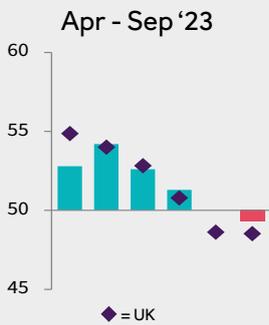




NatWest West Midlands PMI[®]

West Midlands output slips into contraction in September

West Midlands Business Activity Index



Key findings

New orders broadly stagnate, dragging down output

Marginal fall in private sector employment

Input cost inflation recedes to three-year low

September continued to see a blend of positive and unfavourable developments across the West Midlands private sector economy, according to the NatWest PMI[®] data. In a beneficial context, input cost inflation softened to a three-year low, which helped drag down the rate of increase in output charges to the slowest in 31 months. Setbacks included no change in new business volumes, sustained job shedding and the first decline in output since January. The headline 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 – slipped from 50.0 in August to 49.3 in September, but indicated only a marginal pace of contraction. According to panellists, the fall largely reflected reduced customer orders.

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

"West Midlands companies suggested that their clients were unsure about the prospects for the national economy, which combined with tight budgets, led to increased caution about spending. With sales volumes barely moving in September, local firms trimmed output for the first time since the start of the year. But there is a silver lining. Prices didn't go up as much, which could help demand, while businesses are still feeling strongly positive about the year-ahead outlook for business activity. Compared to other parts of the UK, the West Midlands led on the business sentiment front, saw one of the best trends for sales and the weakest uptick in input costs."

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

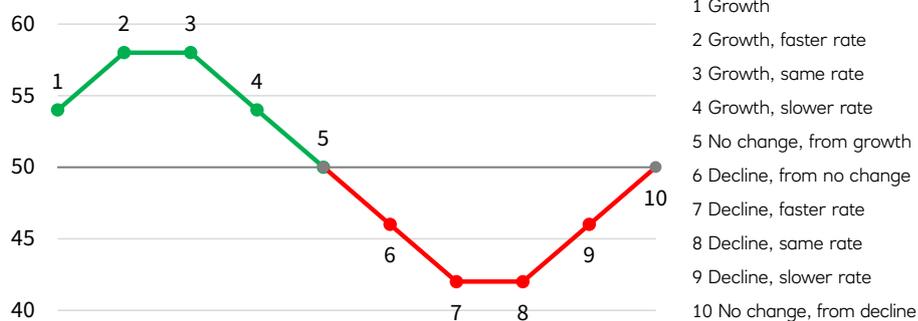
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

September data highlighted broadly stagnant levels of new business at West Midlands firms, with the respective seasonally adjusted index only fractionally above the neutral level of 50.0. Some firms linked growth to successful marketing efforts. Others saw demand worsen amid tight client budgets and hesitancy among them to commit to new projects.

Nevertheless, the local trend for sales was the second-best regionally as declines were noted in ten areas. London was the top performer.

Optimism remains among highest in 20 months

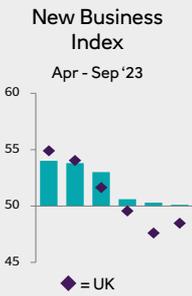
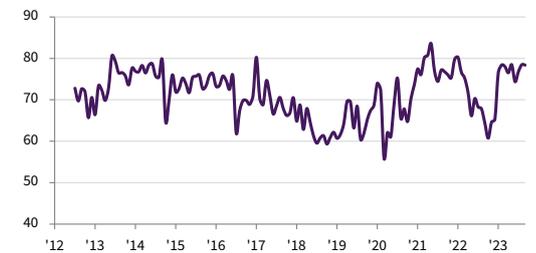
West Midlands companies were strongly confident that output would increase over the course of the coming 12 months. Moreover, the overall level of positive sentiment was little-changed since August and among the highest since the start of 2022. Optimism reflected the onboarding of new clients and expectations that underlying demand would strengthen. Planned investment in people and systems as well as efficiency gains were also cited as factors supportive of upbeat forecasts.

The West Midlands saw the highest level of confidence out of the 12 monitored UK regions.

New Business Index
sa, >50 = growth since previous month
50.1
Sep '23



Future Activity Index
>50 = growth expected over next 12 months
78.4
Sep '23



Business capacity

Private sector jobs fall marginally

As was the case in August, private sector jobs across the West Midlands decreased at the end of the third quarter. Where a fall was signalled, panellists mentioned subdued demand conditions, staff churn and high staff costs. The overall rate of reduction in headcounts was, however, marginal and equal to that seen in the previous month.

Payroll numbers fell in ten of the 12 monitored UK regions, the exceptions being Scotland and Northern Ireland.

Backlogs of work decline for tenth month running

Continuing the trend that began in December 2022, outstanding business volumes at companies operating in the West Midlands private sector decreased during September. Despite easing since August, the rate of contraction remained substantial and was the second-quickest since June 2020. According to survey members, the clearing of pending workloads stemmed from supply-chain improvements, a lack of new business and staff working overtime.

The local rate of backlog depletion was broadly aligned with the national average.

Employment Index
sa, >50 = growth since previous month
49.4
Sep '23



Outstanding Business Index
sa, >50 = growth since previous month
44.9
Sep '23



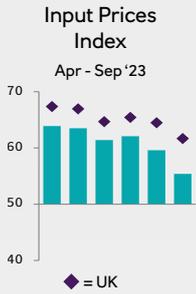
Prices

Input cost inflation retreats to three-year low

Although private sector firms in the West Midlands continued to signal an increase in their expenses during September, the rate of inflation softened considerably to the weakest in three years. Firms reported higher insurance, fuel, staff and transportation costs. Curbing the upturn was reduced pressure from energy, food and metals.

The West Midlands sat at the bottom of the regional rankings for input cost inflation.

Input Prices Index 55.4
sa, >50 = inflation since previous month Sep '23

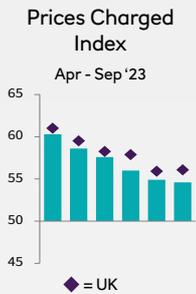


Receding cost pressures curbs charge inflation

Similar to input costs, prices charged for West Midlands goods and services rose at a slower pace in September. The increase was marked, albeit the weakest in over two-and-a-half years. Some firms hiked their fees amid efforts to protect margins, but others reduced them due to competitive pressures and lower energy prices.

The local rate of charge inflation was below the UK average.

Prices Charged Index 54.6
sa, >50 = inflation since previous month Sep '23



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, Sep' 23 ⁺
1	Transport	2.35	50
2	Basic Metals	1.44	50
3	Mechanical Engineering	1.17	50
4	Other Manufacturing	0.89	50
5	Timber & Paper	0.61	45
6	Electrical & Optical	0.59	45
7	Textiles & Clothing	0.57	50
8	Food & Drink	0.51	50
9	Chemicals & Plastics	0.47	50

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep' 23 ⁺
1	Transport & Communication	1.19	50
2	Hotels, Restaurants & Catering	1.16	50
3	Personal & Community Services	1.08	50
4	Computing & IT Services	0.98	50
5	Business-to-business Services	0.97	50
6	Financial Intermediation	0.74	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

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
Apr '23	52.8	54.0	53.1	76.5	52.6	48.3	63.9	60.3
May '23	54.2	53.8	52.6	78.5	52.1	46.8	63.5	58.6
Jun '23	52.6	53.0	51.2	74.4	50.2	45.0	61.4	57.6
Jul '23	51.3	50.6	50.4	76.8	50.0	45.7	62.1	56.0
Aug '23	50.0	50.3	49.5	78.5	49.4	43.0	59.6	54.9
Sep '23	49.3	50.1	49.3	78.4	49.4	44.9	55.4	54.6

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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