

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

In Summary:

- The West Midlands Business Activity Index decreased from 51.1 in June 2022 to 50.3 in July 2022, indicating a stagnation in local output. Firms indicated that activity was restricted due to adverse demand conditions, reduced market confidence, input shortages and the ongoing inflationary pressures.
- The East Midlands Business Activity Index decreased further from the 50-growth mark from 49.4 in June 2022 to 48.7 in July 2022, the fastest decline in business activity since February 2021. The main cause of lower business activity was linked to the impact of inflation on customer purchasing power and the client demand weakening further.
- The UK Business Activity Index decreased 53.7 in June 2022 to 52.1 in July 2022.
- Of the 12 UK regions the West Midlands region was the sixth lowest and the East Midlands was fourth lowest for the Business Activity Index in July 2022.
- The West Midlands Future Business Activity Index decreased from 70.3 in June 2022 to 68.3 in July 2022. The degree of optimism was at its second-weakest level since October 2020 as firms reported concerns over recession, political uncertainty, inflationary pressures and the war in Ukraine. However, firms still reported some level of confidence for the upcoming twelve months by predictions of demand improvements, new product launches and investment in people and systems.
- The East Midlands Future Activity Index decreased from 60.0 in June 2022 to 59.3 in July 2022. Optimism has decreased for the sixth consecutive month and was at its lowest since April 2020. Optimism decreased due to a reduction in customer spending, the costs of living crisis and the wider concerns for the economy.
- Out of the twelve UK regions, the West Midlands was third highest and the East Midlands was fourth lowest for the Future Business Activity Index in July 2022.

In Detail:

Business Activity Index

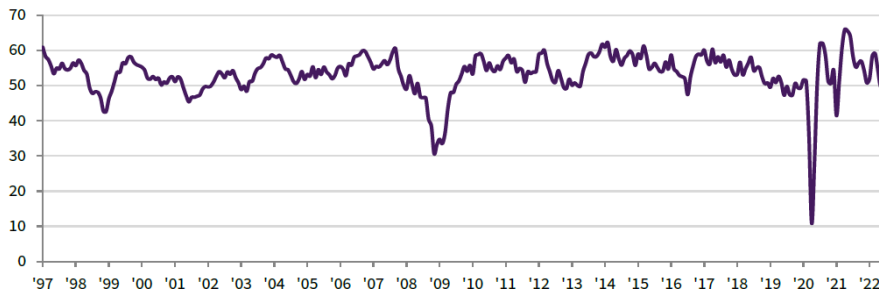
- The West Midlands Business Activity Index decreased from 51.1 in June 2022 to 50.3 in July 2022, indicating a stagnation in local output. Firms indicated that business activity was restricted due to adverse demand conditions, reduced market confidence, input shortages and the ongoing inflationary pressures.
- The East Midlands Business Activity Index decreased further from the 50-growth mark from 49.4 in June 2022 to 48.7 in July 2022, the fastest decline in business activity since February 2021. The main cause of lower business activity was linked to the impact of inflation on customer purchasing power and the client demand weakening further.

¹ Source: NatWest PMI, August 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 July 2022:

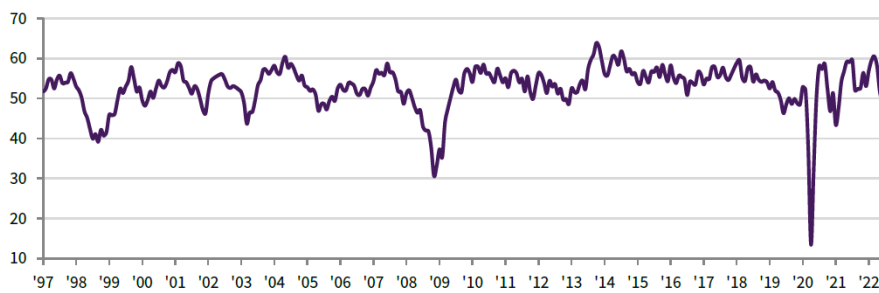
West Midlands Business Activity Index

sa, >50 = growth since previous month



East Midlands Business Activity Index

sa, >50 = growth since previous month



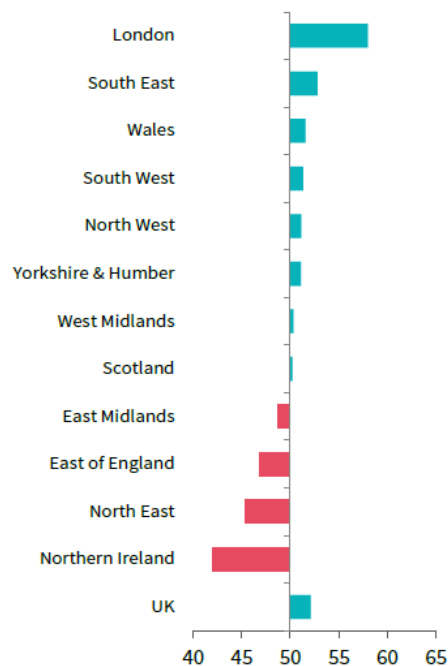
Source: NatWest PMI, August 2022

- Of the 12 UK regions the West Midlands region was the sixth lowest and the East Midlands was fourth lowest for the Business Activity Index. London was the highest with 58.0 and Northern Ireland was the lowest at 41.9 in July 2022.

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

Business Activity Index

sa, >50 = growth since previous month, Jul '22



Source: NatWest PMI, August 2022

Demand

- The West Midlands New Business Index increased from 49.2 in June 2022 to 49.6 in July 2022, the second consecutive month for a decline (50 and above indicates growth) in new work intakes. The decline in new business was linked to reduced trading activity, rising interest rates, acute prices pressures, reduced demand conditions and client uncertainty.
- The East Midlands New Business Index increased from to 47.1 in June 2022 to 47.8 in July 2022 – however, remains below the 50-growth mark for the third consecutive month. The decrease in new business was linked to reduced purchasing power of customers, with reports of switching to essential purchases only.

Exports²

- The West Midlands Export Climate Index decreased from 52.3 in June 2022 to 50.1 in July 2022, indicating a lack of export opportunities for West Midlands firms. Reflected by the in contractions for the USA (47.7) and Germany (48.1).
- The East Midlands Export Climate Index decreased from 53.4 in June 2022 to 51.7 in July 2022, the least marked improvement in export conditions since the start of 2021. Following the same patterns as the West Midlands, exports to USA (47.7) and Germany (48.1) contracted.

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

Top export markets, West Midlands

Rank	Market	Weight	Output Index, Jul '22
1	USA	21.2%	47.7
2	Germany	11.1%	48.1
3	China	8.7%	54.0
4	France	6.1%	51.7
5	Ireland	6.2%	52.9

Top export markets, East Midlands

Rank	Market	Weight	Output Index, Jul '22
1	USA	12.8%	47.7
2	Germany	10.7%	48.1
3	Hong Kong	7.9%	52.8
4	Singapore	7.4%	61.2
5	France	7.1%	51.7

Source: NatWest PMI, August 2022

Business Capacity

- The West Midlands Employment Index decreased from 54.4 in June 2022 to 54.1 in July 2022 - leading to a 17 month increase for job creation. Despite the fall in new business, firms in the West Midlands continued to add to the workforce amid the fill-up of roles lost due to the pandemic and efforts to clear backlogs.
- The East Midlands Employment Index increased from 56.0 in June 2022 to 56.3 in July 2022. Firms in the East Midlands continued to increase staffing levels and was the fastest increase since March 2022. The increase was linked to efforts to fill long-held vacancies and rebuild workforces following the pandemic.
- The West Midlands Outstanding Business Index increased from 53.1 in June 2022 to 53.2 in July 2022. Longer delivery times, input shortages and absenteeism reportedly caused the increase in unfinished business volumes.
- The East Midlands Outstanding Business Index remained at 50.8 in July 2022. Backlogs of work continue to increase and the latest rise was due to material and staff shortages.

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.

Prices

- The West Midlands Input Prices Index decreased from 83.3 in June 2022 to 75.2 in July 2022, easing to a fourteen-month low. Reportedly linked to the higher commodity, energy, food, logistic, material and staff costs which is often a result of the sterling weakening, labour shortages and war in Ukraine. The prices pressures were restricted by a reduction in input supply and demand imbalances. Notably, for the West Midlands, input cost inflation was the lowest across all regions.
- The East Midlands Input Prices Index decreased from 83.7 in June 2022 to 80.0 in July 2022, which is still a steep increase in input costs. Firms in the East Midlands reported higher costs for fuel, materials and labour costs. The rate of increase was one of the sharpest of all regions.
- The West Midlands Prices Charged Index decreased from 69.6 in June 2022 to 65.9 in July 2022, as charge inflation restrained by demand weakness. The Prices Charged Index eased to a seven-month low - but is still historically high as firms sought to transfer greater cost burdens through to clients.
- The East Midlands Prices Charged Index decreased from 68.5 in June 2022 to 68.2 in July 2022. Firms reported that greater output charges were due to the pass-through of higher costs to clients.

Outlook

- The West Midlands Future Business Activity Index decreased from 70.3 in June 2022 to 68.3 in July 2022. The degree of optimism was at its second-weakest level since October 2020 as firms reported concerns over recession, political uncertainty, inflationary pressures and the war in Ukraine. However, firms still reported some level of confidence for the upcoming twelve months by predictions of demand improvements, new product launches and investment in people and systems.
- The East Midlands Future Activity Index decreased from 60.0 in June 2022 to 59.3 in July 2022. Optimism has decreased for the sixth consecutive month and was at its lowest since April 2020. Optimism decreased due to a reduction in customer spending, the costs of living crisis and the wider concerns for the economy.
- Out of the twelve UK regions, the West Midlands was third highest and the East Midlands was fourth lowest for the Future Business Activity Index. Yorkshire and The Humber was the highest with 70.9 and the Northern Ireland was the lowest at 48.2 in July 2022.

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

Future Activity Index

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



Source: NatWest PMI, August 2022