

10 September 2024

NatWest West Midlands Growth Tracker

Output growth ticks higher in August,
despite nearly stagnant sales



NatWest

PMI[®]

by S&P Global

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Key findings

August 2024

Fastest expansion in business activity since May

Little change in new order volumes

Slower increases in input costs and selling prices

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





Output growth ticks higher despite nearly stagnant sales

West Midlands firms indicated a quicker expansion in output during August, notwithstanding only a fractional uptick in new business inflows during the month.

The NatWest Regional Growth Tracker data also showed softer increases in both input costs and local selling prices.

Rising to 52.2 in August from 51.2 in July, 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 – signalled the fastest increase in output for three months. Panellists that signalled growth mentioned demand resilience and upbeat forecasts for the year ahead. A greater availability of raw materials also supported the completion of pending workloads, anecdotal evidence showed.

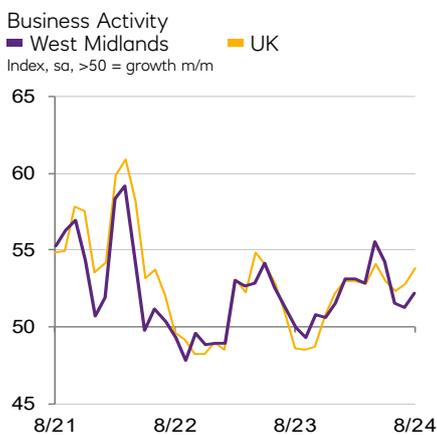
That said, the overall increase in business activity was below both the long-run and national averages.

NatWest West Midlands Business Activity Index August 2024

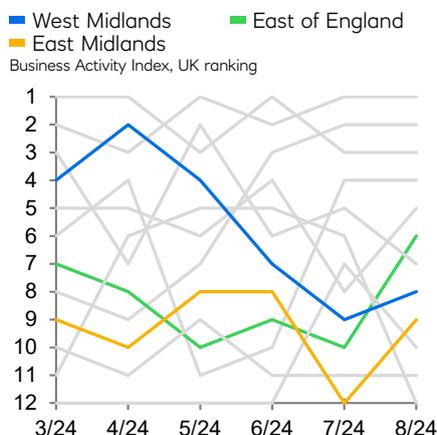
52.2

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 12-28 August



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



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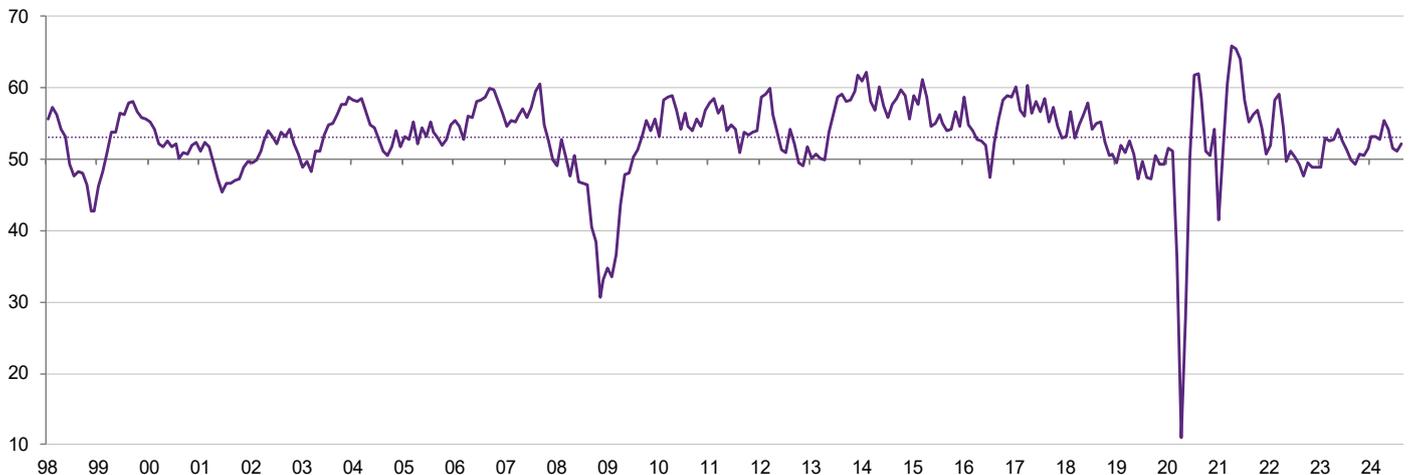
Comment

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

"The accelerated increase in business activity, contrasted by softer new order growth, indicated that August's expansion was largely driven by the completion of outstanding workloads. Local firms noted that intense competition limited sales volumes; however, we may witness a recovery in demand in the coming months if businesses are able to control price increases. With the West Midlands experiencing the joint-lowest cost pressures in the UK, local firms could have greater flexibility to price more competitively in the near term. Given the lack of pending workloads, a rebound in sales will be essential for companies to restart recruitment efforts."

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 business inflows rise only fractionally in August

West Midlands companies indicated a further increase in new business intakes midway through the third quarter, stretching the current sequence of expansion to 19 months. That said, the rate of growth was fractional and softer than in July.

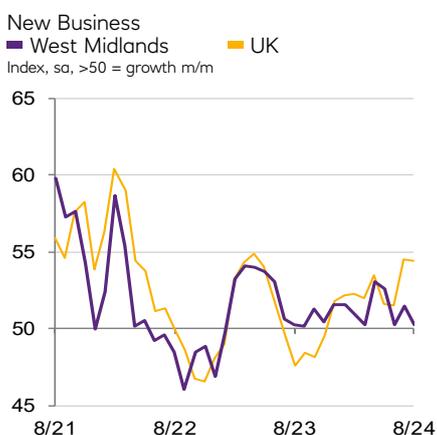
Firms that secured additional orders cited better demand for specific goods and services and prospects coming to fruition. Concurrently, some panellists reported reduced orders from clients, a lack of

investment and fierce competition.

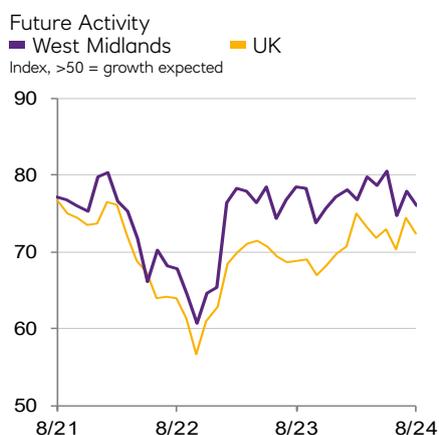
Out of the 12 monitored UK regions and nations, the West Midlands posted the weakest rate of new order growth.

The overall level of business confidence retreated since July, but remained above its long-run average to indicate a robust degree of optimism. Expectations in the West Midlands were also the second-highest of the 12 areas of the UK, behind the South East.

"Local firms noted that intense competition limited sales volumes; however, we may witness a recovery in demand in the coming months if businesses are able to control price increases"



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



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



Jobs and capacity

August sees second successive month of broadly stagnant job numbers

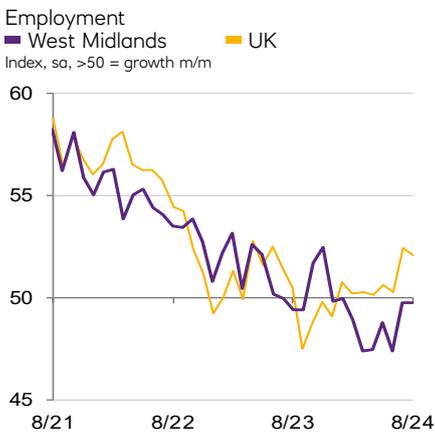
The seasonally adjusted Employment Index was unchanged since July, thereby posting only fractionally beneath the 50.0 no-change mark to signal generally stable workforce numbers across the West Midlands.

Some survey participants reported job creation, which they attributed to the filling of existing vacancies and demand resilience. Others associated a fall with automation, AI adoption and staff churn.

Out of the 12 monitored UK regions and nations, only the East Midlands registered a worse trend for jobs than that seen locally, as growth was signalled elsewhere.

Local firms continued to deplete outstanding business volumes. The latest drop in backlogs was marked and the strongest in 11 months. The rate of depletion was among the quickest nationally, surpassed only by that recorded in Wales.

"Given the lack of pending workloads, a rebound in sales will be essential for companies to restart recruitment efforts."



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



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



Inflation

Softer increase in input costs curbs charge inflation

Input prices facing private sector companies in the West Midlands continued to rise in August, amid greater outlays on insurance premiums, labour and materials.

That said, lower prices for energy and metals somewhat restricted cost pressures, which were at their weakest since October 2023.

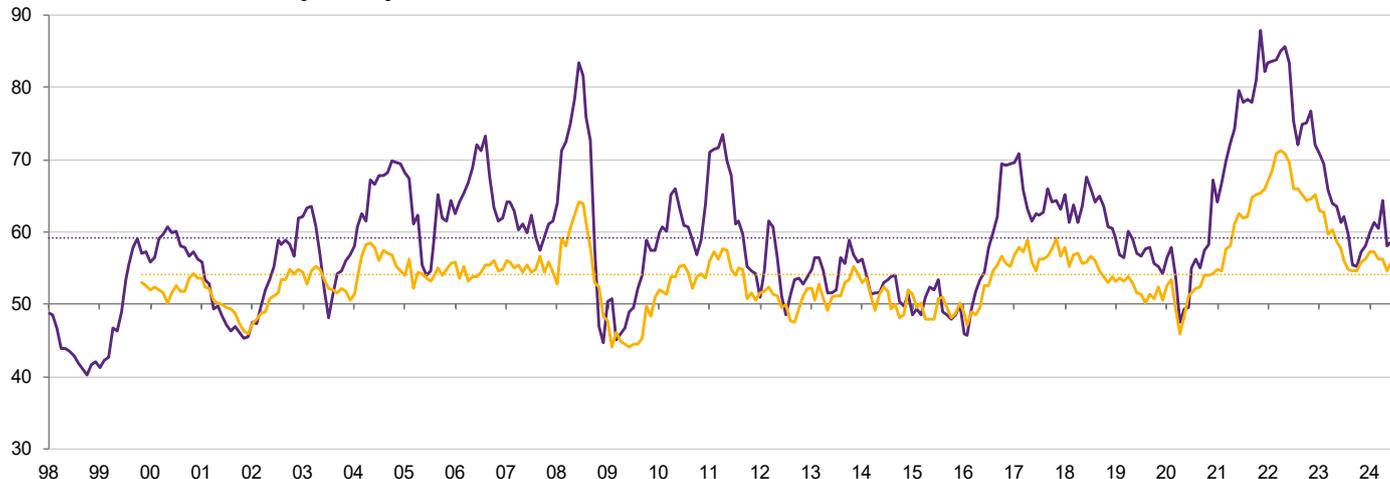
Although selling prices rose markedly in the context of historical data, the rate of inflation eased

to a joint 44-month low (equal to May) in August. Some panellists reportedly shared additional cost burdens with their clients, but others offered discounts due to competitive pressures and in a bid to secure new work.

The West Midlands shared the bottom spot in the cost inflation rankings with the South East. With regards to selling charges, it recorded the seventh-fastest increase.

"With the West Midlands experiencing the joint-lowest cost pressures in the UK, firms could have greater flexibility to price more competitively"

■ 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

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

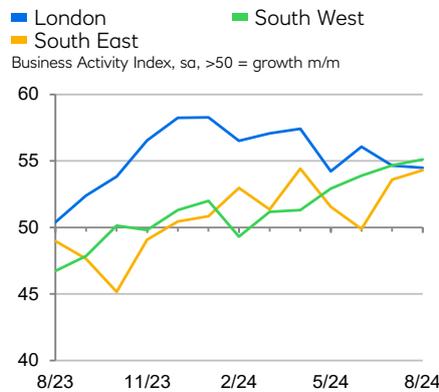
Although expectations towards activity growth remained universally positive in August, the degree of optimism weakened in most nations and regions compared to the month before. The greatest loss of confidence was in the North East, which also recorded the weakest overall sentiment. Firms in the South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



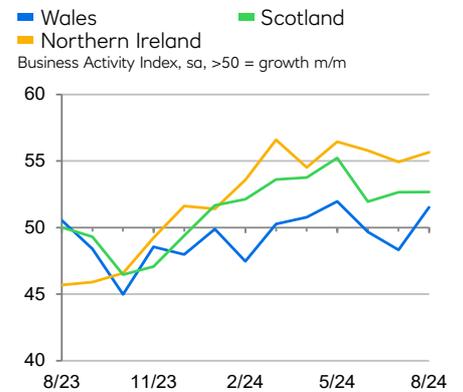
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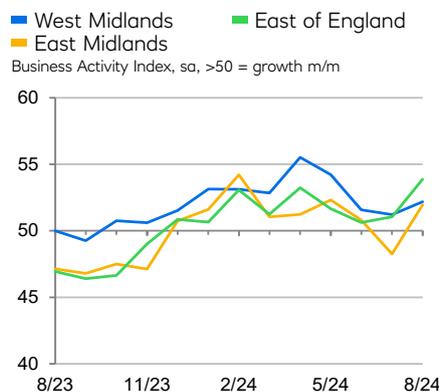
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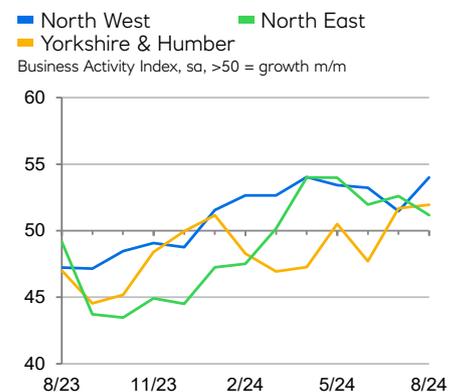
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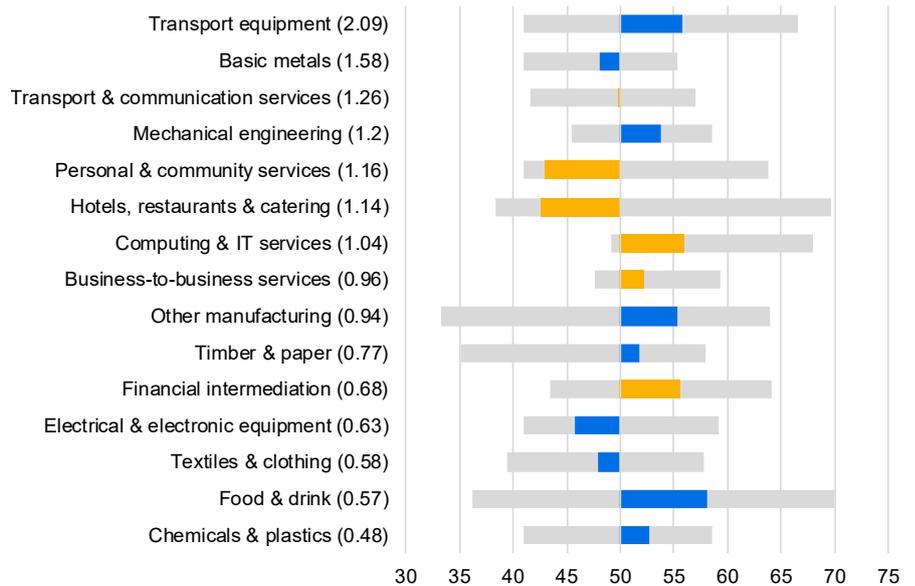
UK sectors

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 Aug '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: Food & drink

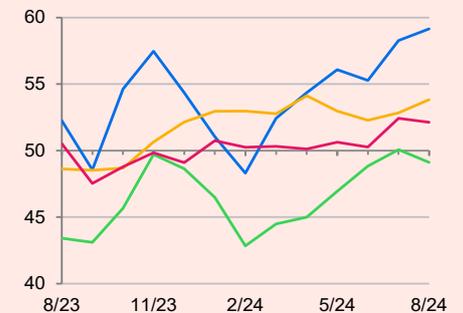
Producers of food & drink recorded stronger output growth than any other manufacturing or service sub-sector in the three months to August. The performance was the best seen since Q2 2023 and driven by a sharp increase in inflows of new work. Data indicated the upturn in demand was domestic-led, with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

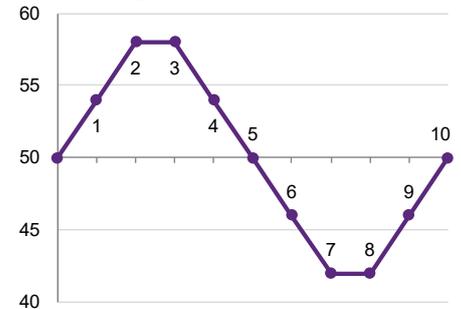
overall decrease. The indices are then seasonally adjusted.

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
3/24	52.8	50.2	51.6	47.4	47.5	79.7	60.4	56.2
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

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