

9 October 2024

NatWest West Midlands Growth Tracker

West Midlands output and sales rise modestly in September



NatWest

PMI[®]

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

September 2024

Quickest rise in cost burdens since April

Charge inflation joint-slowest in nearly four years

Slight increases in new business and output

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





West Midlands output and sales rise modestly in September

Economic growth in the West Midlands entered its twelfth straight month in September, with a slight increase in new business intakes encouraging companies to scale up output.

Job shedding intensified, according to the NatWest Regional Growth Tracker data, amid spare capacity among local firms.

The headline 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 – fell from 52.2 in August to 51.2 in September, indicating a further increase that was nevertheless softer than in the previous month.

Monitored companies stated that new client wins and repeat orders from existing customers supported output growth. The upturn was reportedly constrained by political uncertainty and economic challenges at key export partners.

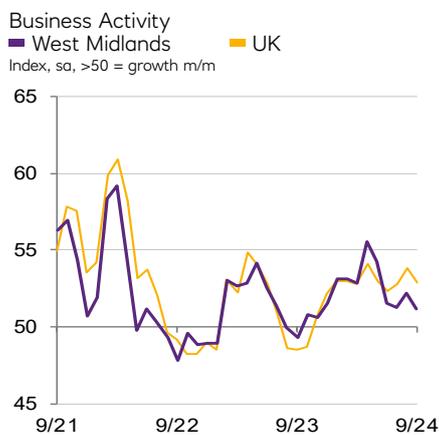
West Midlands business activity rose at a softer pace than that seen at the national level.

NatWest West Midlands Business Activity Index September 2024

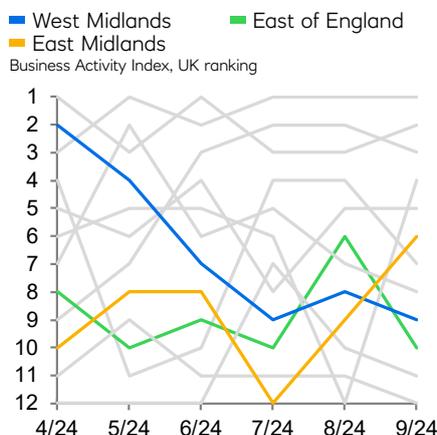
51.2

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 12-26 September



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



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



NatWest

Comment

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

"A modest recovery in sales growth supported a further increase in West Midlands output during September, but underlying data revealed some near-term headwinds.

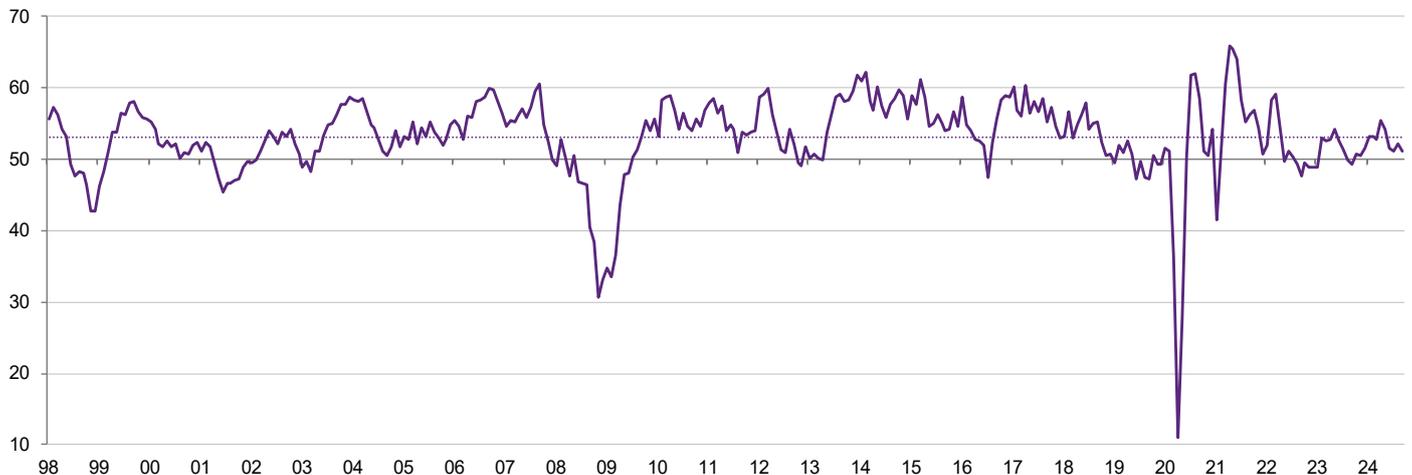
"When completing the survey, local firms expressed concerns around public policy uncertainty,

particularly in light of the upcoming Autumn Budget announcement and potential tax rises. This temporary lack of clarity dampened business confidence, which slipped to a 21-month low.

"Companies refrained from hiring extra workers in September, with reports of hiring freezes and redundancies becoming more common. Rising cost pressures was the main culprit behind job shedding."

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

Marginal increase in new business intakes

Amid reports of demand resilience and the securing of new customers, private sector companies in the West Midlands noted a further expansion in order book volumes.

Although marginal and below its long-run average, the pace of growth accelerated from August.

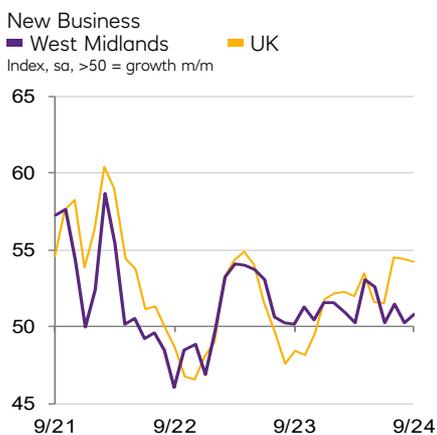
Nevertheless, qualitative data accompanying the survey indicated that sales growth was constrained by macroeconomic challenges among export partners in Europe, deferred investment and public

policy uncertainty.

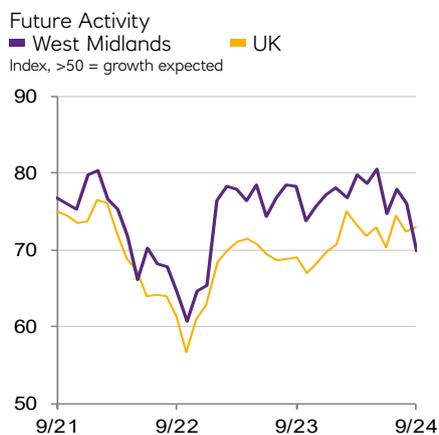
Only Scotland and the East of England recorded softer increases in sales than that seen locally, NatWest data showed.

Although business confidence remained positive in September, it retreated to its lowest level since December 2022. Among the main factors worrying local firms were public policy uncertainty, including the possibility of tax rises, and economic difficulties faced by European export partners. The degree of optimism was below the UK average.

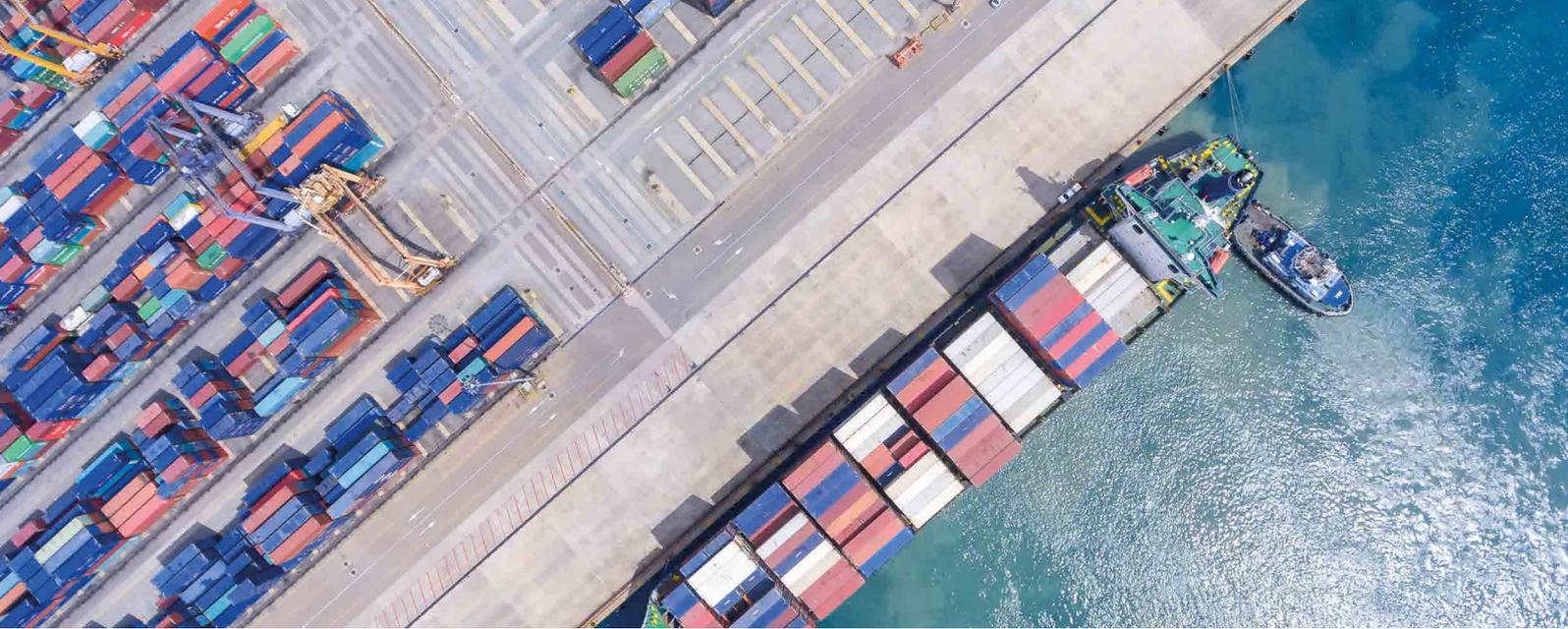
"A modest recovery in sales growth supported a further increase in West Midlands output during September"



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



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



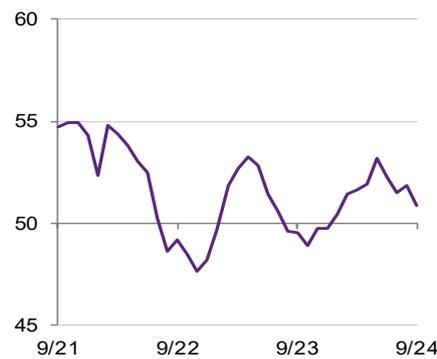
Export markets

Slowest improvement in trade environment since January

Export conditions were favourable for the ninth consecutive month in September, but the rate of improvement eased to the weakest since January. This was signalled by the ECI remaining above the neutral mark of 50.0 but falling from 51.8 to 50.9.

Of the top five export markets for the West Midlands, only China and the US registered economic growth, both of which posted softer rates of expansion. France, Germany and the Netherlands all recorded a fall in output.

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



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

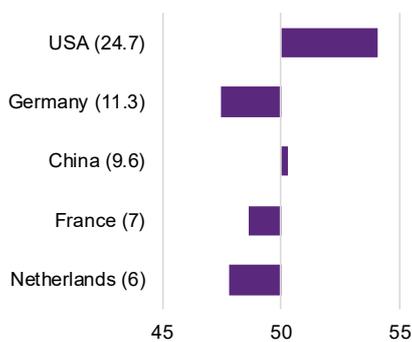
The West Midlands Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the West Midlands. A reading above 50 signals an improvement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

Sep '24

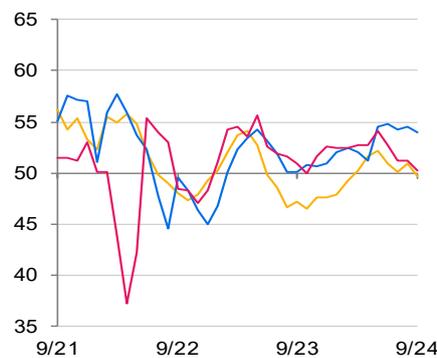


Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Output

Legend: Eurozone (yellow), US (blue), China (red)

Index, sa, >50 = growth m/m



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



Jobs and capacity

Payroll numbers fall amid cost considerations

After nearly stabilising in the previous two months, private sector employment in the West Midlands decreased to a moderate degree in September.

When explaining the latest decline in staff numbers, panel members remarked on cost-cutting efforts. The drop was partly achieved through redundancies, unplanned resignations and hiring freezes.

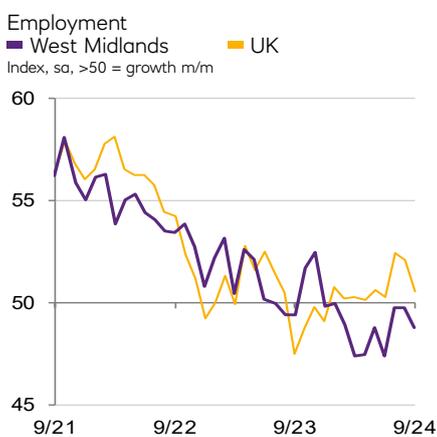
Alongside the West Midlands, five other areas of the UK recorded

job shedding. Northern Ireland registered the strongest increase in employment, while Wales saw the fastest fall.

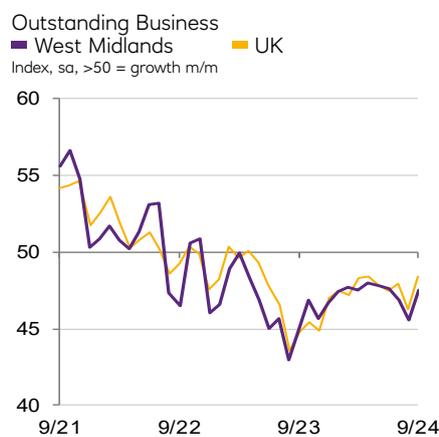
September data highlighted a twenty-second consecutive decline in outstanding business volumes at West Midlands firms. The rate of depletion was moderate, however, and the slowest since June.

Greater input availability and relatively subdued demand allowed firms to clear pending workloads, anecdotal evidence showed.

"Companies refrained from hiring extra workers in September, with reports of hiring freezes and redundancies becoming more common"



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



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



Inflation

Cost inflation ticks higher in September

The seasonally adjusted Input Prices Index rose to a five-month high in September, indicating a pick-up in cost pressures across the West Midlands.

Survey participants stated that unfavourable exchange rate movements, greater outlays on labour and material price hikes fuelled inflation.

The overall rate of increase was broadly in line with both its long-run

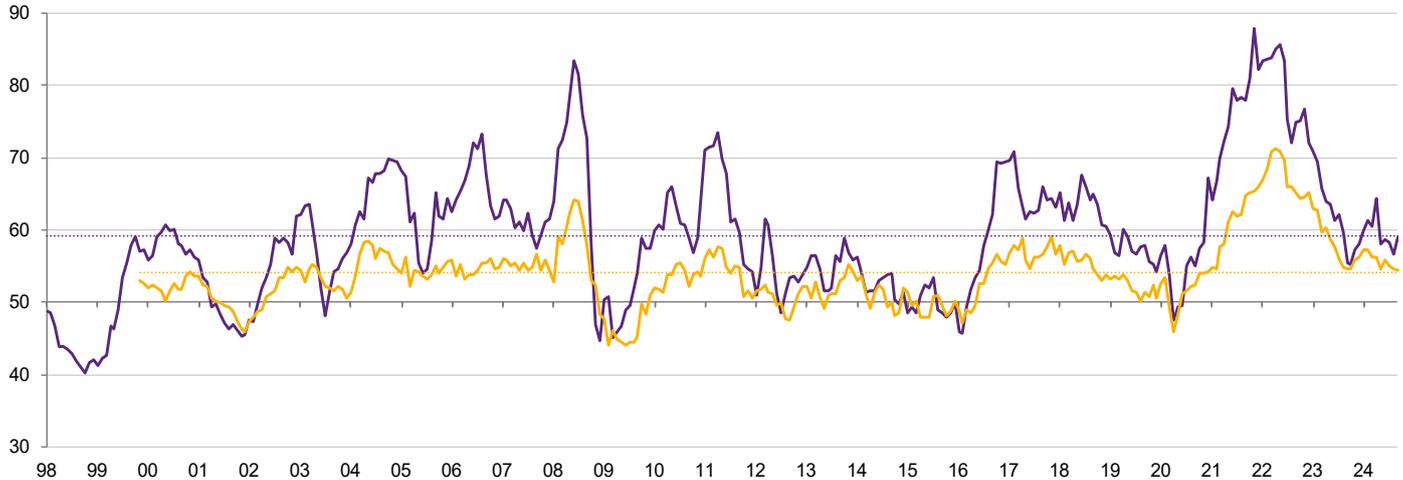
trend and the national average.

Companies continued to share additional cost burdens with their clients by lifting selling prices in September. The rate of charge inflation was marked but unchanged from August.

The West Midlands came sixth in the regional rankings for output price trends, with its rate of inflation matching the UK-wide figure.

"Rising cost pressures was the main culprit behind job shedding"

■ Input Prices ■ Output Prices
 Index, sa, >50 = inflation m/m. Dots = long-run average since 1998.



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

UK Regional Growth Tracker

Business Activity

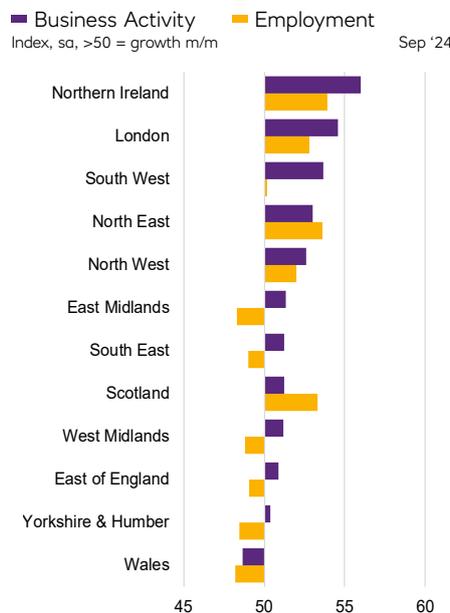
A renewed – albeit only slight – decrease in business activity in Wales in September prevented a second successive month of universal growth across the UK. Notably, rates of expansion generally eased compared to those seen in August. Northern Ireland was one of the exceptions, cementing its position at the top of the growth rankings with its fastest rise in output since May.

Employment

Employment growth in September was also led by Northern Ireland, as was the case throughout the third quarter. Only half of the 12 UK nations and regions monitored reported a rise in workforce numbers, down from ten in August. Wales saw the steepest drop in staffing levels, although the decline was only modest overall.

Future Activity

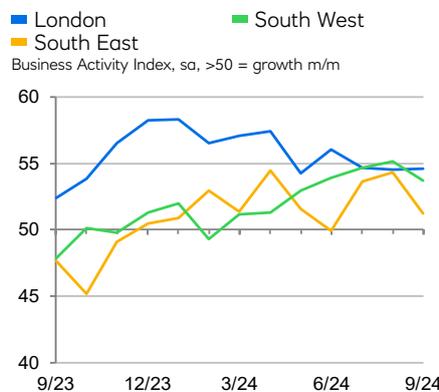
Trends in business expectations varied in September. Just over half of the monitored nations and regions reported a reduction in business confidence, but sentiment nevertheless remained positive across the board. Firms in the South East recorded not only the strongest overall growth expectation, but also the biggest upswing in optimism.



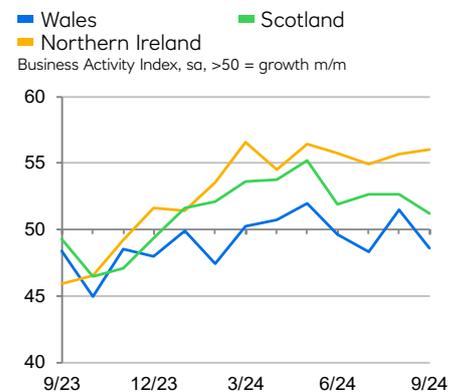
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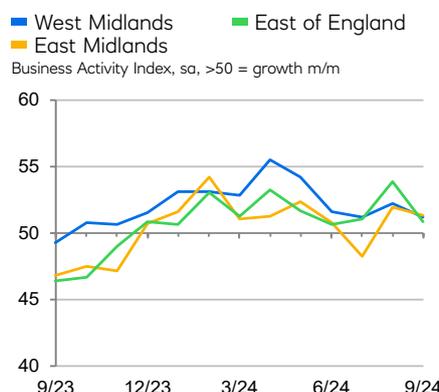
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



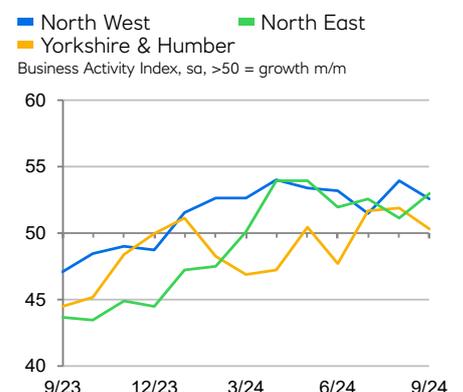
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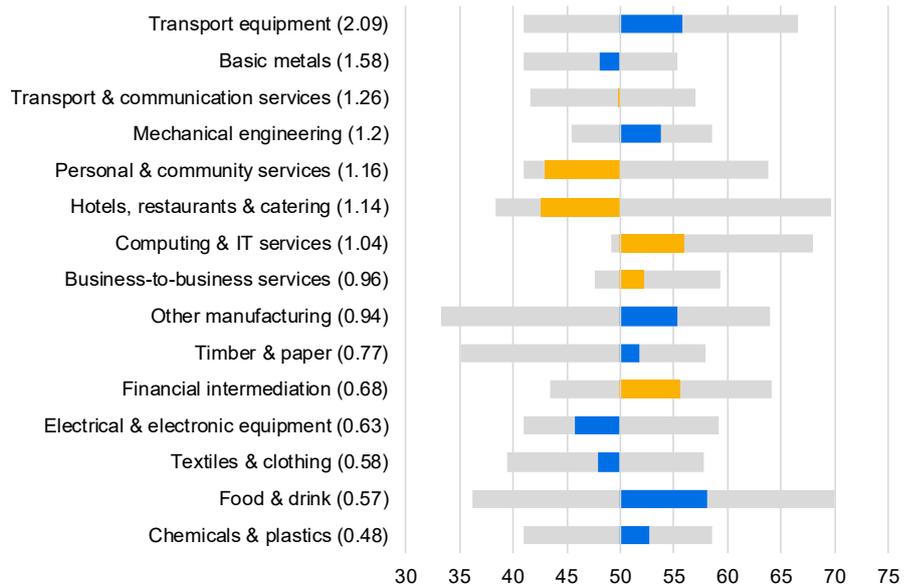
UK sectors

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 Sep '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: Business-to-business services

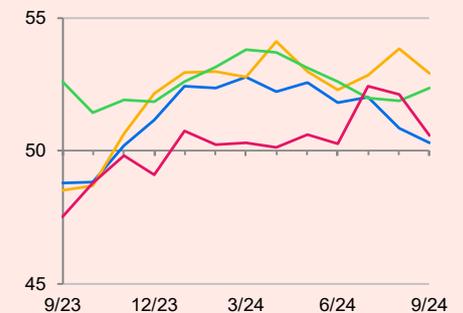
Growth in the UK's Business-to-business services sector came close to stalling in the third quarter. Activity rose only marginally and at the weakest rate for almost a year, with the lack of growth momentum reflecting only modest gains in new business in recent months. Firms in the sector increasingly turned to backlogged work to support growth, with outstanding business falling at a faster rate in the three months to September.

Latest data nevertheless showed sustained job creation across

business-to-business services, continuing a sequence of rising employment that stretches back to early 2021. The rate at which staffing levels rose even ticked up slightly and exceeded the average across the UK private sector as a whole.

As for prices, rates of inflation in both input costs and output charges remained among the lowest seen over the past three-and-a-half years, although they were still above their respective pre-pandemic long-run averages.

Output / Employment
 ■/■ Business-to-business services*
 ■/■ 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

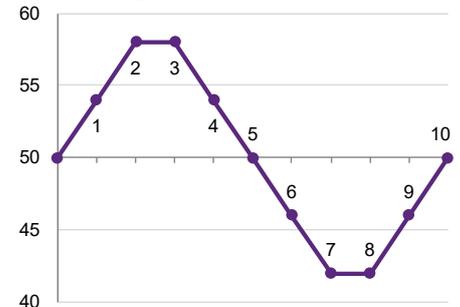
overall decrease. The indices are then seasonally adjusted.

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 |
|------|-------------------|--------------|----------------------|------------|----------------------|------------------|--------------|---------------|
| 4/24 | 55.5 | 53.0 | 51.9 | 47.5 | 48.0 | 78.7 | 64.3 | 56.3 |
| 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 |

Further information

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