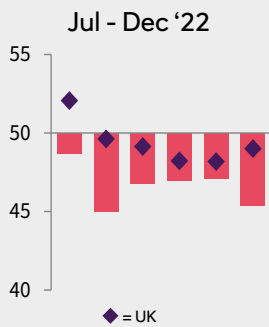




# NatWest East Midlands PMI<sup>®</sup>

## Strong decline in business activity as fall in client demand gathers pace in December

### East Midlands Business Activity Index



### Key findings

Fastest fall in new orders since May 2020

Inflationary pressures ease

Employment falls further in December

The headline NatWest East Midlands PMI<sup>®</sup> 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 – posted 45.4 in December, down from 47.1 in November, to signal a strong fall in output across the East Midlands private sector. The decline in business activity was the second-fastest since January 2021 and quicker than the UK average. Of the 12 monitored UK regions, only Northern Ireland recorded a sharper decrease in output. Lower activity was linked to weak client demand and a further fall in new orders.

Rashel Chowdhury, NatWest Midlands and East Regional Board, commented:

*“East Midlands private sector companies signalled a dour end to 2022, as activity and new orders shrank at sharper rates. Inflationary pressures and the impact on customer spending continued to be felt keenly, with new business contracting at the steepest pace since the initial pandemic lockdown period. As a result, backlogs of work dwindled and firms started to report that cost-cutting measures including the non-replacement of voluntary leavers drove job shedding.*

*“On a more positive note, cost and price pressures eased. Emerging reports of lower prices for some inputs were reflected in less severe hikes in output charges. Nonetheless, 2023 is likely to prove another challenging year for East Midlands businesses as the cost-of-living crisis and economic uncertainty threaten to dampened customer demand further.”*

East Midlands Business Activity Index

sa, >50 = growth since previous month



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About the East Midlands PMI® report

The NatWest East Midlands PMI® is compiled by S&P Global from responses to questionnaires sent to East 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

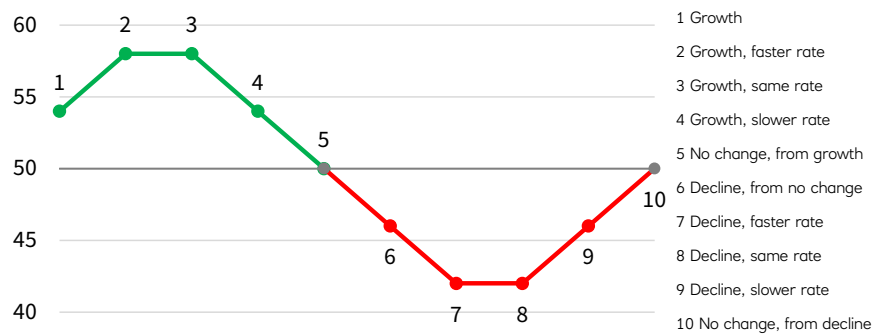
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The East Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'East Midlands PMI', but is not comparable with the headline UK Manufacturing PMI figure.

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 PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

Index interpretation

50.0 = no change since previous month

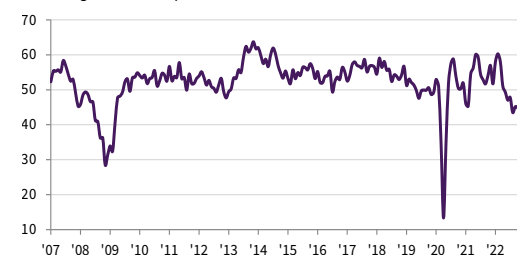


## Demand and outlook

### Marked fall in new business in December

East Midlands private sector firms signalled a marked decrease in new orders during December, with the pace of contraction accelerating for the third month running. The rate of decline was the sharpest since May 2020 and faster than the UK average. In fact, the pace of decrease was the second-quickest of the 12 monitored UK regions, slower than only Northern Ireland. The downturn in client demand was linked to economic uncertainty and the impact of inflation on customer spending.

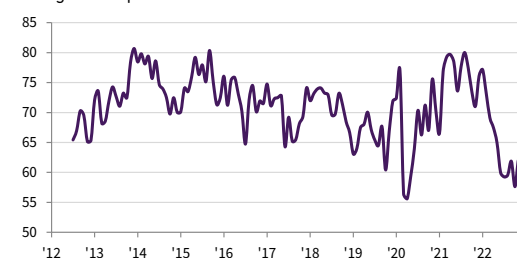
New Business Index  
sa, >50 = growth since previous month  
42.6  
Dec '22



### Business expectations remain muted

Business confidence across the East Midlands private sector dipped at the end of the year. The degree of optimism was below the series and UK averages. The region's firms remained optimistic overall of an increase in output over the coming 12 months amid hopes of a pick up in client demand. That said, inflation and recession concerns weighed on output expectations.

Future Activity Index  
>50 = growth expected over next 12 months  
59.8  
Dec '22



## Exports

### Export climate deteriorates at second-fastest pace since June 2020

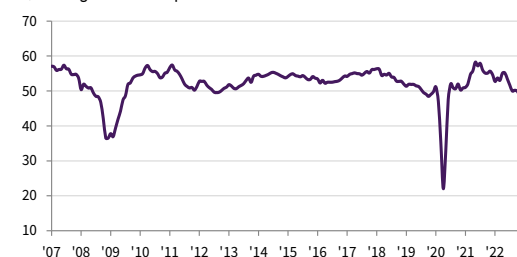
The East Midlands Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the East Midlands. This produces an indicator for the economic health of the region's export markets.

The Export Climate Index registered 48.9 in December, broadly in line with 48.8 in November. Export conditions for East Midlands firms deteriorated for the third month running, albeit at only a marginal rate.

The further decline in the export climate stemmed from a renewed fall in output in Singapore and a sharper decline in US private sector activity. Contractions in business activity were also registered in France and Germany, albeit slower than those seen in November.

Meanwhile, firms in Hong Kong recorded a renewed, but marginal, rise in output.

Export Climate Index  
sa, >50 = growth since previous month  
48.9  
Dec '22



Top export markets, East Midlands

Rank	Market	Weight	Output Index, Dec '22
1	USA	12.8%	45.0
2	Germany	10.7%	49.0
3	Hong Kong	7.9%	50.6
4	Singapore	7.4%	48.1
5	France	7.1%	49.1

**New Business Index**  
Jul - Dec '22

◆ = UK

**Future Activity Index**  
Jul - Dec '22

◆ = UK

**Export Climate Index**  
Jul - Dec '22

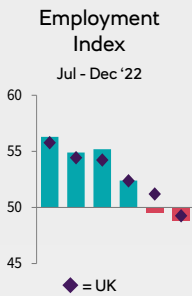
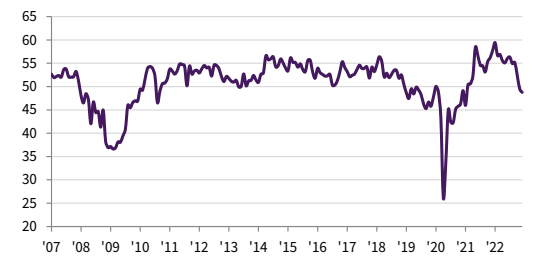
◆ = UK

## Business capacity

### Second successive decline in employment in December

Workforce numbers across the East Midlands private sector fell for the second month running in December. The rate of job shedding quickened to the fastest since January 2021, albeit was only marginal overall. The decrease in employment was slightly faster than the UK average, as firms attributed lower staffing numbers to the non-replacement of voluntary leavers in an effort to cut costs.

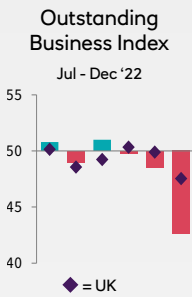
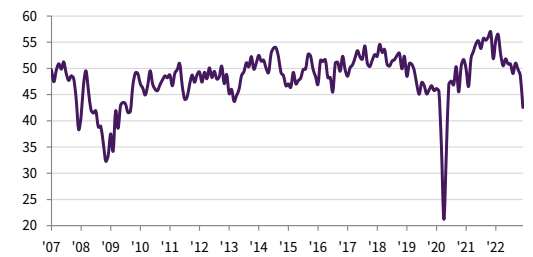
Employment Index **48.8**  
 sa, >50 = growth since previous month  
 Dec '22



### Fastest fall in backlogs of work since May 2020

Private sector firms in the East Midlands registered a sharp decrease in the level of outstanding business during December. The fall in backlogs of work accelerated notably to the steepest since May 2020. The decline in incomplete business was linked to weak client demand which allowed firms to work through backlogs. The rate of contraction was the sharpest of the 12 monitored UK regions.

Outstanding Business Index **42.6**  
 sa, >50 = growth since previous month  
 Dec '22

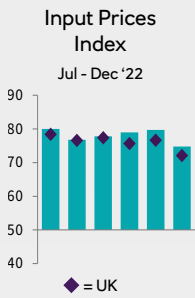
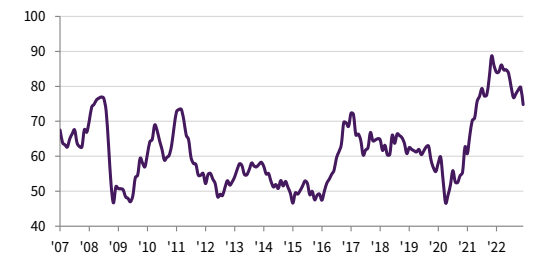


## Prices

### Slowest rise in cost burdens since April 2021

East Midlands private sector firms registered a marked rise in input prices during December. Higher cost burdens were often linked to increased supplier prices. That said, the pace of cost inflation eased to the slowest since April 2021 as the prices of some key inputs fell. The rate of increase was the second-fastest of the 12 monitored UK regions, however, slower than only Northern Ireland.

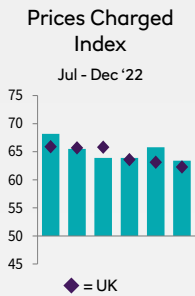
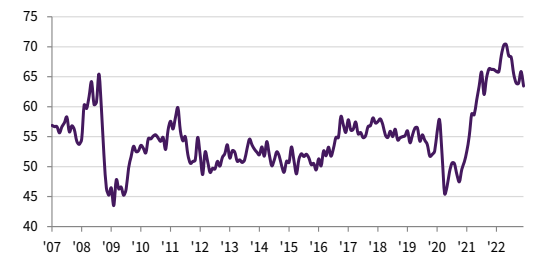
Input Prices Index 74.8  
sa, >50 = inflation since previous month Dec '22



### Slowest rise in output charges since August 2021

Private sector firms in the East Midlands signalled a further sharp increase in output charges at the end of the year. The rise in selling prices was attributed to the pass-through of higher costs to clients. In line with the trend for input prices, the pace of output charge inflation was stronger than the UK average. That said, the rate of inflation was the slowest since August 2021 as cost savings were also passed on to customers.

Prices Charged Index 63.4  
sa, >50 = inflation since previous month Dec '22



## UK Sector PMI

### Sector specialisation: East Midlands

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They 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.

The tables below rank the location quotients for the East Midlands, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

#### East Midlands specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Dec ' 22 <sup>+</sup>
1	Textiles & Clothing	2.09	45
2	Food & Drink	1.41	50
3	Other Manufacturing	1.27	45
4	Mechanical Engineering	1.05	50
5	Timber & Paper	1.02	40
6	Transport	0.92	45
7	Basic Metals	0.87	45
8	Electrical & Optical	0.67	50
9	Chemicals & Plastics	0.58	45

#### East Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec ' 22 <sup>+</sup>
1	Transport & Communication	1.18	45
2	Hotels, Restaurants & Catering	1.13	45
3	Personal & Community Services	1.11	45
4	Business-to-business Services	1.07	50
5	Computing & IT Services	0.91	50
6	Financial Intermediation	0.49	45

## UK sector focus

### Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

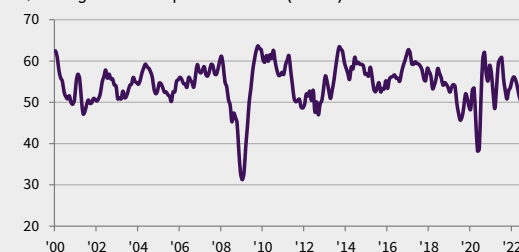
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

#### Output Index

sa, >50 = growth since previous month (3mma)<sup>+</sup>



<sup>+</sup> 3-month moving average



## UK Regional PMI overview

### Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland\* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

### Employment

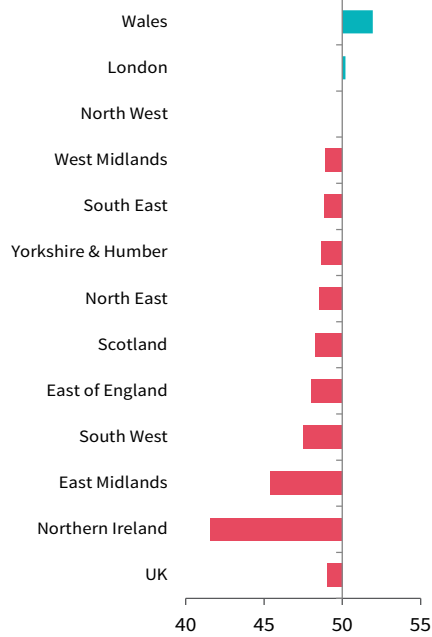
The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

### Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

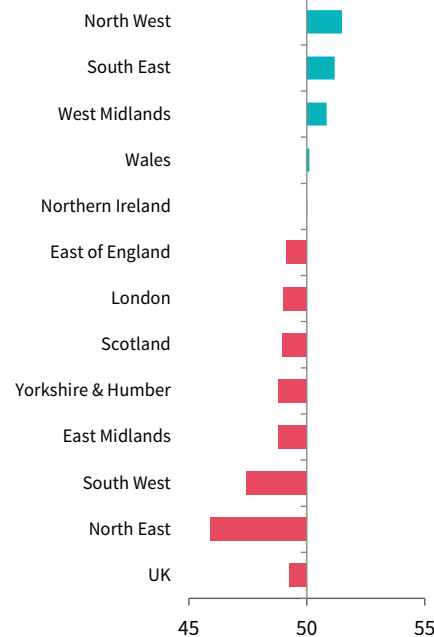
Business Activity Index

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



Employment Index

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



Future Activity Index

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



\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



## Index summary

### East Midlands

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Jul '22	48.7	47.8	51.7	59.3	56.3	50.8	80.0	68.2
Aug '22	45.0	43.5	50.0	59.6	54.9	49.0	76.8	65.5
Sep '22	46.8	45.1	50.2	61.9	55.2	51.0	77.8	63.9
Oct '22	47.0	44.9	49.9	57.6	52.4	49.8	79.0	63.9
Nov '22	47.1	43.1	48.8	62.1	49.5	48.5	79.7	65.8
Dec '22	45.4	42.6	48.9	59.8	48.8	42.6	74.8	63.4

## Contact

Emily Potts  
Regional Campaign Manager  
NatWest  
+44 (0) 7890 892 748  
[emily.potts@natwest.com](mailto:emily.potts@natwest.com)

Siân Jones  
Senior Economist  
S&P Global Market Intelligence  
T: +44-1491-461-017  
[sian.jones@spglobal.com](mailto:sian.jones@spglobal.com)

Sabrina Mayeen  
Corporate Communications  
S&P Global Market Intelligence  
T: +44 (0)-7967-447030  
[sabrina.mayeen@spglobal.com](mailto:sabrina.mayeen@spglobal.com)

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NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

### About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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