

12 November 2024

NatWest West Midlands Growth Tracker

Almost two years of rising sales for
businesses in the West Midlands



NatWest

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by **S&P Global**

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Key findings

October 2024

Private sector firms record 21 months of new sales despite lower rate of expansion

Improvement in business optimism since September

Steepest fall in jobs since 2021 and subdued demand registered across region

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





Almost two years of rising sales for businesses in the West Midlands

Subdued demand for West Midlands goods and services dented new business gains, ended a year-long sequence of output growth and sparked a steeper decline in employment in October.

The NatWest Regional Growth Tracker data also showed receding price pressures locally.

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 – registered at the 50.0 no-change mark in October. The headline figure was down from 51.2 in September and signalled the end of a 12-month sequence of expansion.

Uncertainty surrounding the October government budget, competitive conditions and demand weakness dented business activity, anecdotal evidence showed.

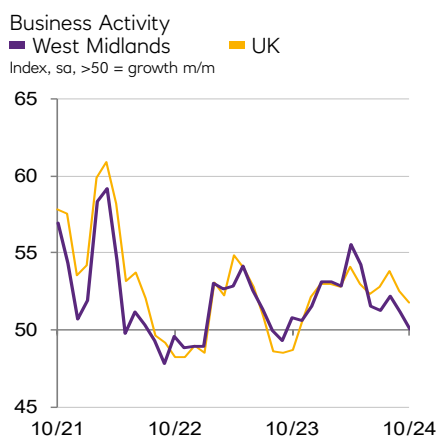
The stagnation of local output compared with modest growth at the UK level.

NatWest West Midlands Business Activity Index October 2024

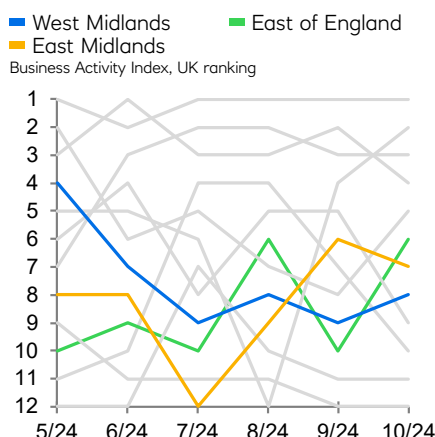
50.0

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 10-29 October



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



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



Comment

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

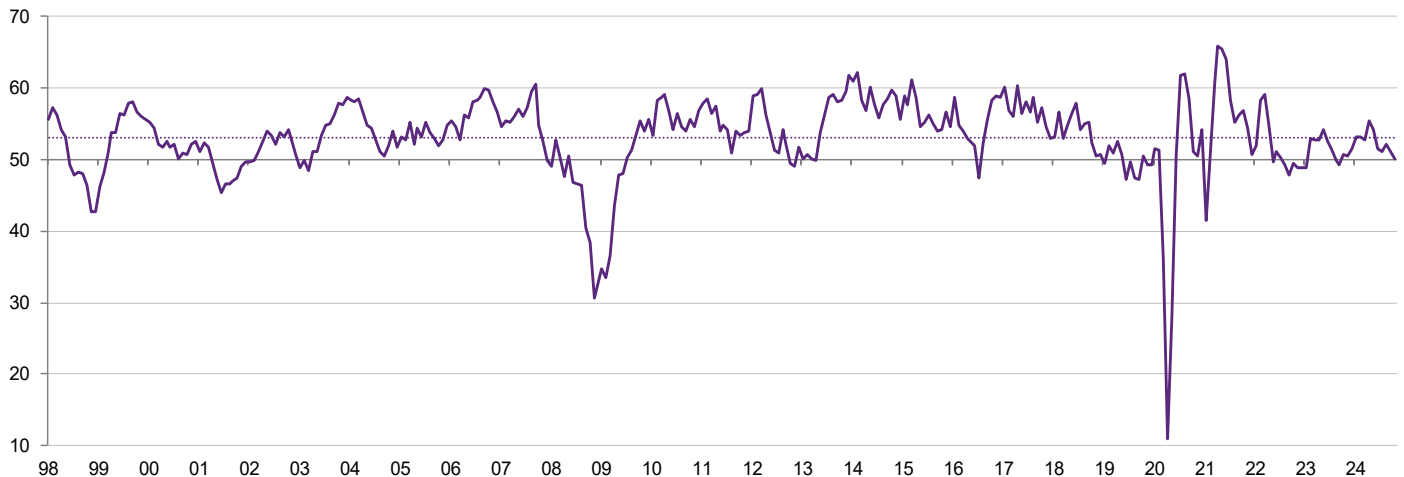
"While West Midlands firms managed to achieve marginal growth in new business, they remained cautious about scaling up operations and resorted to further job cuts in October. With data collection occurring prior to the Autumn Budget announcement, panellists consistently pointed to public policy

uncertainty as a significant barrier to client demand and recruitment. Concerns over rising employment costs prompted many companies to downsize, resulting in the steepest workforce reduction in nearly four years.

"On a positive note, the decline in prices for energy and materials such as steel, helped alleviate cost pressures. Firms will be hopeful that the easing of material price inflation will help mitigate the impact of increased payroll tax expenses."

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 intakes rise only marginally in October

Private sector firms in the West Midlands recorded a twenty-first successive monthly increase in new sales at the start of the fourth quarter, but the rate of expansion was fractional and among the weakest over this period.

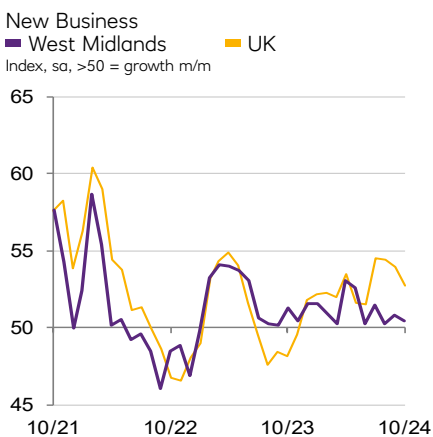
Panellists that signalled growth remarked on new client wins and prospects coming to fruition, but several companies saw order books dwindle amid demand weakness, subdued investment and market uncertainty.

The West Midlands came eighth place in the rankings for new orders out of the 12 monitored UK regions and nations.

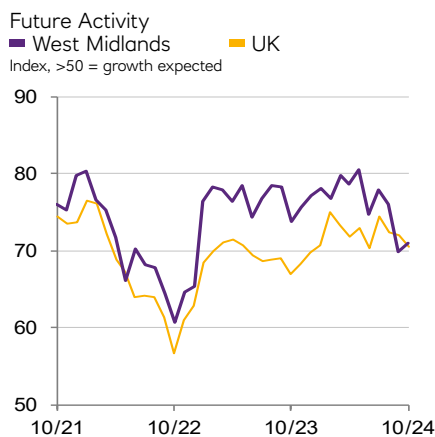
The level of positive sentiment was higher than that seen in September, but remained below its long-run average. Firms that foresee output growth in the year ahead were hopeful of a recovery in demand and good sales performances of new product releases. Others were concerned about inflation and public policies, however.

Local businesses were slightly more optimistic than the UK average.

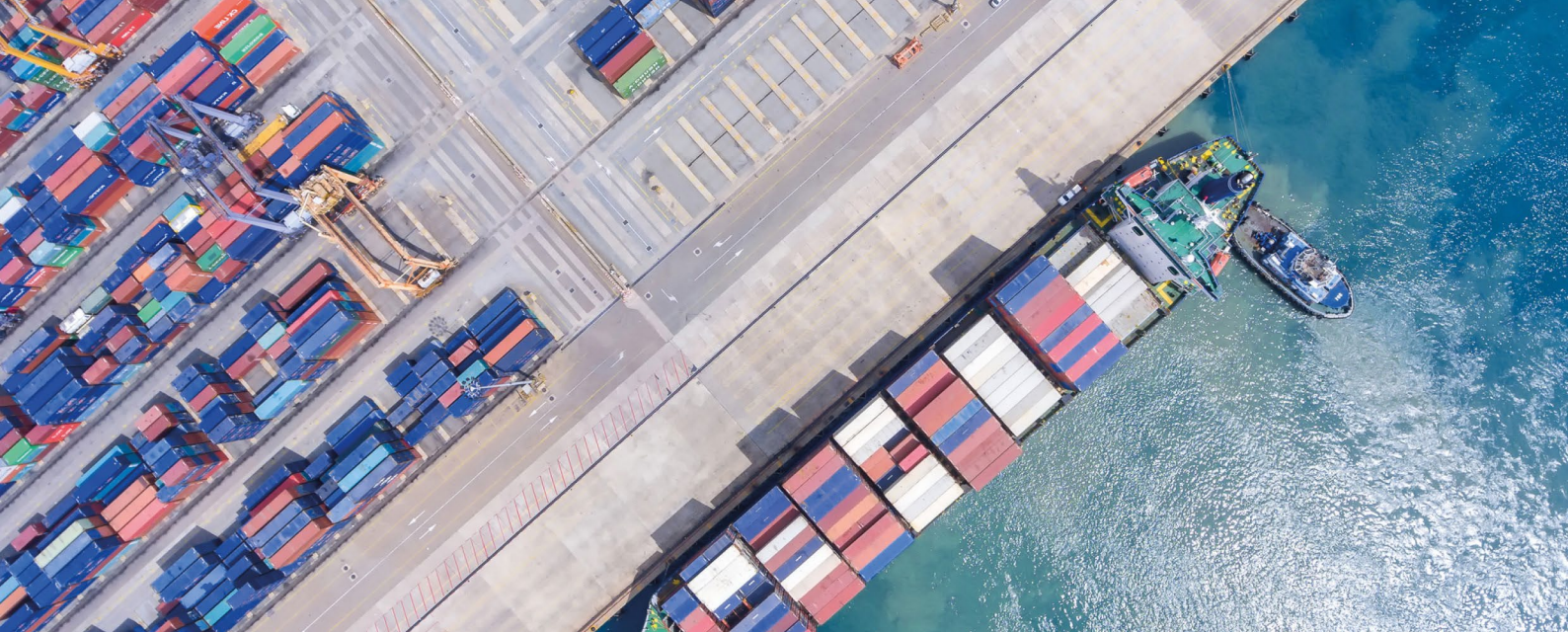
"While West Midlands firms managed to achieve marginal growth in new business, they remained cautious about scaling up operations."



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



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



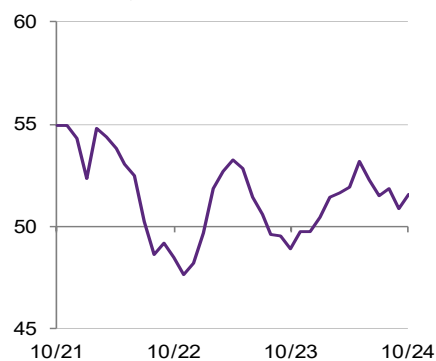
Export markets

Moderate improvement in trade opportunities

October data continued to highlight favourable export conditions for West Midlands companies, as the ECI posted inside expansion territory for the tenth month running. Rising from 50.9 in September to 51.6, the respective reading indicated a faster and moderate rate of growth.

China and the US posted economic expansions that were stronger than in September. The other three of the top five export markets for the West Midlands (France, Germany and the Netherlands) remained in contraction.

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



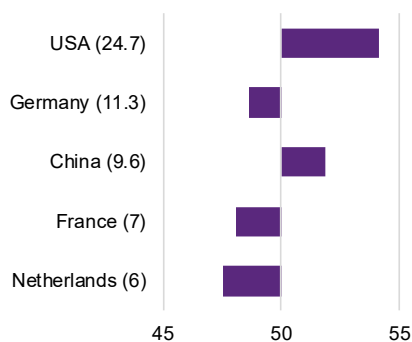
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

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

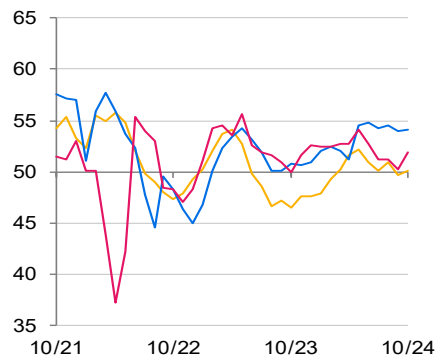
Oct '24



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 to greatest extent since January 2021

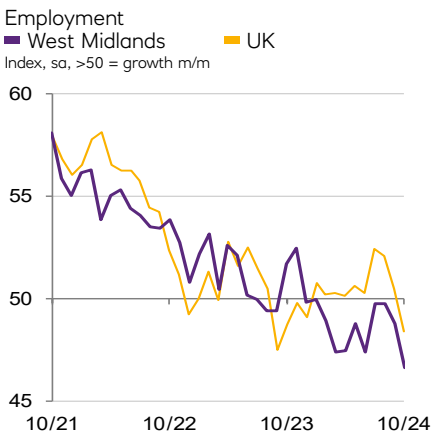
As has been the case since February, private sector companies in the West Midlands reported lower workforce numbers in October. Moreover, the rate of job shedding was sharp and the steepest in close to four years.

Survey participants indicated that resignations, outsourcing, shortages of new business and expectations of greater employment costs after the Budget announcement all caused a fall in headcounts.

Out of the 12 monitored UK regions and nations, only Wales posted a trend for employment that was worse than in the West Midlands.

Local companies continued to signal spare capacity in October, with unfinished business volumes decreasing for the twenty-third straight month. The pace of depletion was marked, faster than in September and stronger than that seen at the UK level.

"Concerns over rising employment costs prompted many companies to downsize, resulting in the steepest workforce reduction in nearly four years."



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



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



Inflation

Input costs rise at second-lowest pace in a year

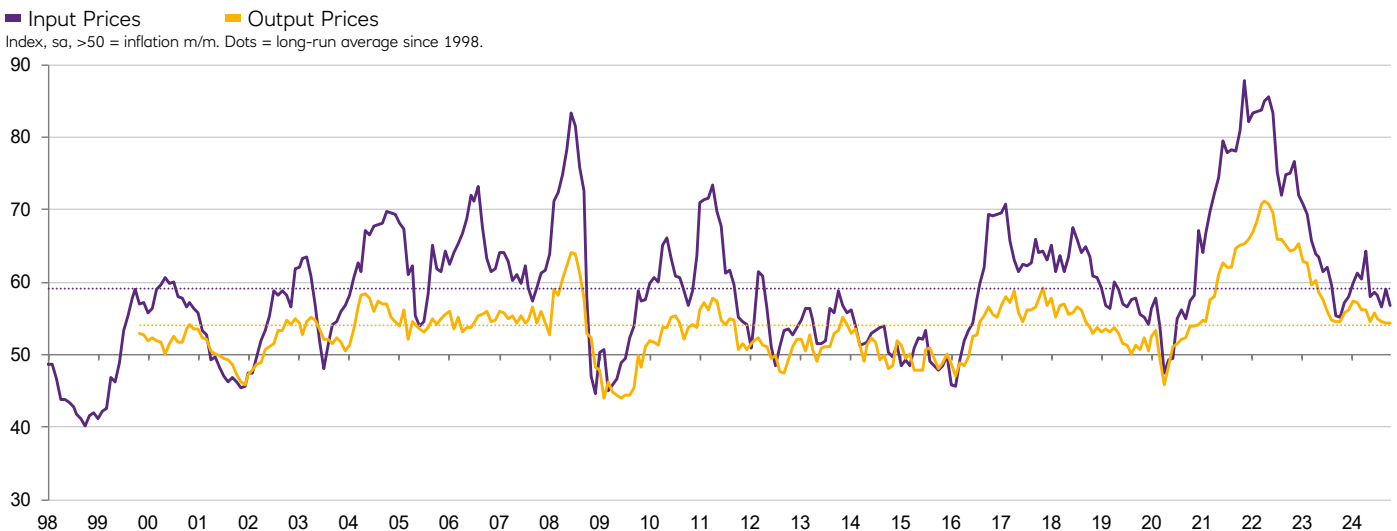
West Midlands companies indicated that higher prices for electronic components, food, freight and insurance drove business expenses up in October. That said, the rate of inflation was below its trend and at its second-lowest level in one year. Lower prices for energy and steel reportedly stymied cost pressures.

The increase in cost burdens locally was the joint-weakest of all areas of

the UK, equal to the East Midlands. Although West Midlands companies continued to share part of their additional cost burdens with clients, they did so to a reduced extent. The overall rate of charge inflation retreated to a 46-month low.

The rate of charge inflation across the West Midlands was broadly aligned with the UK average.

"On a positive note, the decline in prices for energy and materials such as steel, helped alleviate cost pressures."



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

UK Regional Growth Tracker

Business Activity

Just over half of the 12 UK nations and regions saw a rise in business activity in October, down from 11 in September. Northern Ireland continued to see the strongest growth, while there were also solid increases in output across the North East, South West and London. Wales recorded the steepest drop in activity and was joined in contraction by Yorkshire & Humber, the South East and North West.

Employment

Most areas of the UK recorded a reduction in employment as the final quarter of the year got underway. As was the case with business activity, Wales recorded the most marked decline – its sharpest for nine months. Other notable decreases were seen in the West Midlands, East of England and South East. For the fourth month running, the strongest rate of job creation was registered in Northern Ireland.

Future Activity

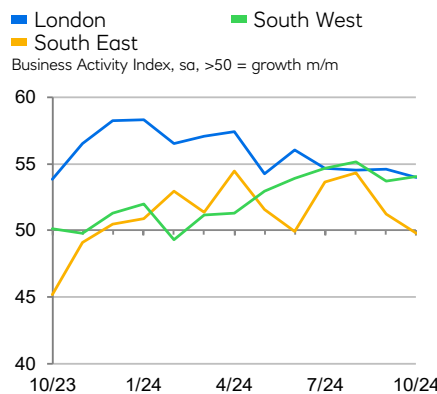
Business expectations remained positive across the board, but in just over half of cases there was a decrease in optimism from the month before. This included Northern Ireland, which saw sentiment weaken to a ten-month low and recorded the lowest degree of business confidence UK-wide. At the other end of the scale, the North West saw expectations improve notably to the highest since July.



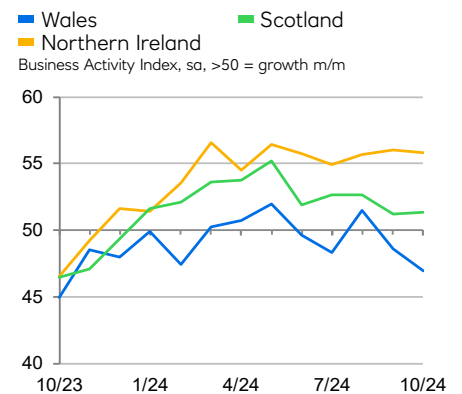
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



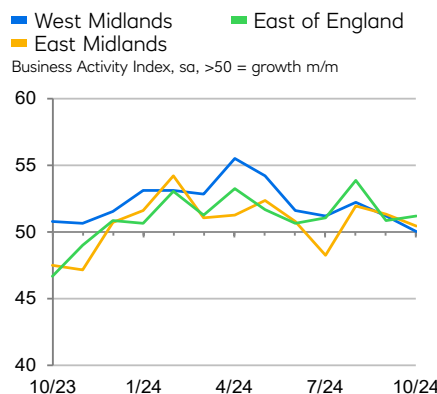
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



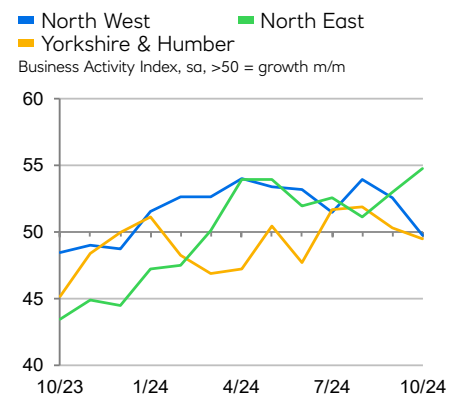
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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



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

Growth Tracker heat map

October 2024

Darker colour = higher business growth

West Midlands

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

50.0



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

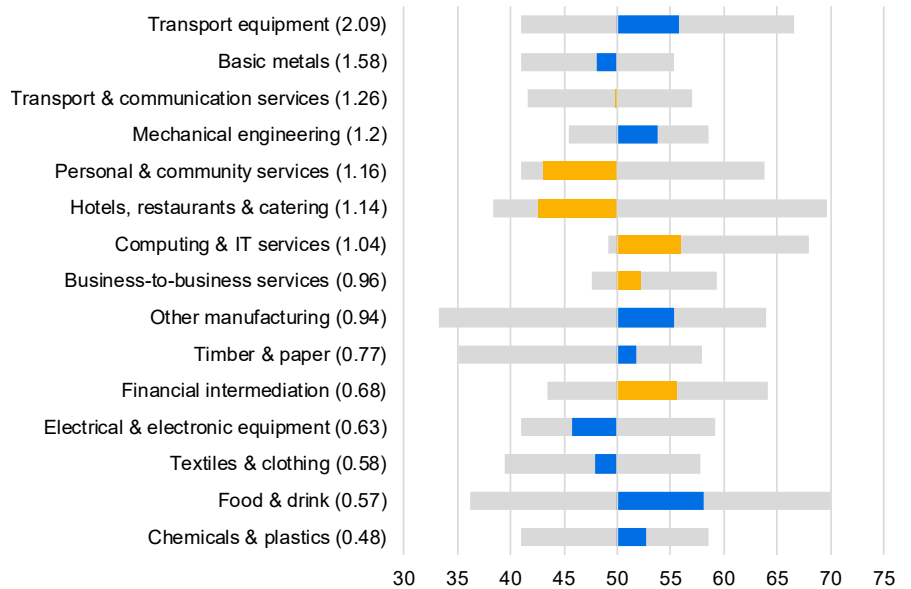
UK sectors

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 Oct '24



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

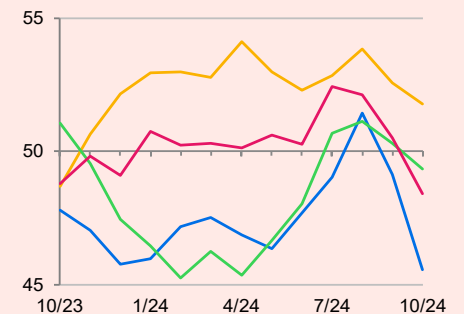
The basic metals sector acted as a notable drag on overall UK economic growth in the three months to October. It recorded the steepest drop in output since Q2 2023 and was the worst-performing sector of those monitored across manufacturing and services.

Basic metals producers reported persistent weakness in demand, with new orders having been in decline for almost two-and-a-half years. A lack of export sales was a contributing factor, underlying data showed.

Employment was also down in the three months to October, following a brief spell of job creation over the summer months. This reversal in recruitment activity coincided with a dip in optimism towards the outlook.

Turning to prices, the basic metals sector saw muted inflationary pressures, with both input costs and output prices rising at rates well below their respective historical averages. Supply-side conditions were relatively stable, as highlighted by only a fractional increase in average lead times on inputs.

Output / Employment
 ■/■ Basic metals*
 ■/■ 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 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

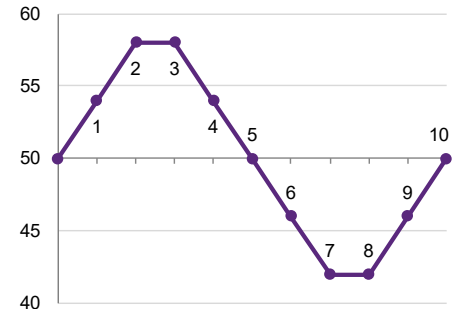
overall decrease. The indices are then seasonally adjusted.

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. ©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

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
5/24	54.2	52.6	53.2	48.8	47.8	80.5	58.0	54.5
6/24	51.6	50.2	52.3	47.4	47.6	74.8	58.6	55.8
7/24	51.2	51.5	51.5	49.8	46.9	77.9	58.3	55.1
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

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