

10 September 2024

NatWest East Midlands Growth Tracker

**Sharpest rise in new business
since March 2022 in August**



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NatWest

PMI[®]

by **S&P Global**

Key findings

August 2024

New orders rise at fastest pace in almost two-and-a-half years

Cost burdens increase at marked but softer pace

Pace of job shedding quickens

The NatWest East 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





Sharpest rise in new business since March 2022 in August

Latest Regional Growth Tracker survey data from NatWest showed a return to output growth across the East Midlands private sector midway through the third quarter.

At 51.9 in August, up from 48.3 in July, the latest headline East Midlands Business Activity Index indicated a renewed expansion in output at East Midlands firms,

following a slight contraction in July. The rate of growth was the fastest for three months, despite being below both the long-run and UK averages.

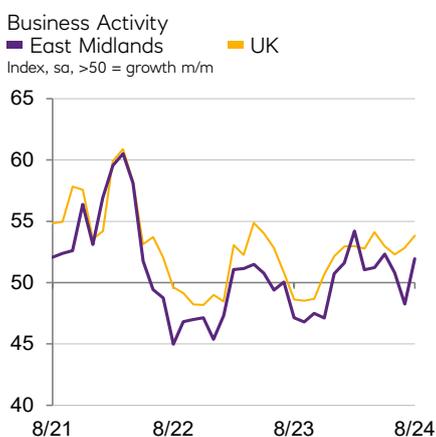
The rise in activity was linked to stronger demand conditions, an upturn in new orders and a rebound away from pre-election uncertainty at customers seen in the previous survey period.

NatWest East Midlands Business Activity Index August 2024

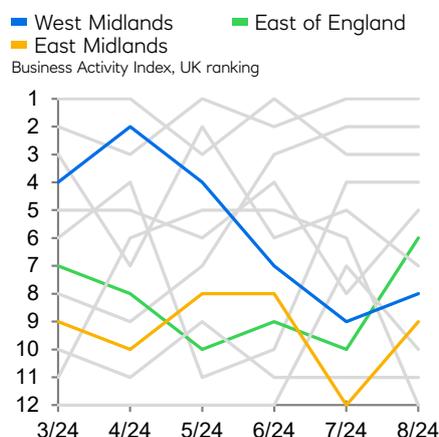
51.9

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 12-28 August



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



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



Comment

Dipesh Mistry, Chair of the NatWest Midlands and East of England Regional Board, commented:

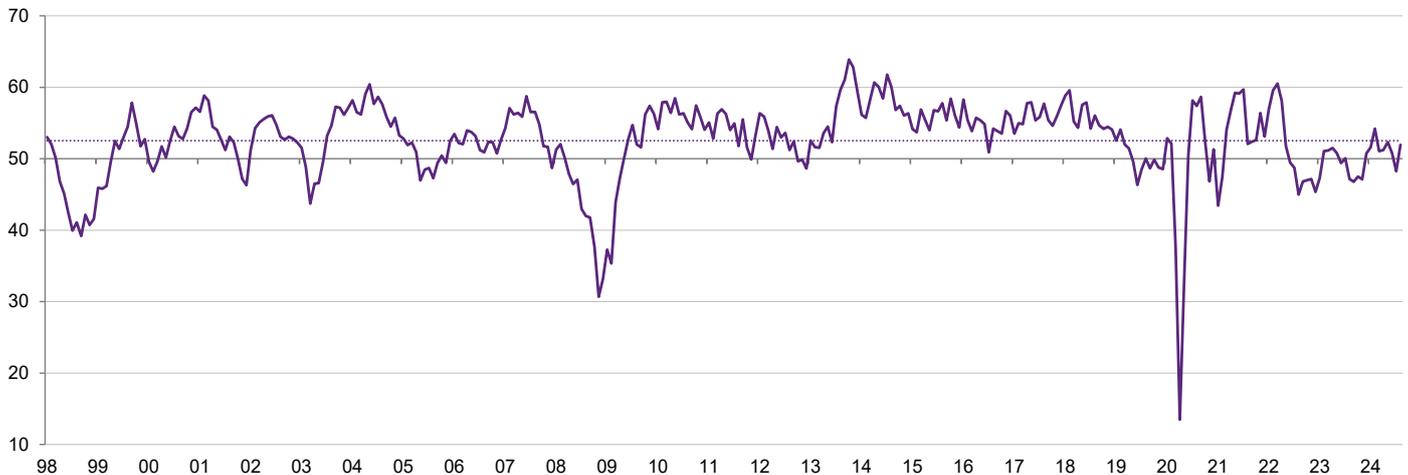
"August data pointed to a stronger performance across the East Midlands private sector, as output returned to growth on the back of a renewed expansion in new business that was the fastest since March 2022. An improvement in demand conditions also buoyed business confidence.

"Cost cutting efforts following previously weak customer interest led firms to reduce employment again despite outstanding business contracting at the slowest pace in almost two years.

"On the price front, there was some reprieve for companies as, although the fastest of the UK regions, the pace of cost inflation slowed. The uptick in client demand spurred firms to raise selling prices, meanwhile, and at the fastest rate since April."

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

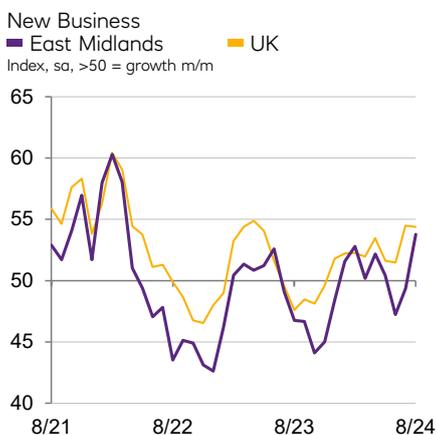
New orders return to growth, rising at the fastest pace since March 2022, but business confidence softens in August

Private sector firms in the East Midlands signalled a renewed increase in new business during August, following back-to-back contractions in June and July. The rate of expansion was the quickest since March 2022 and faster than the series trend.

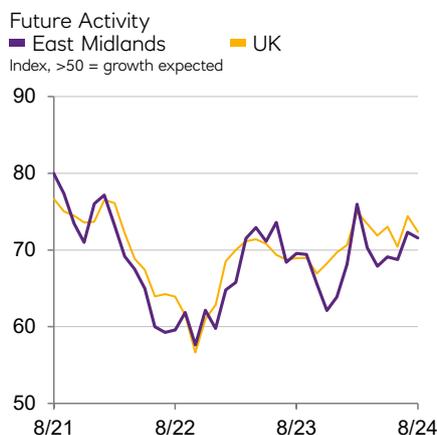
Anecdotal evidence suggested that stronger client demand and a release of pre-election uncertainty at customers supported the rise in new sales.

Although still historically elevated, the degree of confidence at companies eased from July. Hopes of an improved sales environment, plans for new product launches and tender applications all reportedly underpinned optimism, nonetheless, according to panellists.

"An improvement in demand conditions also buoyed business confidence"



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



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



Jobs and capacity

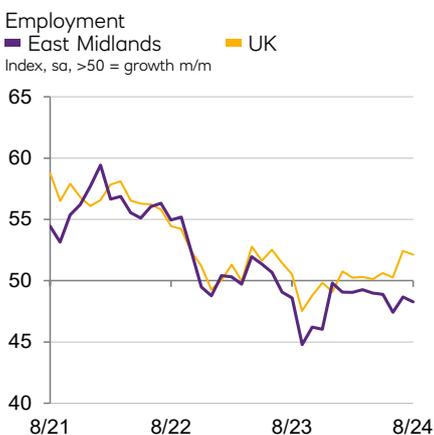
Employment contracts at quicker pace in August

Staffing numbers at East Midlands firms continued to fall midway through the third quarter, as has been the case each month for just over a year. The rate of job shedding accelerated slightly on the month and was the second-fastest since November 2023. Alongside the non-replacement of voluntary leavers, companies noted that job losses stemmed from cost cutting initiatives. Moreover, the pace of

decline was the sharpest of the 12 monitored UK regions and areas.

Despite a further fall in employment, backlogs of work at East Midlands companies contracted again in August. The rate of contraction was slower than the UK average, however, and eased to the weakest since October 2022. Firms were reportedly able to deplete levels of incomplete business following previously weak customer demand.

"Cost cutting efforts... led firms to reduce employment again..."



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



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



Inflation

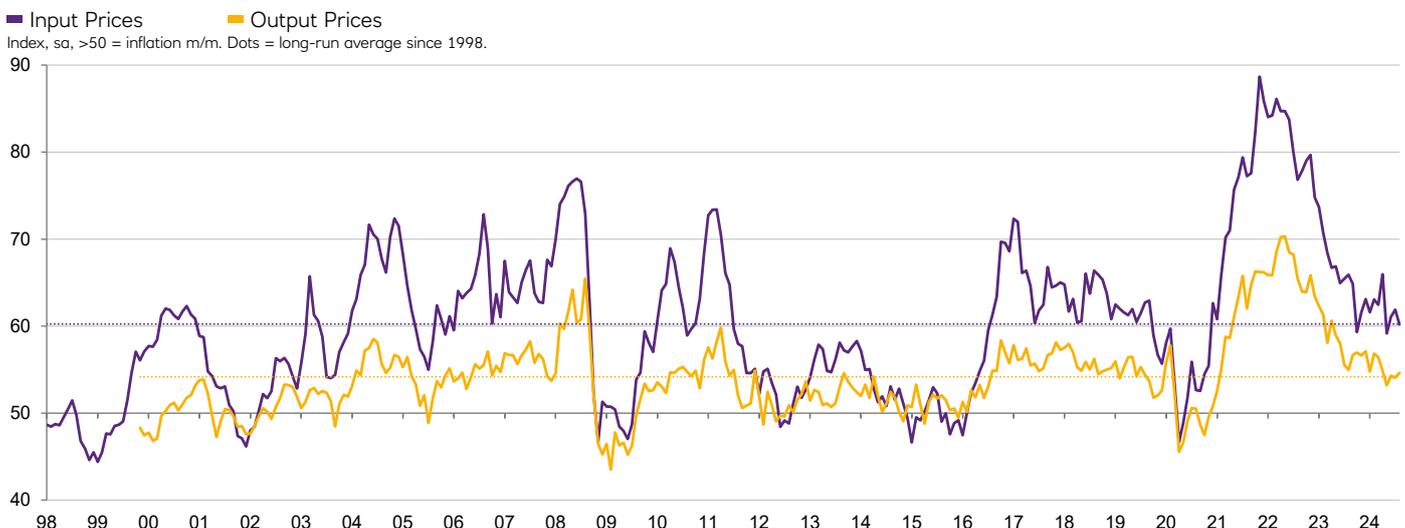
Cost inflation cools, but selling prices rise at faster pace

August data indicated a softer rise in input costs at East Midlands companies. The pace of increase slowed to the weakest since May but was sharper than the UK average. The rate of inflation was marked overall and among the fastest of the 12 monitored UK regions, as businesses linked the uptick to

higher wage, raw material and shipping costs.

Meanwhile, firms registered a quicker pace of selling price inflation in August. The rate of increase matched the UK average, but accelerated to the sharpest since April. The rise in output charges was often attributed to the pass-through of higher costs to customers.

"...although among the fastest of the UK regions, the pace of cost inflation slowed."



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

UK Regional Growth Tracker

Business Activity

Business activity rose across all 12 nations and regions for the first time in three months in August. Northern Ireland topped the growth rankings for the third time in the past four months. It was followed closely by the South West. The North East saw the slowest rise in output and was one of just two areas (alongside London) that saw a softer pace of expansion than in July.

Employment

The strongest rate of job creation in August was recorded again in Northern Ireland, where it reached the fastest since April 2023. The North East also recorded a solid and accelerated increase in employment. In a repeat of the situation in July, the only decreases in workforce numbers were seen in the East Midlands and West Midlands, although in the case of the latter the rate of decline remained marginal.

Future Activity

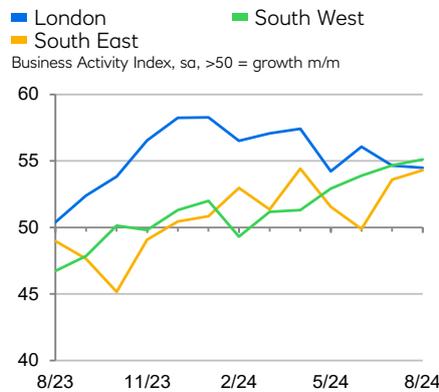
Although expectations towards activity growth remained universally positive in August, the degree of optimism weakened in most nations and regions compared to the month before. The greatest loss of confidence was in the North East, which also recorded the weakest overall sentiment. Firms in the South East remained the most upbeat about future activity.



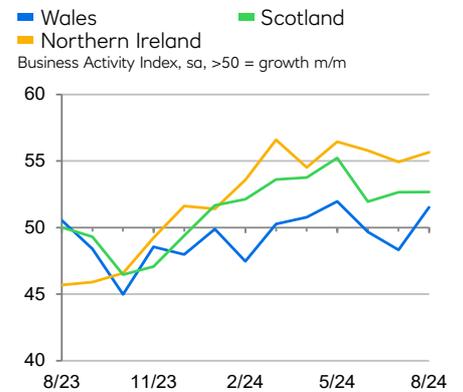
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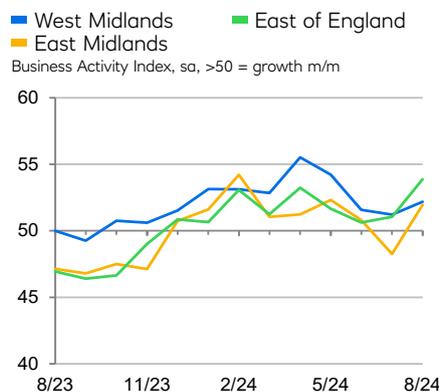
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



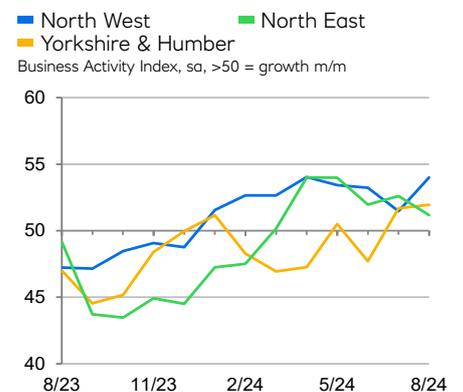
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UK sectors

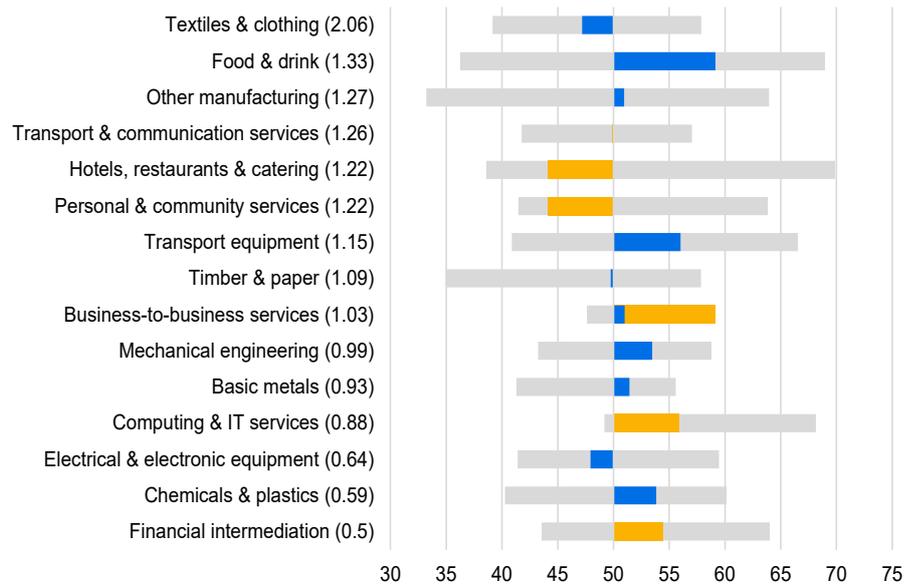
Sector specialisation: East Midlands

The chart shows UK output indices by sector, ranked by location quotients for the East 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 East Midlands economy

■ Manufacturing ■ Services ■ 3-year range
UK Output Index, sa, >50 = growth m/m Aug '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global. Location quotients for the East Midlands are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Food & drink

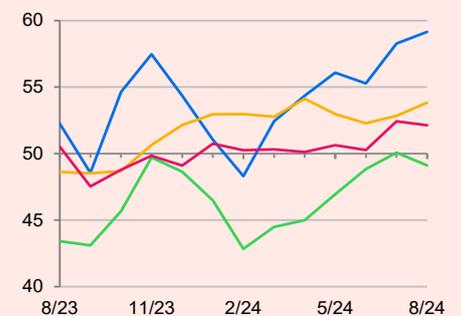
Producers of food & drink recorded stronger output growth than any other manufacturing or service sub-sector in the three months to August. The performance was the best seen since Q2 2023 and driven by a sharp increase in inflows of new work. Data indicated the upturn in demand was domestic-led, with new export orders falling in the latest three-month period.

Output growth was achieved despite employment decreasing slightly. Firms in the sector were also able to navigate supply delays, which were

the worst seen for more than two years, with stocks of inputs being utilised. Growth expectations for the coming year remained strong.

On the price front, latest data showed a solid and accelerated increase in factory gate charges across the food & drink sector. This partly reflected strong cost pressures, with input price inflation at its highest for almost a year-and-a-half.

Output / Employment
■/■ Food & drink*
■/■ 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 East Midlands Growth Tracker 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.

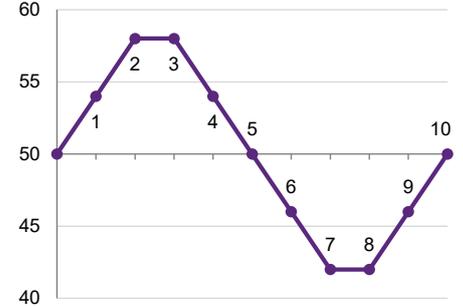
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is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

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

East 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
3/24	51.0	50.2	51.6	49.3	46.9	70.3	62.4	56.4
4/24	51.2	52.2	51.7	49.0	47.0	67.9	65.9	54.9
5/24	52.3	50.4	52.7	48.9	45.2	69.1	59.2	53.2
6/24	50.8	47.2	51.7	47.4	44.9	68.8	61.1	54.3
7/24	48.3	49.4	51.5	48.7	46.9	72.3	61.9	54.1
8/24	51.9	53.8	52.1	48.3	49.0	71.6	60.2	54.6

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Contact

Kate Visser
Regional Media & Campaigns
Manager
NatWest
+44 (0) 7970 947 694
kate.visser@natwest.com

Siân Jones
Principal Economist
S&P Global Market Intelligence
+44 1491 461 017
sian.jones@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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