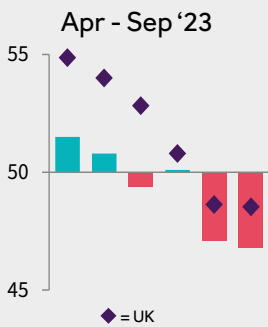


NatWest East Midlands PMI[®]

Stronger drop in output as demand conditions worsen in September

East Midlands Business Activity Index



Key findings

Faster contractions in output and new orders

Rate of charge inflation quickens

Employment falls at sharpest pace since August 2020

The headline NatWest East 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 – posted 46.8 at the end of the third quarter, down from 47.1 in August to signal a solid fall in output at private sector firms in the East Midlands. The rate of contraction was the quickest in 2023 so far, and exceeded the UK average. Lower business activity was reportedly due to weak client demand, the cost-of-living crisis and economic uncertainty.

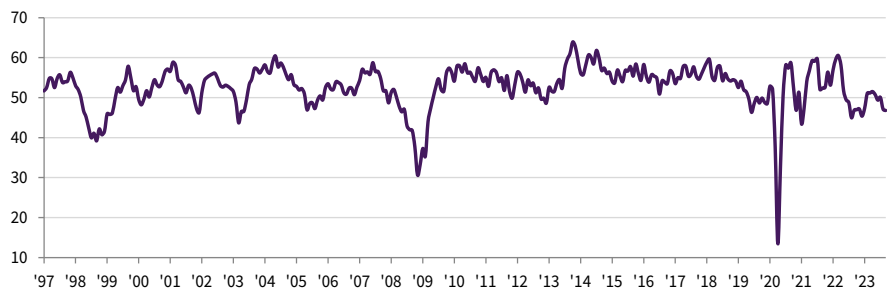
Rashel Chowdhury, NatWest Midlands and East Regional Board, commented:

“September data signalled a worsening of business conditions at the end of the third quarter, as business activity fell at a faster pace. Output declined at the sharpest rate in 2023 so far amid a solid reduction in new orders, as the cost-of-living crisis and strain on customer spending led to a slump in client demand.”

“Inflationary pressures remained elevated, with selling prices rising at a faster pace despite dwindling sales. Cost cutting initiatives were in place, however, as voluntary leavers were not replaced and employment dropped at the steepest rate since August 2020. Lower staffing numbers reflected below-average confidence levels, as expectations remained historically subdued amid concerns demand will prove difficult to stimulate over the coming year due to high inflation and economic uncertainty.”

East Midlands Business Activity Index

sa, >50 = growth since previous month



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About the East Midlands PMI® report

The NatWest East Midlands PMI® 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

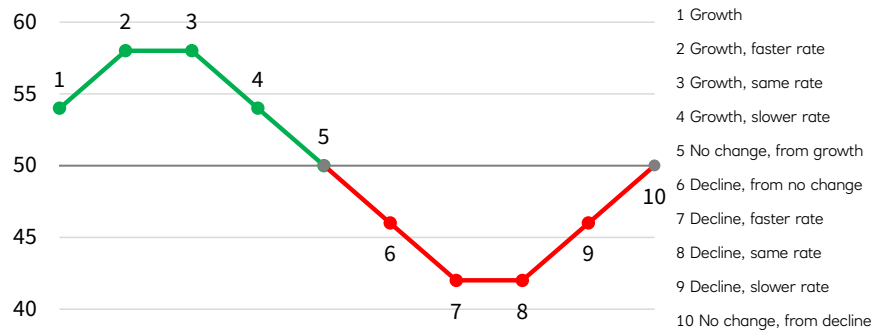
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Solid drop in new business

East Midlands private sector firms recorded another solid decrease in new orders in September. The rate of decline was broadly in line with that seen in August, but quickened to the fastest since January. Lower new business was linked to weak client demand amid economic uncertainty and reduced purchasing power at customers as cost-of-living issues hampered sales.

The solid fall in new orders was sharper than that seen across the UK as a whole, where the pace of contraction slowed on the month.

Business expectations remain strong in September

September data signalled further upbeat expectations regarding the outlook for output over the coming year at East Midlands firms. The degree of confidence was little changed from that seen in August. Although weaker than the long-run series average, the level of optimism was slightly higher than the UK average.

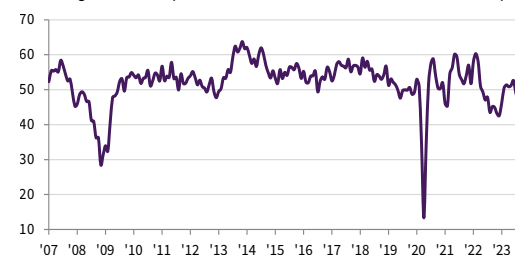
Service providers saw business confidence slip slightly, whereas manufacturers recorded stronger sentiment.

New Business Index

sa, >50 = growth since previous month

46.7

Sep '23

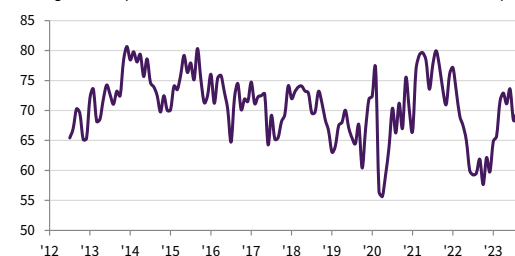


Future Activity Index

>50 = growth expected over next 12 months

69.4

Sep '23



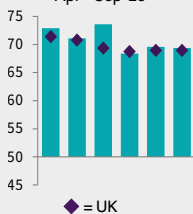
New Business Index

Apr - Sep '23



Future Activity Index

Apr - Sep '23



Business capacity

Fastest decrease in employment for over three years

Staffing numbers at East Midlands firms contracted for the third month running in September, with the pace of job shedding accelerating to the sharpest since August 2020. Lower employment was attributed to the non-replacement of voluntary leavers amid reduced new orders and higher wage costs. The decrease in workforce numbers was steeper than the UK average.

Service providers saw employment broadly unchanged on the month, but manufacturers drove the overall decline in workforce numbers.

Sharp drop in outstanding business in September

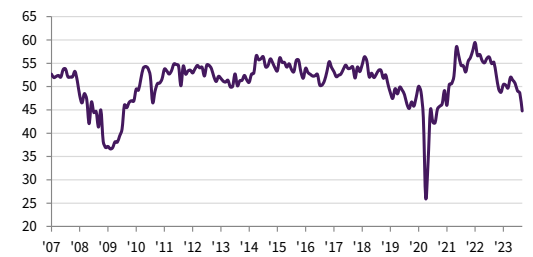
East Midlands firms recorded another steep contraction in backlogs of work at the end of the third quarter. Anecdotal evidence suggested that the decrease in outstanding business was due to lower new orders and sufficient capacity to process incoming work. The rate of decline was slightly faster than the UK average, with manufacturers in the region leading the drop in incomplete work.

Employment Index

sa, >50 = growth since previous month

44.8

Sep '23

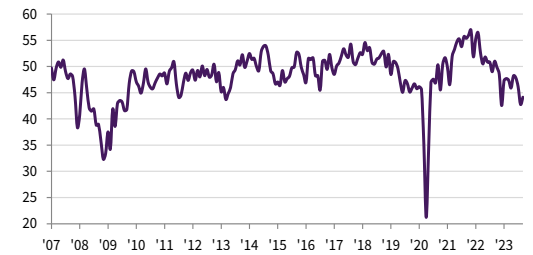


Outstanding Business Index

sa, >50 = growth since previous month

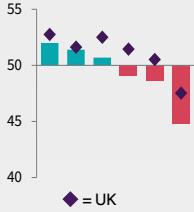
44.1

Sep '23



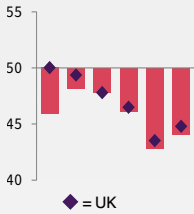
Employment Index

Apr - Sep '23



Outstanding Business Index

Apr - Sep '23



Prices

Joint-slowest rise in input costs since early-2021

September data signalled a marked increase in operating expenses at East Midlands companies, albeit at a slightly slower pace. Higher cost burdens were often linked to greater wage bills, alongside upticks in energy, transport and material prices.

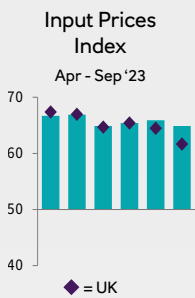
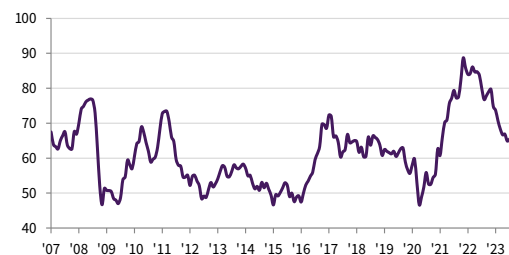
Although the joint-weakest since January 2021, the rate of cost inflation was quicker than the UK average. In fact, only the South West posted a faster rise in input prices than the East Midlands.

Input Prices Index

sa, >50 = inflation since previous month

64.9

Sep '23



Quicker rise in output charges in September

East Midlands private sector companies recorded a sharp rise in selling prices in September. The rate of charge inflation was the quickest for three months and faster than the UK average. Hikes in output charges were due to the pass-through of higher costs to customers, including the increased burden of servicing loans.

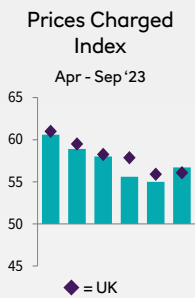
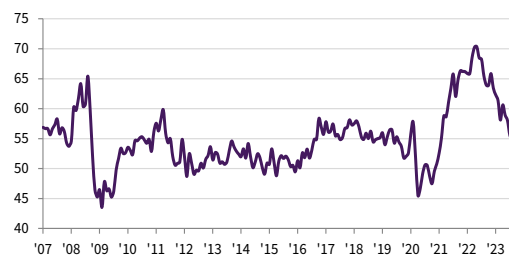
Manufacturers left selling prices broadly unchanged, however, service providers recorded a steep uptick in charges.

Prices Charged Index

sa, >50 = inflation since previous month

56.7

Sep '23



UK Sector PMI

Sector specialisation: East 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 East Midlands, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

East Midlands specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Sep '23 ⁺
1	Textiles & Clothing	2.09	50
2	Food & Drink	1.41	50
3	Other Manufacturing	1.27	50
4	Mechanical Engineering	1.05	50
5	Timber & Paper	1.02	45
6	Transport	0.92	50
7	Basic Metals	0.87	50
8	Electrical & Optical	0.67	45
9	Chemicals & Plastics	0.58	50

East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '23 ⁺
1	Transport & Communication	1.18	50
2	Hotels, Restaurants & Catering	1.13	50
3	Personal & Community Services	1.11	50
4	Business-to-business Services	1.07	50
5	Computing & IT Services	0.91	50
6	Financial Intermediation	0.49	50

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.

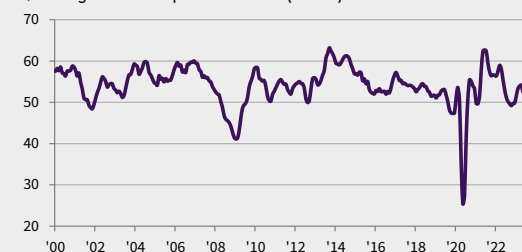
The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

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 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
Apr '23	51.5	50.8	53.3	72.9	52.0	45.9	66.7	60.6
May '23	50.8	51.2	52.5	71.1	51.4	48.2	66.9	58.9
Jun '23	49.4	52.6	51.4	73.6	50.7	47.8	64.9	58.0
Jul '23	50.1	49.1	50.3	68.4	49.1	46.1	65.4	55.6
Aug '23	47.1	46.8	49.6	69.6	48.6	42.8	65.9	55.0
Sep '23	46.8	46.7	49.4	69.4	44.8	44.1	64.9	56.7

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