

NatWest Purchasing Manager Index (PMI) Survey¹, Released September 2023: Midlands Regions

In Summary:

- The West Midlands Business Activity Index decreased from 51.3 in July 2023 to 50.0 in August 2023, marking the end of a six-month period of growth. There was a mixed picture reported, as some firms reported output growth due to new client wins and clearing of backlog while others reported lack of new business and elevated borrowing costs restricted business activity.
- The East Midlands Business Activity Index decreased from 50.1 in July 2023 to 47.1 in August 2023, the fastest fall since December 2022. Firms reported weaker demand conditions with lower new order inflows.
- The UK Business Activity Index decreased from 50.8 in July 2023 to 48.6 in August 2023.
- Out of the 12 UK regions, the West Midlands was the fourth highest and East Midlands was fifth lowest for business activity in August 2023.
- The West Midlands Future Business Activity Index increased from 76.8 in July 2023 to 78.5 in August 2023, the joint highest level since January 2022. Optimism in West Midlands firms was linked to expectations of new business gains, product diversification and internal efficiency.
- The East Midlands Future Activity Index increased from 68.4 in July 2023 to 69.6 in August 2023. Optimism in the East Midlands firms was linked to greater investment, new product development and anticipation of stronger demand conditions. However, firms still raised concerns over customer spending due to inflationary pressures.
- Out of the twelve UK regions, the West Midlands was the highest and the East Midlands was fifth highest for the Future Business Activity Index in August 2023

In Detail:

Business Activity Index

- The West Midlands Business Activity Index decreased from 51.3 in July 2023 to 50.0 in August 2023, marking the end of a six-month period of growth. There was a mixed picture reported, as some firms reported output growth due to new client wins and clearing of backlog while others reported lack of new business and elevated borrowing costs restricted business activity.
- The East Midlands Business Activity Index decreased from 50.1 in July 2023 to 47.1 in August 2023, the fastest fall since December 2022. Firms reported weaker demand conditions with lower new order inflows.

The following chart shows the West Midlands Business Activity Index trends up to August 2023:

West Midlands Business Activity Index

sa, >50 = growth since previous month

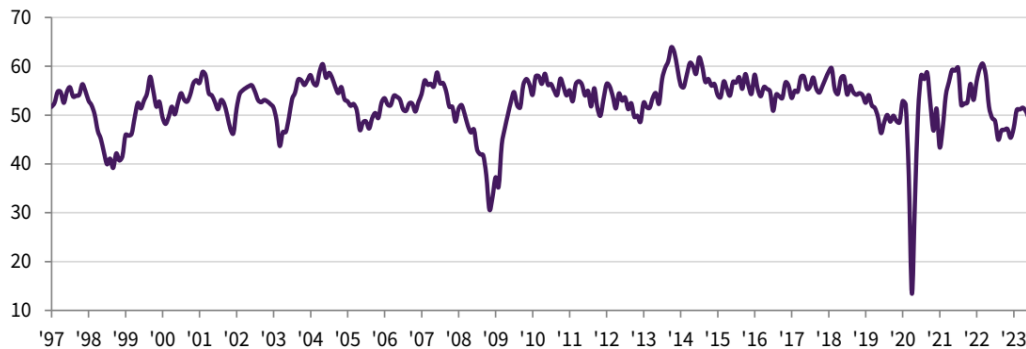


Source: NatWest PMI,
September 2023

¹ Source: NatWest UK regional PMI report for August 2023, released September 2023. 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 chart shows the East Midlands Business Activity Index trends up to August 2023:

East Midlands Business Activity Index
sa, >50 = growth since previous month



Source: NatWest PMI, September 2023

- Out of the 12 UK regions, the West Midlands was the fourth highest and East Midlands was fifth lowest for business activity in August 2023. Wales was the highest with 50.5 and Northern Ireland was the lowest at 45.7.

The following chart shows the Business Activity Index across all UK regions in August 2023:

Business Activity Index
sa, >50 = growth since previous month, Aug '23



Source: NatWest PMI, September 2023

Demand

- The West Midlands New Business Index decreased from 50.6 in July 2023 to 50.3 in August 2023. Despite the decline, this is the seventh consecutive month for rises in new business intakes – the only region to see a rise. Growth was reportedly restricted by elevated interest rates, client concerns over the economic outlook and delayed client decisions.

- The East Midlands New Business Index decreased from 49.1 in July 2023 to 46.8 in August 2023, the second consecutive month of contraction. Firms reported the contraction in new business was due to weaker demand conditions from higher interest rates which in turn caused hesitancy with clients to place orders.

Exports²

- After several months of moving closer to the no change mark of 50.0, the West Midlands Export Climate Index decreased from 50.4 in July 2023 to 49.5 in August 2023 and the East Midlands Export Climate Index decreased from 50.3 in July 2023 to 49.6 in August 2023.

Business Capacity

- The West Midlands Employment Index decreased from 50.0 in July 2023 to 49.4 in August 2023, the first fall seen in two-and-a-half years. The fall was linked to firms' efforts to improve cashflows and not replacing voluntary leavers.
- The East Midlands Employment Index decreased from 49.1 in July 2023 to 48.6 in August 2023, the second consecutive month of contraction. The rate of decline was the sharpest seen since early 2021 and was linked to redundancies from lower new orders and firms cutting costs (meaning the non-replacement of voluntary leavers).
- The West Midlands Outstanding Business Index decreased from 45.7 in July 2023 to 43.0 in August 2023. The ninth consecutive month under the 50-mark threshold and the latest change was the fastest seen in over three years. West Midlands firms reported that the lack of new work and recent expansions in operating capacities facilitated the reduction in unfinished business.
- The East Midlands Outstanding Business Index decreased from 46.1 in July 2023 to 42.8 in August 2023. This is the eleventh month of contraction and the rate of decline was the fastest seen since December 2022. The fall in incomplete business was linked to lower new orders and sufficient capacity to process incoming work.

Prices

- The West Midlands Input Prices Index decreased from 62.1 in July 2023 to 59.6 in August 2023. Although sharp, the latest increase in expenses was considerably less pronounced than those seen over the past 33 months. West Midlands firms reported higher transport and wage costs but slightly offset from the easing of energy and raw materials costs.
- The East Midlands Input Prices Index increased from 65.4 in July 2023 to 65.9 in August 2023, the fastest increase seen in three months. Notably, the service sector had the markable price rises while manufacturing firms reported a fall in operating expenses. Firms mainly reported that the increase was linked to higher material, utility and wage costs while others noted higher financial costs from the hikes in interest rates.
- The West Midlands Prices Charged Index decreased from 56.0 in July 2023 to 54.9 in August 2023, still indicating a notable increase. The rate of inflation remains historically high but has eased to the weakest level seen since in two-and-a-half years. There were some West Midlands firms that reportedly hiked their fees, while other firms lowered their charges due to cost savings and competitive conditions.
- The East Midlands Prices Charged Index decreased from 55.6 in July 2023 to 55.0 in August 2023, the fourth consecutive month where the pace has slowed. The softer increase was linked to weak demand conditions leading to discounts in bid to win sales.

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.

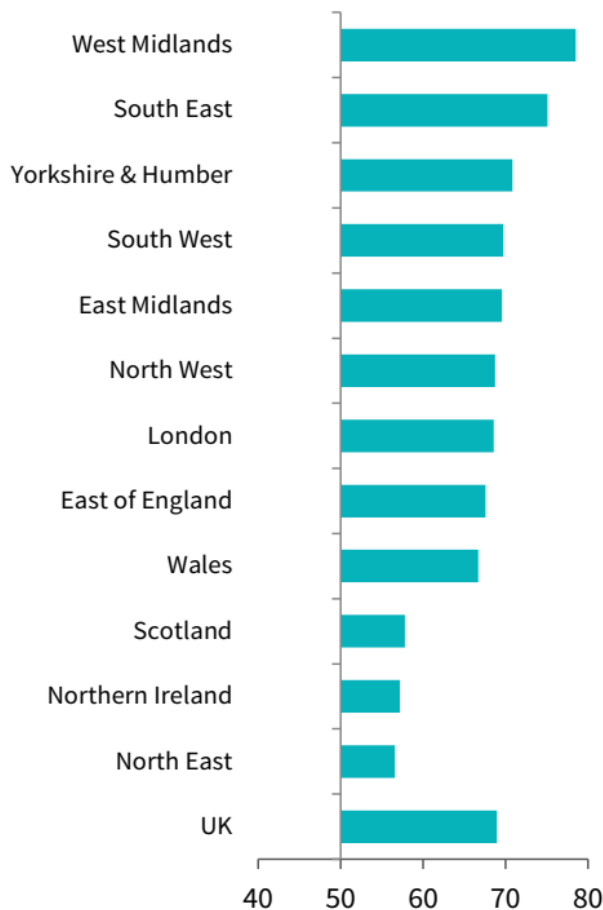
Outlook

- The West Midlands Future Business Activity Index increased from 76.8 in July 2023 to 78.5 in August 2023, the joint highest level since January 2022. Optimism in West Midlands firms was linked to expectations of new business gains, product diversification and internal efficiency.
- The East Midlands Future Activity Index increased from 68.4 in July 2023 to 69.6 in August 2023. Optimism in the East Midlands firms was linked to greater investment, new product development and anticipation of stronger demand conditions. However, firms still raised concerns over customer spending due to inflationary pressures.
- Out of the twelve UK regions, the West Midlands was the highest and the East Midlands was fifth highest for the Future Business Activity Index in August 2023. South East was the second highest at 75.1 and the North East was the lowest at 56.6.

The following chart shows the Future Activity Index across all UK regions in August 2023:

Future Activity Index

>50 = growth expected over next 12 months, Aug '23



Source: NatWest PMI, September 2023