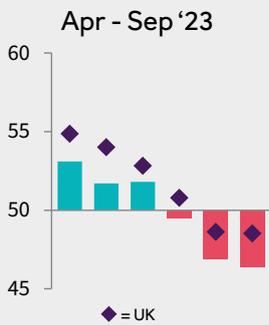




# NatWest East of England PMI<sup>®</sup>

## Worsening demand leads to job losses in September

### East of England Business Activity Index



### Key findings

Fastest decline in new business since January 2021

Employment cut for first time since January

Output price inflation slides to 32-month low

The headline NatWest East of England PMI<sup>®</sup> 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 – remained below the crucial no-change mark of 50.0 at 46.4 in September, down from 46.9 in August. This signalled a third consecutive monthly contraction in private sector output and the fastest rate of decline since August 2022. Firms linked lower output to weak demand resulting from high inflation and interest rates. Moreover, there were concurrent falls in output, new orders and jobs for the first time since January. The level of work-in-hand fell sharply, but the 12-month outlook improved as inflationary pressures showed further signs of easing. Output price inflation hit a 32-month low.

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

*"With output and new business both completing a full quarter of decline in September, the latest East of England PMI data raise the risk of a recession in the region over the second half of 2023. Moreover, a drop in private sector employment for the first time in eight months will weigh on local consumer spending. Excluding the pandemic period, the rate of job shedding was the steepest in 11 years.*

*"It is vital that inflationary pressures continue to subside as this will eventually be followed by lower interest rates which should spur activity. Both price indices moved lower in September, although they remain above their long-run averages."*

East of England Business Activity Index

sa, >50 = growth since previous month



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## About the East of England PMI® report

The NatWest East of England PMI® is compiled by S&P Global from responses to questionnaires sent to East of England 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

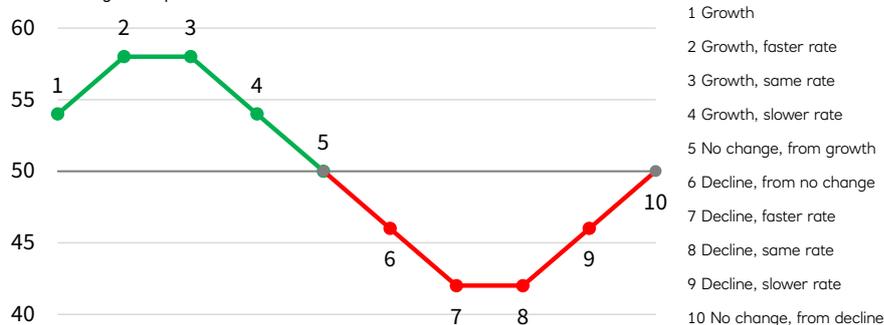
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East of England Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### Worst drop in new orders since start of 2021

Private sector firms in the East of England reported a third successive monthly decline in new business volumes in September, linked to market uncertainty, high interest rates and a weak housing sector. The rate of contraction continued to accelerate, reaching the fastest since January 2021, and remained stronger than the UK average.

Manufacturers reported a much steeper decline in new orders than service providers, where new work fell only slightly.

### Outlook improves for first time in five months

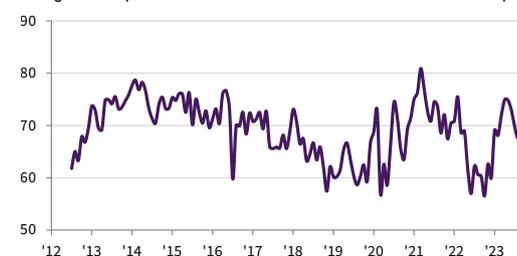
Private sector firms in the East of England remained confident of rising output over the next 12 months in September. Sentiment strengthened over the month for the first time since April, and moved slightly above the long-run series trend (since 2012). Some firms linked confidence to new products and markets, and a better economic outlook.

Expectations in the East of England were slightly stronger than the UK average in September, as has been the case six times in the past seven months.

New Business Index  
Sep '23: 46.4  
50 = growth since previous month



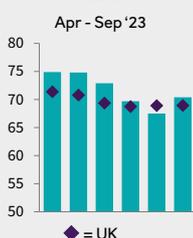
Future Activity Index  
Sep '23: 70.4  
50 = growth expected over next 12 months



New Business Index



Future Activity Index



## Business capacity

### Strongest decline in jobs since January 2021

Private sector employment in the East of England fell in September, ending a seven-month sequence of job creation. Moreover, the rate of job shedding was the fastest since January 2021, and since September 2012 when excluding the pandemic period. Firms linked lower staffing both to cost cutting and difficulties finding suitable candidates.

The rate of decline in staffing in the East of England was broadly in line with the UK trend in the latest period. Northern Ireland and Scotland were the only areas to see higher employment in September.

### Rate of backlog depletion remains at three-year record

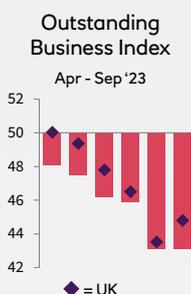
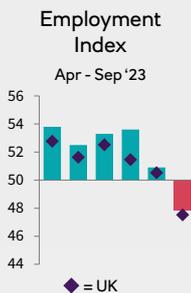
With the downturn in new business deepening in September, companies continued to complete existing work at a rapid pace. Backlogs fell at a rate unchanged from August's 38-month record, with manufacturers recording a notably sharp reduction.

The East of England registered a drop in work-in-hand that was sharper than the UK average in the latest period.

Employment Index  
sa, >50 = growth since previous month  
47.8  
Sep '23



Outstanding Business Index  
sa, >50 = growth since previous month  
43.1  
Sep '23



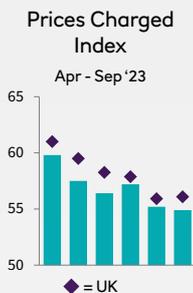
## Prices



### Input price inflation eases to three-month low

Firms in the East of England's private sector economy continued to face sharp increases in average input costs in September, linked to fuel, salaries, energy and interest rates. The rate of inflation eased to a three-month low and was well down on the 2021-22 trend. That said, it was still comfortably above the long-run series average and only just below the trend for 2023 so far.

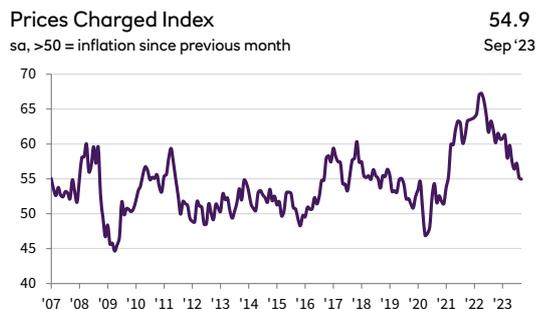
Cost pressures remained high among service providers compared with manufacturers.



### Weakest rise in charges since January 2021

Prices set by private sector firms for goods and services rose for the thirty-ninth consecutive month in September. The rate of inflation remained above the long-run survey average but eased to a 32-month low. Companies reported passing on higher costs to customers, but also trying where possible to limit prices in order to remain competitive and retain business.

Output price inflation in the East of England remained below the UK average.



## UK Sector PMI

### Sector specialisation: East of England

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 East of England, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

#### East of England specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Sep '23
1	Electrical & Optical	1.30	
2	Mechanical Engineering	1.26	
3	Timber & Paper	1.21	
4	Chemicals & Plastics	1.08	
5	Other Manufacturing	1.03	
6	Food & Drink	0.93	
7	Basic Metals	0.93	
8	Transport	0.66	
9	Textiles & Clothing	0.43	

#### East of England specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '23
1	Transport & Communication	1.17	
2	Business-to-business Services	1.12	
3	Hotels, Restaurants & Catering	1.03	
4	Personal & Community Services	0.94	
5	Computing & IT Services	0.87	
6	Financial Intermediation	0.67	

### UK sector focus

#### Business-to-business services

The UK's large Business-to-business services sector contracted during the third quarter. Activity fell at a solid rate that was the fastest for over three years.

The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

Although employment in the sector continued to rise, the rate of job creation slowed to the weakest in the year-to-date as firms made increasingly rapid inroads into their backlogs of work.

On the price front, input cost inflation remained historically elevated, driven by rising salaries and fuel prices, but it slowed to a two-and-a-half year low. It was a similar story for prices charged.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Business activity fell across all but one of the 12 monitored UK regions and nations, the exception being London. Furthermore, output in the capital increased at an accelerated rate. The North East recorded the sharpest drop in business, its quickest for more than a year, followed by neighbouring Yorkshire & Humber.

### Employment

Employment growth was confined to just Northern Ireland\* and Scotland in September, albeit with the rates of job creation there slowing to a crawl. Ten of the 12 monitored areas recorded a reduction in staffing levels, the highest number since January 2021. For the third month running, the deepest job cuts were seen in the North East.

### Future Activity

As was the case throughout the third quarter, firms in the West Midlands were the most optimistic about future activity in September. Next in the rankings was the South East, which was one of seven regions where confidence improved. The most marked increase in sentiment was in the East of England. Expectations were lowest in the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '23



\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



## Index summary

### East of England

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
Apr '23	53.1	55.0	52.4	74.9	53.8	48.1	66.7	59.8
May '23	51.7	51.8	51.4	74.8	52.5	47.5	65.6	57.5
Jun '23	51.8	52.0	50.4	72.9	53.3	46.2	62.4	56.4
Jul '23	49.5	49.2	50.1	69.7	53.6	45.9	66.3	57.2
Aug '23	46.9	46.9	49.4	67.5	50.9	43.1	65.7	55.2
Sep '23	46.4	46.4	48.7	70.4	47.8	43.1	64.9	54.9

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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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### About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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