

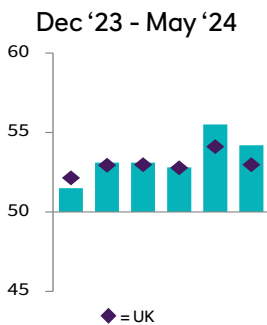


NatWest

NatWest West Midlands PMI[®]

Business activity growth slows only marginally from April's 25-month high

West Midlands Business Activity Index



Key findings

Solid increases in sales and output

Level of business confidence among highest on record

Substantial slowdown in cost pressure curbs charge inflation

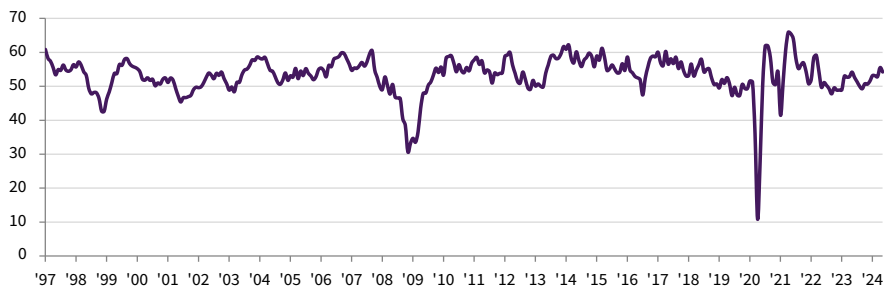
The NatWest PMI[®] data for May highlighted a desirable combination of strong growth and receding inflation across the West Midlands. Job shedding slowed, although some firms continued to note difficulties finding suitable candidates for open job roles. Meanwhile, business confidence hit a three-year high.

Posting 54.2 in May, the headline NatWest West Midlands PMI[®] 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 growth for the eighth successive month. Despite falling from April's 25-month high of 55.5, the latest reading was consistent with a marked pace of expansion that was above its long-run average. Among the key determinants of growth listed by panellists were positive demand trends, better economic conditions and new client wins.

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

"West Midlands firms' ability to price more competitively, owing to receding cost pressures, spurred demand for local goods and services. The solid increase in new orders seen in May underpinned a marked upturn in output and boosted business confidence. Companies in the region were more upbeat than anywhere else in the UK. One challenge encountered by survey participants was the inability to find skilled job applicants for existing vacancies, a key factor that led to a fall in overall employment. However, the rate of job shedding at least softened to the weakest in three months."

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

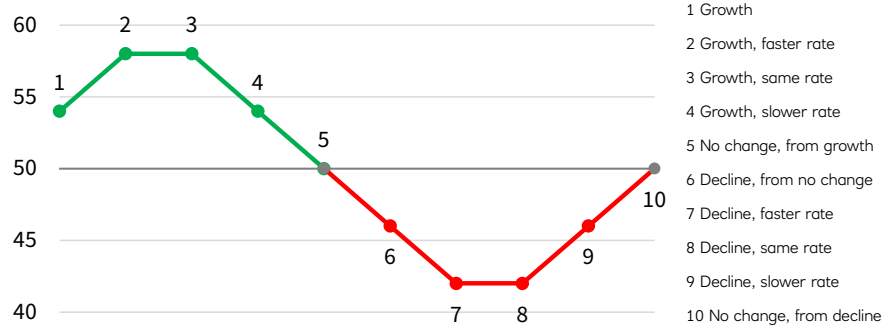
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

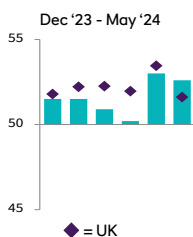
Index interpretation

50.0 = no change since previous month



Demand and outlook

New Business Index



New business rises solidly during May

For the sixteenth successive month, new orders placed with private sector companies in the West Midlands rose in May. Little-changed since April, the pace of expansion was solid. According to survey participants, better economic conditions, improved client confidence and demand resilience supported sales.

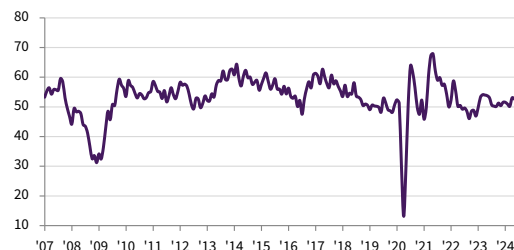
The local increase in new business was stronger than that seen across the UK.

New Business Index

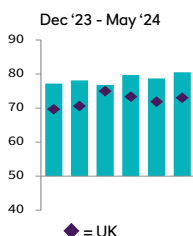
sa, >50 = growth since previous month

52.6

May '24



Future Activity Index



Business confidence among strongest on record

West Midlands firms were at their most upbeat towards the year-ahead outlook for output since May 2021. Moreover, the respective index posted one of its highest readings in the series history. Signs of improving economic conditions and better trends for tourism, alongside marketing efforts and new business in the pipeline, boosted sentiment.

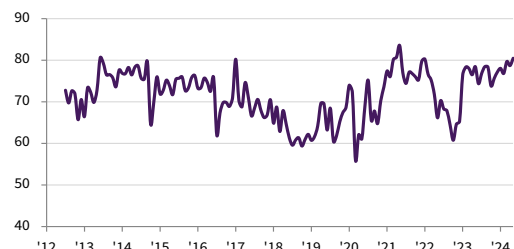
The West Midlands recorded the highest level of business confidence of the 12 monitored UK regions and nations.

Future Activity Index

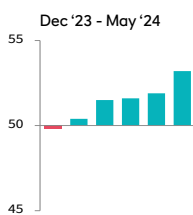
>50 = growth expected over next 12 months

80.5

May '24



Export Climate Index



Export conditions at their best for over a year

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 West Midlands. This produces an indicator for the economic health of the region's export markets.

At 53.2 in May, up from 51.9 in April, the ECI signalled the strongest improvement in trade conditions for West Midlands companies for just over a year. The index was also marginally above its long-run average.

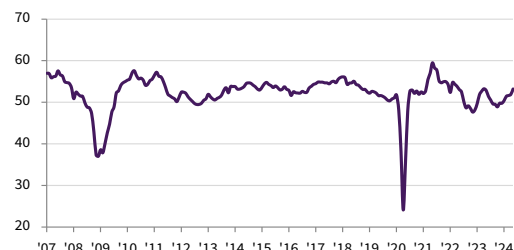
Among the top five export markets for the region, the fastest increases in output were noted in the US and China. France slipped back into contraction after registering growth for the first time in 11 months during April.

Export Climate Index

sa, >50 = growth since previous month

53.2

May '24



Top export markets, West Midlands

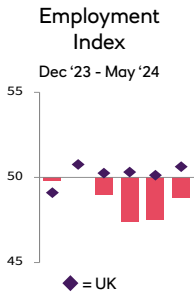
Rank	Market	Weight	Output Index, May '24
1	USA	24.7%	54.5
2	Germany	11.3%	52.4
3	China	9.6%	54.1
4	France	7.0%	48.9
5	Netherlands	6.0%	52.5

Business capacity

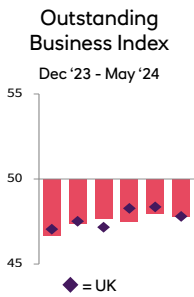
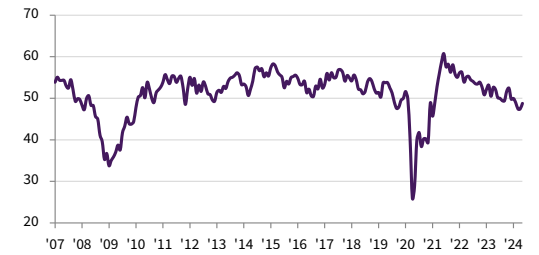
Job shedding eases halfway through second quarter

Employment across the West Midlands continued to fall in May, thereby stretching the current sequence of contraction to four months. That said, the pace of reduction was modest and the weakest since February. Anecdotal evidence indicated that firms found it difficult to replace voluntary leavers amid a lack of suitable candidates. There were also mentions of voluntary redundancy programmes.

Job shedding locally contrasted with marginal growth at the UK level.



Employment Index 48.8
sa, >50 = growth since previous month May '24

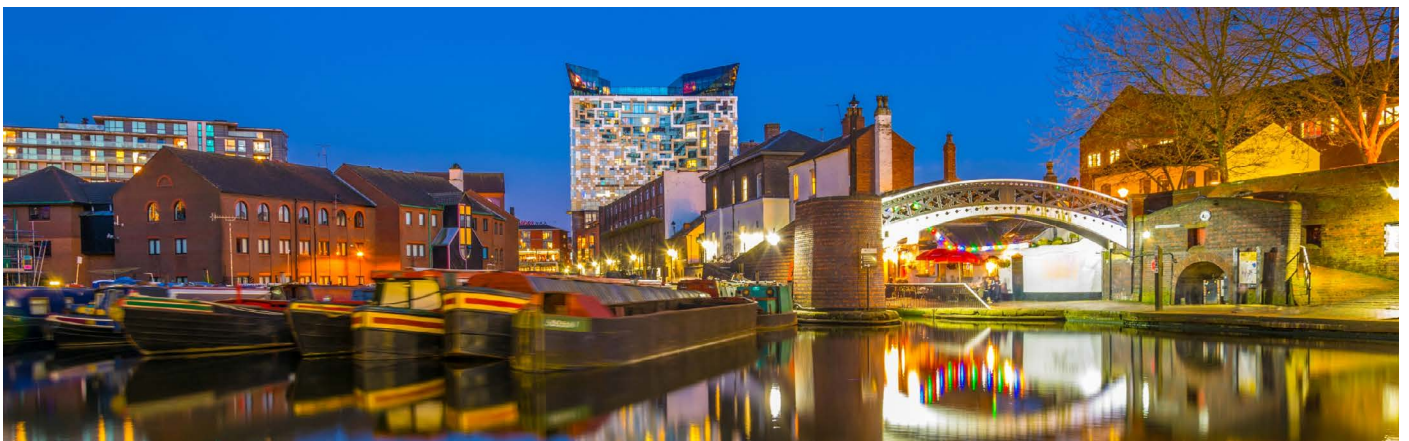
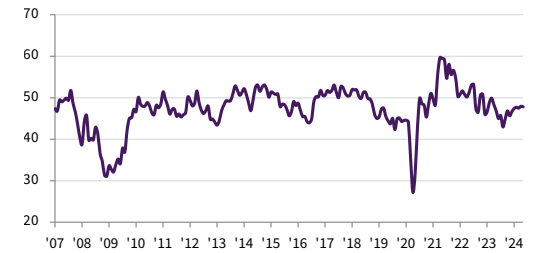


Outstanding business falls further

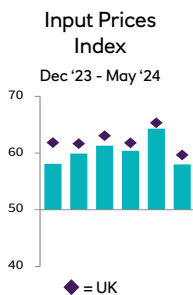
Despite a further decline in payroll numbers, West Midlands firms made further inroads into their backlogs in May. The rate of depletion was moderate, however, and broadly similar to that seen in April. Efficiency gains were among the reasons behind the latest contraction in work pending completion.

The local fall in unfinished work was of equal magnitude to the UK average.

Outstanding Business Index 47.8
sa, >50 = growth since previous month May '24



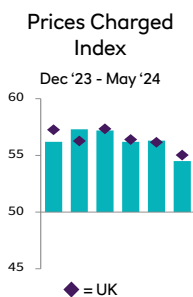
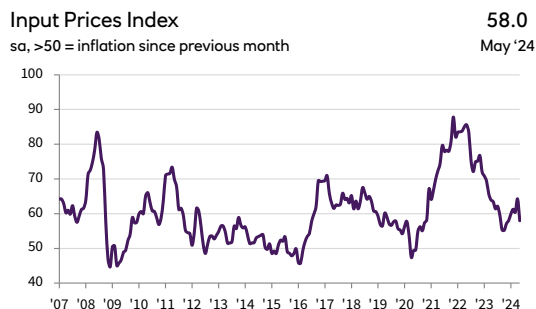
Prices



Cost pressures retreat substantially

Input prices rose again in May, but the rate of inflation eased considerably since April. The latest increase was the weakest in six months and weaker than the long-run series average. Some firms noted higher food, fuel, material and wage costs. Others reported prices for electricity, energy, stainless steel and hydrocarbons.

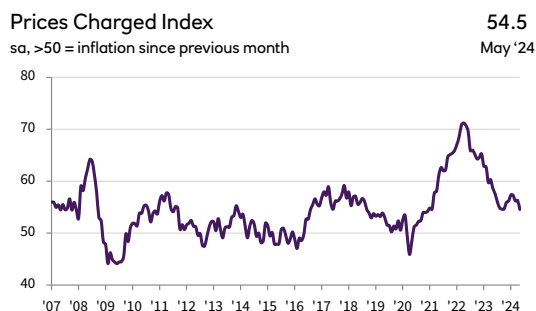
Regionally, the West Midlands placed bottom in the rankings for cost inflation in the latest month.



Slower increase in selling prices

Output charges continued to increase in May, as several firms sought to share part of their additional cost burdens with clients. The overall rate of inflation was marked, but slowed to the weakest in nearly three-and-a-half years. Some companies reportedly refrained from hiking their fees amid softer cost pressures and efforts to boost sales.

The West Midlands was around mid-table in the regional rankings for charge inflation.



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, May '24
1	Transport	2.09	50
2	Basic Metals	1.58	45
3	Mechanical Engineering	1.20	55
4	Other Manufacturing	0.94	55
5	Timber & Paper	0.77	55
6	Electrical & Optical	0.63	45
7	Textiles & Clothing	0.58	50
8	Food & Drink	0.57	55
9	Chemicals & Plastics	0.48	55

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '24
1	Transport & Communication	1.26	45
2	Personal & Community Services	1.16	50
3	Hotels, Restaurants & Catering	1.14	45
4	Computing & IT Services	1.04	55
5	Business-to-business Services	0.96	55
6	Financial Intermediation	0.68	55

UK sector focus

Transport & Communication

The UK's Transport & Communication services sector saw a fall in business activity in the three months to May. Over that period, it was the worst performing of the six broad services sub-sectors monitored by PMI data.

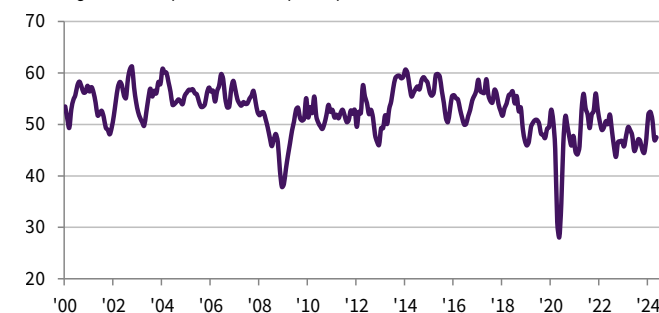
Amid a lack of incoming new work and shrinking backlogs, workforce numbers were scaled back. Employment has in fact fallen continuously in the sector since the end of 2022.

On the cost front, businesses reported pressures from shipping rates, fuel prices and wages. Input cost inflation in the three months to May was the fastest seen since last autumn. Prices charged also increased in the latest three-month period, though the rate of inflation ticked down due in part to competition for new work.

Looking ahead, Transport & Communication firms expected activity to pick up over the next 12 months. Expectations were close to the long-run average stretching back to 1996.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

For the first time in more than a year, all 12 nations and regions monitored by the survey recorded a rise in business activity. Growth was led by Northern Ireland*, where output expanded at a sharp and accelerated rate, followed by Scotland. At the other end of the scale, Yorkshire & Humber saw activity increase for the first time since January, albeit marginally.

Employment

Labour market performances continued to vary across the UK, with just over half of the monitored nations and regions recording a rise in employment. Job creation was led by Northern Ireland for the third month in a row, with the North West and Scotland close behind. The South West meanwhile posted the steepest fall in workforce numbers – its largest for over three years.

Future Activity

The West Midlands recorded the highest overall degree of optimism towards future activity for the ninth time in the past 11 months. It was one of seven areas where sentiment strengthened since April. Despite also seeing confidence improve from the month before, Scotland registered at the bottom of the rankings for the second month running.

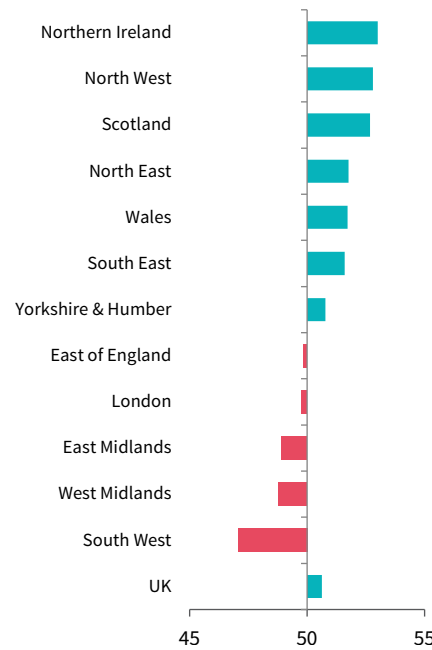
Business Activity Index

sa, >50 = growth since previous month, May '24



Employment Index

sa, >50 = growth since previous month, May '24

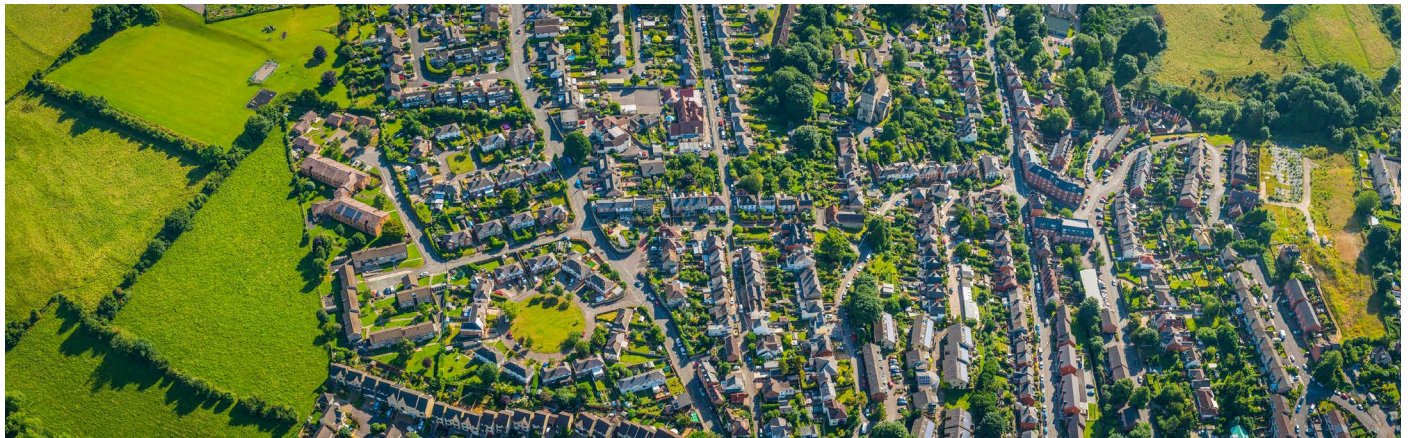


Future Activity Index

>50 = growth expected over next 12 months, May '24



* 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
Dec '23	51.5	51.5	49.8	77.2	49.8	46.7	58.1	56.2
Jan '24	53.1	51.5	50.4	78.1	50.0	47.4	59.9	57.3
Feb '24	53.1	50.9	51.5	76.8	49.0	47.7	61.3	57.2
Mar '24	52.8	50.2	51.6	79.7	47.4	47.5	60.4	56.2
Apr '24	55.5	53.0	51.9	78.7	47.5	48.0	64.3	56.3
May '24	54.2	52.6	53.2	80.5	48.8	47.8	58.0	54.5

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About NatWest

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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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