

NatWest Purchasing Manager Index (PMI) Survey¹, February 2021: Midlands Regions

In Summary:

- The West Midlands Business Activity Index increased from 41.5 in January to 51.1 in February. The growth reported was due to clearing of backlogs, reduced uncertainty and projects in the pipeline.
- The East Midlands Business Activity Index increased from 43.4 in January to 47.4 in February. However, it remained under 50 due to restrictions on the service sector and delays from suppliers.
- The overall UK Business Activity Index increased from 41.2 in January to 49.6 in February.
- Out of the twelve UK regions, the West Midlands region was the third highest and the East Midlands was the fifth lowest for the Business Activity Index.
- The West Midlands Future Activity Index registered at 76.1 as there was hope that the vaccination programme will control the spread of infections allowing restrictions to be uplifted and a recovery in demand. Although the overall level of positive sentiment fell slightly since January's four-year high it still remained elevated.
- The East Midlands Future Activity Index registered at 76.8 in February, Optimism was due to hopes of a successful vaccine roll out and rebound in client demand.

In Detail:

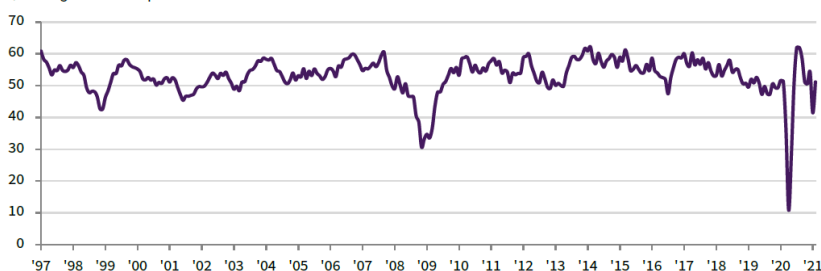
Business Activity Index

- The West Midlands Business Activity Index increased from 41.5 in January to 51.1 in February, this shows slight recovery in activity. The growth reported was due to clearing of backlogs, reduced uncertainty and projects in the pipeline.
- The East Midlands Business Activity Index increased from 43.4 in January to 47.4 in February. The index remains under the 50-mark threshold due to service sector firms where restrictions continue to weigh on client demand and also production has slowed as there was delays from suppliers.

The following graphs show the West Midlands and East Midlands Business Activity Index trends:

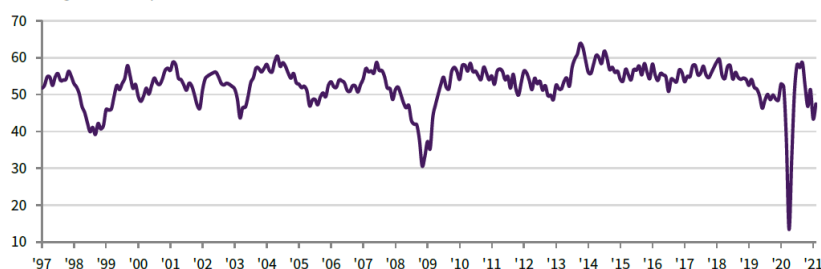
West Midlands Business Activity Index

sa, >50 = growth since previous month



East Midlands Business Activity Index

sa, >50 = growth since previous month



Source: IHS Market/NatWest, March 2021

¹ Source: IHS Markit/NatWest PMI, March 2021. Please note, the seasonally adjusted 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.

- Out of the twelve UK regions, the West Midlands region was the third highest and the East Midlands was the fifth lowest for the Business Activity Index. London had the highest Business Activity Index at 52.1 and Northern Ireland the lowest at 40.2 in February 2021.

The following chart shows the Business Activity Index across all UK regions in February 2021:

Business Activity Index

sa, >50 = growth since previous month, Feb '21



Source: IHS Market/NatWest, March 2021

Demand

- The West Midlands New Business Index remains under the 50-mark threshold; however, it has increased from 45.9 in January to 49.7 in February. Firms reported the lockdown had restricted sales as well as a reduction in uncertainty, online shopping and restocking efforts among client underpinned demand growth.
- The East Midlands New Business Index also remains under the 50-mark threshold, decreasing further from 46.1 in January to 45.4 in February. Declines in new business was due to weak client demand and COVID-19 restrictions.

Exports²

- The West Midlands Export Climate Index increased slightly from 52.2 in January to 52.9 in February. This was the strongest improvement in the health of the West Midlands export market in four months. For the top five destinations for the West Midlands, there were contractions (below 50) to Ireland (42.7) and France (47.0), while the Output Index was 59.5 for the USA, 51.1 for Germany and 51.7 for China.
- The East Midlands Export Climate Index increased from 51.0 in January to 52.0 in February. For the top five destinations for the East Midlands, there were contractions (below 50) to France (47) and Hong Kong (47), while the Output Index was 59 for the USA, 51 for Germany and 57 for Singapore.

Business Capacity

- The West Midlands Employment Index increased from 45.7 in January to 48.9 in February. The Employment Index has stayed below the 50 mark for the last thirteen months, with job shedding linked to retirements and redundancies. Although, some firms are reported to have taken on extra workers to fulfil demand and clear backlogs of work.
- The East Midlands Employment Index increased from 46.0 in January to 50.4 in February - this was the first expansion in workforce numbers since January 2020. The increase was linked to higher staffing levels in an effort to build capacity in anticipation of greater output later this year.
- The West Midlands Outstanding Business Index has decreased further from 49.6 January to 48.3 in February. Firms in the West Midlands reported increased efforts to clear pending work.
- The East Midlands Outstanding Business Index has decreased further from 49.9 January to 46.6 in February as restrictions from COVID-19 weighed on new order inflows.

Prices

- The West Midlands Input Prices Index increased from 64.1 in January to 66.7 in February, which is the eighth consecutive month. The rate of inflation was the second-fastest in over two and a half years.
- The East Midlands Input Prices Index increased from 60.8 in January to 65.9 in February. The higher input prices were linked to PPE, transportation costs, raw materials and a selection of firms also reported increased charges on EU sales.
- For the ninth consecutive month, West Midlands private sector companies increased their selling prices. Although, the West Midlands Prices Charged Index decreased from 54.8 in January to 54.6 in February.
- For the third consecutive month, West Midlands private sector companies increased their output prices. The West Midlands Prices Charged Index increased from 52.5 in January to 55.1 in February.

Outlook

- Approximately 66% of companies surveyed in the West Midlands foresee output growth based on hopes that the vaccination programme will control the spread of infections allowing restrictions to be uplifted and a recovery in demand. The West Midlands Future Activity Index registered at 76.1 in February.
- Business confidence in the East Midlands was at the highest since February 2020. Optimism was due to hopes of a successful vaccine roll out and rebound in client demand. The East Midlands Future Activity Index registered at 76.8 in February.

² The Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the region. This produces an indicator for the economic health of the region's export markets.

The following chart shows the Future Activity Index across all UK regions in February 2021:



Source: IHS Market/NatWest, March 2021

Out of the twelve UK regions, the West Midlands came in at seventh place and the East Midlands was fifth highest for the Future Business Activity Index. Yorkshire and The Humber had the highest Future Activity Index at 86.9 and in contrast Northern Ireland was the lowest at 46.0.