

NatWest Purchasing Manager Index (PMI) Survey¹, Released February 2022: Midlands Regions

In Summary:

- The West Midlands Business Activity Index increased from 50.7 in December 2021 to 51.9 in January 2022, this shows a quicker rate of growth but was moderate and slower than those recorded in 2021. West Midlands firms reported the increase was due to new client wins, a recovery from the recent wave of Covid-19 and improved demand conditions.
- The East Midlands Business Activity Index increased from 53.1 in December 2021 to 56.9 in January 2022. The January 2022 reading is the highest seen since July 2021, meaning a sharp increase in business across the East Midlands. Firms reported the increase was due to stronger client demand and efforts to clear backlogs or work.
- The overall UK Business Activity Index increased from 53.6 in December 2021 to 54.2 in January 2022.
- Of the 12 UK regions, the West Midlands region was the third lowest and the East Midlands was second highest for the Business Activity Index. London was highest at 57.5 and the North East was the lowest at 49.7 in January 2022.
- The West Midlands Future Activity Index increased from 79.8 in December 2021 to 80.3 in January 2022, with firms strongly optimistic that output would increase over the next twelve months. The overall level of confidence for West Midlands firms was now at its highest since May 2021 and much stronger than the long-run series average. The high level of confidence was mainly linked to the easing of Covid-19 restrictions and the reduction in the self-isolation period that should support demand and business activity, along with marketing efforts, new product launches and expansion into new markets also cited.
- The East Midlands Future Activity Index increased from 76.1 in December 2021 to 77.2 in January 2022. East Midlands firms' optimism was strong and the highest seen in four months as there are hopes of a further recovery in client demand and a reduction in the impact of any future Covid-19 variants.
- Out of the twelve UK regions, the West Midlands was the third highest and the East Midlands was fifth highest for the Future Business Activity Index. London was the highest at 81.7 and Northern Ireland the lowest at 62.3 in January 2022.

In Detail:

Business Activity Index

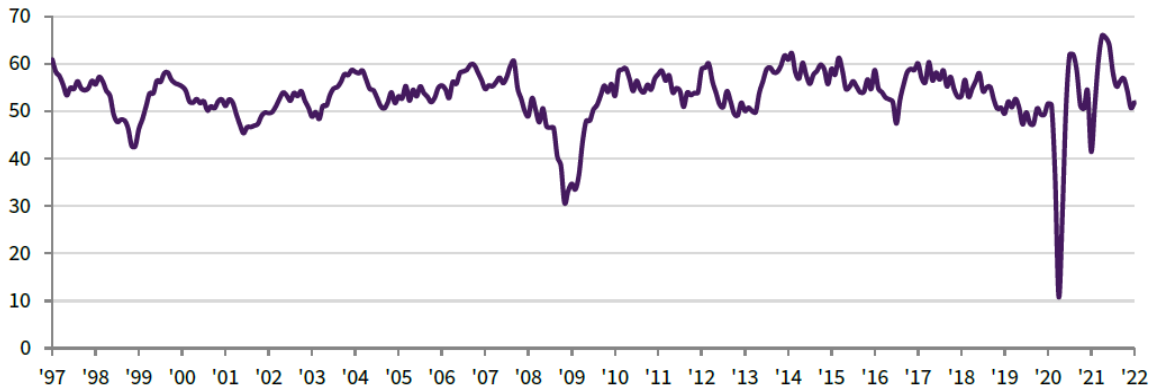
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¹ Source: IHS Markit/NatWest PMI, February 2022. Please note, the seasonally adjusted indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

The following graphs show the West Midlands and East Midlands Business Activity Index trends up to January 2022:

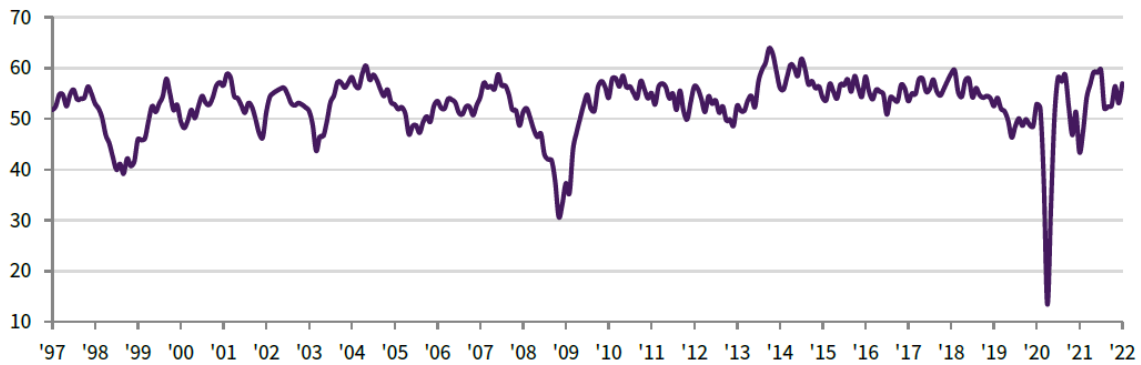
West Midlands Business Activity Index

sa, >50 = growth since previous month



East Midlands Business Activity Index

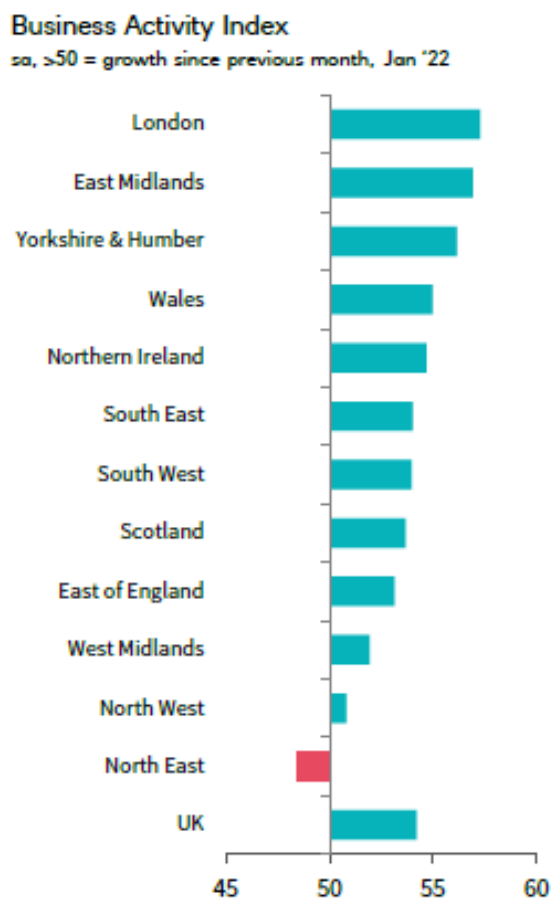
sa, >50 = growth since previous month



Source: IHS Market/NatWest, February 2022

- Of the 12 UK regions, the West Midlands region was the third lowest and the East Midlands was second highest for the Business Activity Index. London was highest at 57.5 and the North East was the lowest at 49.7 in January 2022.

The following chart shows the Business Activity Index across all UK regions in January 2022:



Source: IHS Market/NatWest, February 2022

Demand

- The West Midlands New Business Index increased from 50.0 in December 2021 to 52.4 in January 2022. Following a stagnant end of new order at the end of 2021, there was a renewed increase in new business at the start of 2022. West Midlands firms reported the upturn in new orders due to the reduced impact of rising Covid-19 cases on demand and clients bringing purchases forward to avoid price hikes. Although, some firms reported that Covid-19 was continuing to impact sales and the rate of expansion was slower than in 2021.
- The East Midlands New Business Index increased from 51.7 in December 2021 to 58.0 in January 2022. East Midlands firms experienced a sharp increase in new business at the start of 2022 with the rise the fastest seen in seven months and second quickest of all UK regions. The increase can be linked to recovery in client demand following a drop in Covid-19 cases throughout January 2022.

Exports²

- The West Midlands Export Climate Index decreased from 54.4 in December 2021 to 52.3 in January 2022. The export conditions have remained above the 50-growth mark meaning there was still moderate expansion but was the slowest seen in a year. For West Midlands firms' growth remained strong in Ireland

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.

(56.5) and a renewed increase to Germany (53.8), with growth easing to China (50.1), France (52.7) and the USA (51.1).

- The East Midlands Export Climate Index decreased from 54.7 in December 2021 to 52.7 in January 2022, meaning this was the softest improvement in export conditions since February 2021. There was a renewed increase in activity to Germany (53.8). Although growth slowed in France (52.7), Singapore (56.8) along with the softest upturn to the USA (51.1) in 18 months and Hong Kong falling for the first time since March 2021.

The following tables shows the top export markets for the West Midlands and East Midlands in January 2022:

Top export markets, West Midlands

Rank	Market	Weight	Output Index, Jan '22
1	USA	21.2%	51.1
2	Germany	11.1%	53.8
3	China	8.7%	50.1
4	Ireland	6.2%	56.5
5	France	6.1%	52.7

Top export markets, East Midlands

Rank	Market	Weight	Output Index, Jan '22
1	USA	12.8%	51.1
2	Germany	10.7%	53.8
3	Hong Kong	7.9%	48.7
4	Singapore	7.4%	56.8
5	France	7.1%	52.7

Source: IHS Market/NatWest, February 2022

Business Capacity

- The West Midlands Employment Index increased from 55.0 in December 2021 to 56.2 in January 2022. This was the eleventh month of expansion recorded which was also the strongest since October 2021 and above the long-run average. Where West Midlands firms reported higher staffing levels, this was linked to improved demand conditions and efforts to narrow resource shortages.
- The East Midlands Employment Index increased from 57.7 in December 2021 to 59.4 in January 2022. The rate of job creation was the fastest since the series began (January 1997) and was sharpest increase of all twelve regions. Greater staffing numbers were linked to a faster rise in new business and a need for increased capacity.
- The West Midlands Outstanding Business Index increased from 50.3 in December 2021 to 50.8 in January 2022. Where West Midlands firms reported backlog accumulation this was linked to staff and raw material shortages. Notably, excluding North East where there was a contraction, the growth in unfinished work in the West Midlands was the slowest of the 11 regions that saw growth.
- The East Midlands Outstanding Business Index increased from 51.9 in December 2021 to 55.2 in January 2022. The rate of expansion was the second-fastest of all twelve regions (behind to Wales). East Midlands firms reported higher backlogs of work were linked to delays in the delivery of key inputs, and staff shortages due to Covid-19 infections.

Prices

- The West Midlands Input Prices Index increased from 82.1 in December 2021 to 83.4 in January 2022. After a small dip in December 2021, West Midlands firms reported an increase in overall cost burdens at the start of 2022, examples include higher food, fuel, raw material staff, transportation and utility costs. The rate of inflation quickened in January and was slowest second on record (records began in January 1997 and rates were only higher in November 2021).
- The East Midlands Input Prices Index decreased from 85.9 in December 2021 to 84.0 in January 2022. The rate of input price inflation eased again and was the slowest for three months, although the increase was quicker than the UK average. East Midlands firms still reported higher cost burdens that were linked to greater energy, raw material and labour bills.

- The West Midlands Prices Charged Index increased from 65.9 in December 2021 to 67.0 in January 2022. For the fifth consecutive month prices charged by West Midlands firms increased at record pace (since records began in November 1999). Approximately 43% of West Midlands firms hiked fees with only 1% of firms reducing them as early indications show that ongoing increases in operating expenses are being transferred to consumers.
- The East Midlands Prices Charged Index decreased slightly from 66.2 in December 2021 to 65.9 in January 2022. The rate of charge inflation remained similar to October's series high but did ease to a four-month low. The substantial rise in selling prices was linked to the pass-through of higher costs to clients.

Outlook

- The West Midlands Future Activity Index increased from 79.8 in December 2021 to 80.3 in January 2022, with firms strongly optimistic that output would increase over the next twelve months. The overall level of confidence for West Midlands firms was now at its highest since May 2021 and much stronger than the long-run series average. The high level of confidence was mainly linked to the easing of Covid-19 restrictions and the reduction in the self-isolation period that should support demand and business activity, along with marketing efforts, new product launches and expansion into new markets also cited.
- The East Midlands Future Activity Index increased from 76.1 in December 2021 to 77.2 in January 2022. East Midlands firms' optimism was strong and the highest seen in four months as there are hopes of a further recovery in client demand and a reduction in the impact of any future Covid-19 variants.
- Out of the twelve UK regions, the West Midlands was the third highest and the East Midlands was fifth highest for the Future Business Activity Index. London was the highest at 81.7 and Northern Ireland the lowest at 62.3 in January 2022.

The following chart shows the Future Activity Index across all UK regions in January 2022:

Future Activity Index

>50 = growth expected over next 12 months, Jan '22



Source: IHS Market/NatWest, February 2022