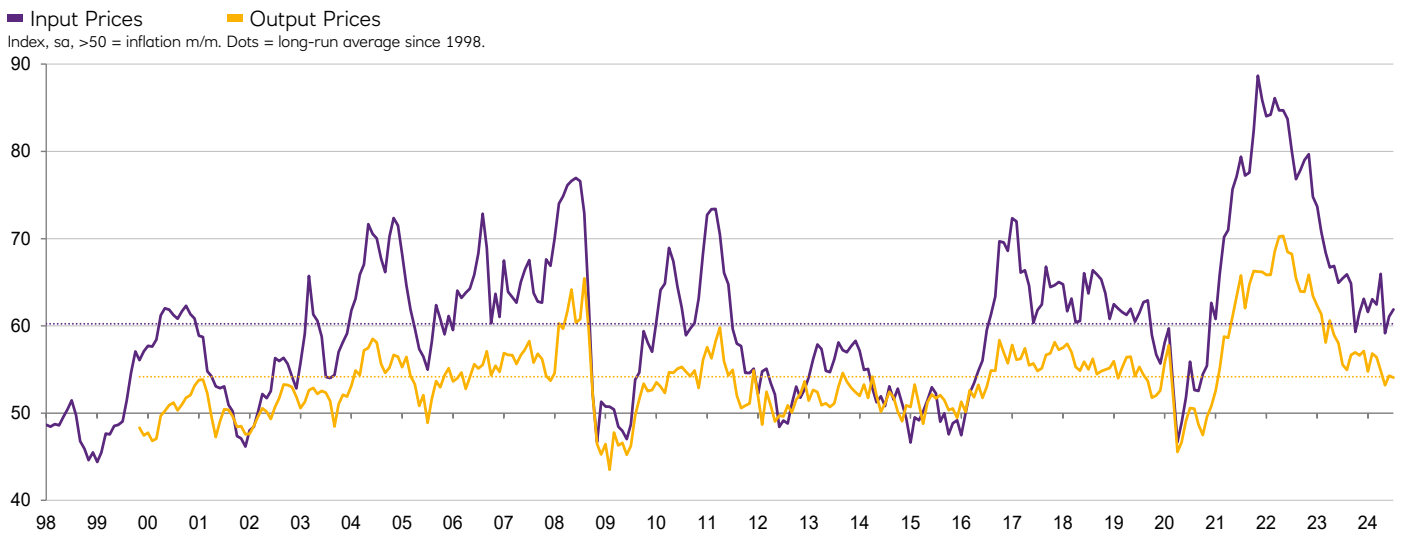
Cost burdens rise at fastest pace in three months

July data signalled a further and faster increase in input prices at East Midlands private sector firms. The rate of cost inflation picked up to the steepest since April, and was quicker than both the region's long-run series and the UK averages. The hike in operating expenses was often

linked to higher labour, raw material, energy and shipping costs.

Nonetheless, companies raised their selling prices at a softer pace during July. Although still solid, the rate of charge inflation was slower than that seen across the UK as a whole. That said, firms continued to note the pass-through of greater costs to clients.

"Strain on margins was potentially more keenly felt in the East Midlands..."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

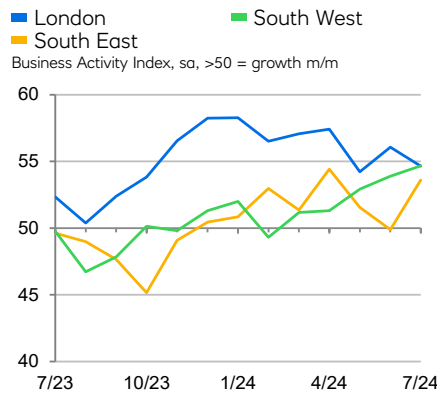
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



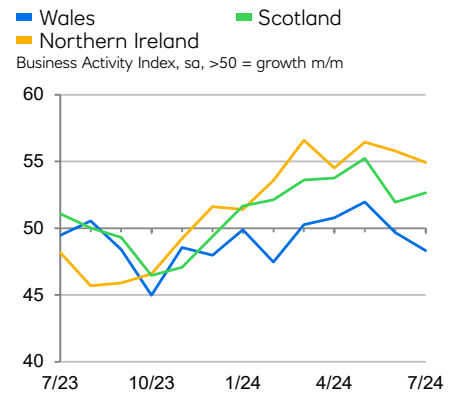
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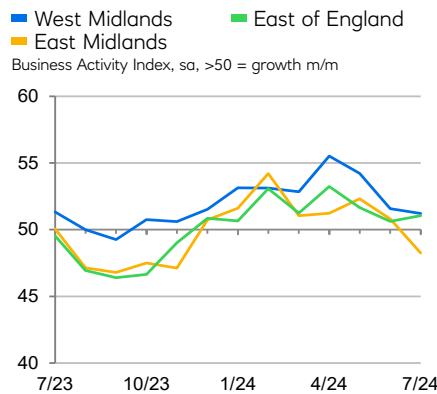
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



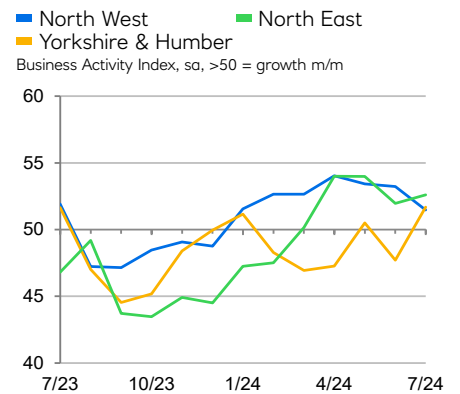
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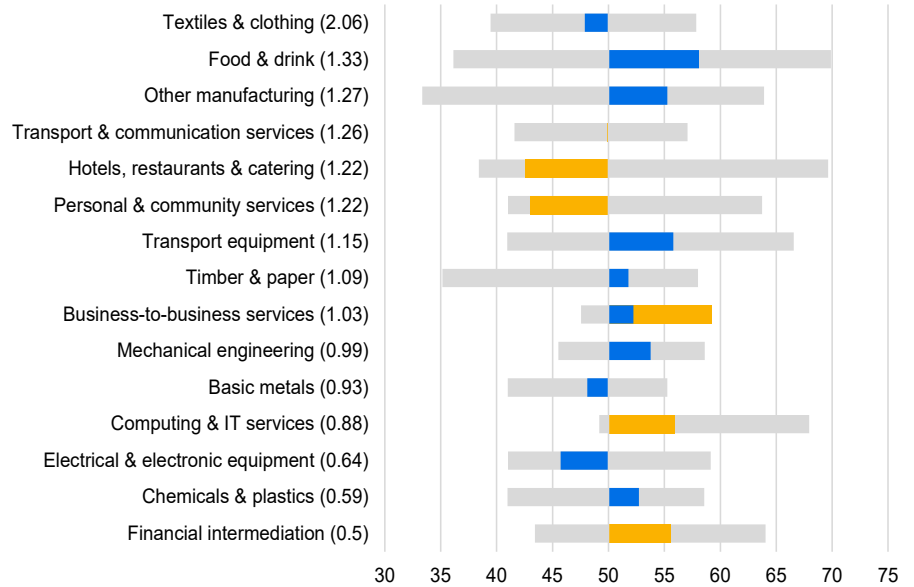
UK sectors

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 Jul '24



Sources: NatWest, S&P Global PMI. ©2024 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: Financial intermediation

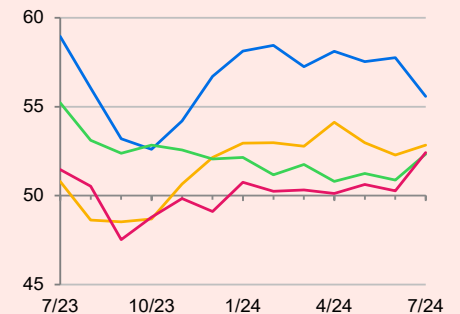
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global. *Data are smoothed as three-month moving average (3mma).

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.

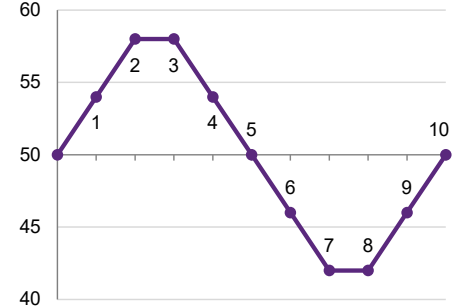
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is 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. ©2024 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
2/24	54.2	52.8	51.3	49.0	47.5	76.0	63.1	56.8
3/24	51.0	50.2	51.6	49.3	46.9	70.3	62.4	56.4
4/24	51.2	52.2	51.7	49.0	47.0	67.9	65.9	54.9
5/24	52.3	50.4	52.7	48.9	45.2	69.1	59.2	53.2
6/24	50.8	47.2	51.7	47.4	44.9	68.8	61.1	54.3
7/24	48.3	49.4	51.5	48.7	46.9	72.3	61.9	54.1

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