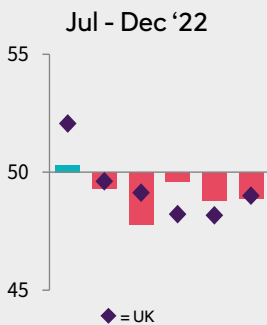


# NatWest West Midlands PMI<sup>®</sup>

## Quicker fall in sales coincides with sustained downturn in output

### West Midlands Business Activity Index



### Key findings

Business activity declines for fifth straight month...

...amid faster reduction in new orders

Job creation slows to 22-month low

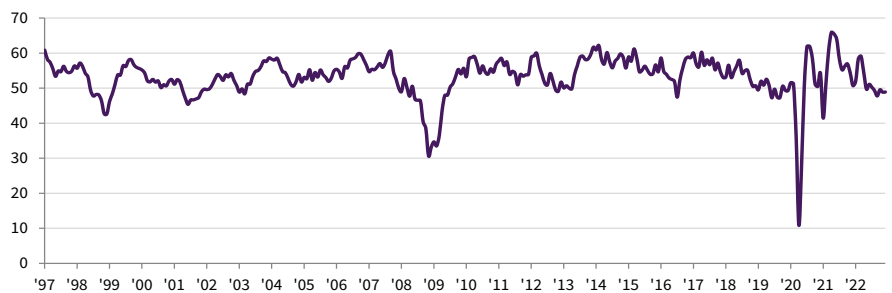
Price pressures and a challenging economic climate restricted sales of West Midlands goods and services at the end of 2022, according to the NatWest PMI<sup>®</sup>, thereby resulting in another decline in output. At 48.9 in December, little-changed from 48.8 in November, the headline Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – highlighted a fifth successive contraction. That said, the rate of reduction was slight overall and broadly in line with the national average. Local firms suggested that lower sales, staff absences, high stock levels at clients and uncertainty all dampened business activity.

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

*"December data showed a lacklustre performance for the West Midlands economy, with a mild fall in output triggered by a solid reduction in new business as clients trimmed spending due to price pressures and difficult economic conditions. These factors also limited business confidence towards growth prospects and curbed job creation substantially. Although there was an improvement in optimism from November, sentiment remained at a low ebb. The local economy entered 2023 on a less than ideal footing, with a subdued outlook, rising interest rates, squeezed household incomes and tight fiscal policy suggesting that an imminent recovery seems highly unlikely."*

West Midlands Business Activity Index

sa, >50 = growth since previous month



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## About the West Midlands PMI<sup>®</sup> report

The NatWest West Midlands PMI<sup>®</sup> is compiled by S&P Global from responses to questionnaires sent to West 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

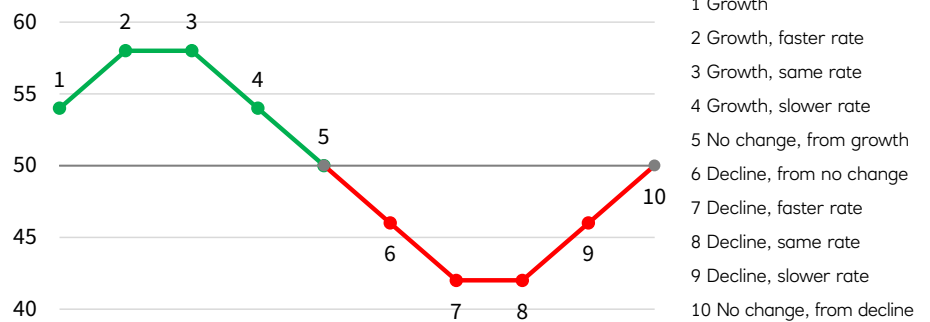
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'West 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

### Downturn in new business intensifies in December

Private sector companies in the West Midlands noted a further decline in intakes of new business at the end of 2022, stretching the current sequence of contraction to seven months. Moreover, the pace of reduction was solid and the second-quickest over this period. Where a fall was signalled, panellists mentioned recession fears among clients, subdued consumer spending and price pressures.

The local contraction in sales was sharper than the national average.

### Business sentiment remains historically subdued

The Future Activity Index remained below its long-run average in December, despite rising to a four-month high. Those companies that foresee output growth in the year ahead pinned optimism on new product releases, projects in the pipeline and marketing efforts. Firms that were downbeat mentioned recession risks, a challenging economic climate and weak underlying demand.

The West Midlands came third in the regional rankings for business confidence.

## Exports

### Export conditions deteriorate further

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

At 48.0 in December, the ECI signalled a fifth successive deterioration in trade prospects. That said, rising from 47.5 in November, the latest figure was consistent with a moderate and slower rate of contraction.

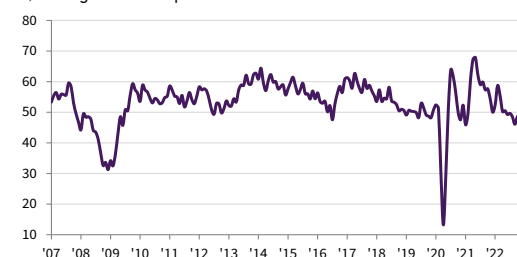
Four of the top five export markets for the West Midlands posted lower output at the end of the year, the exception being Ireland where marginal growth was registered. The US recorded the fastest fall.

New Business Index

sa, >50 = growth since previous month

46.9

Dec '22

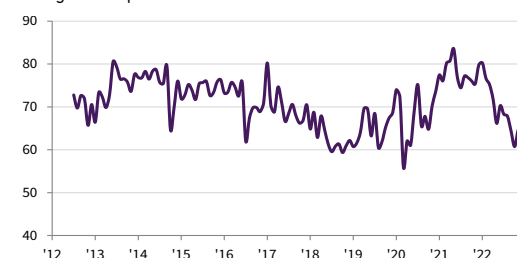


Future Activity Index

>50 = growth expected over next 12 months

65.3

Dec '22

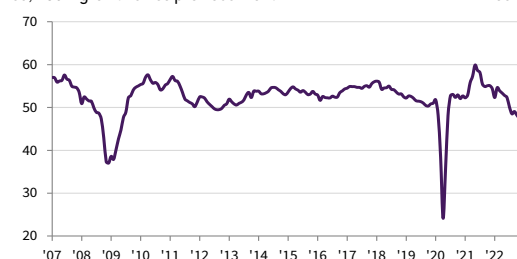


Export Climate Index

sa, >50 = growth since previous month

48.0

Dec '22

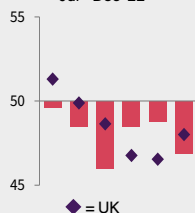


Top export markets, West Midlands

Rank	Market	Weight	Output Index, Dec '22
1	USA	21.2%	45.0
2	Germany	11.1%	49.0
3	China	8.7%	48.3
4	France	6.1%	49.1
5	Ireland	6.2%	50.5

New Business Index

Jul - Dec '22



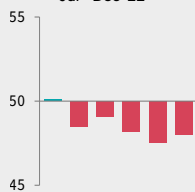
Future Activity Index

Jul - Dec '22



Export Climate Index

Jul - Dec '22



## Business capacity

### Employment Index

Jul - Dec '22



### Job creation slows to 22-month low

Although employment across the West Midlands private sector continued to rise in December, the rate of growth eased to the weakest in the current 22-month sequence of expansion and was marginal. While some companies sought to fill open positions, others trimmed workforce numbers due to sustained declines in new business.

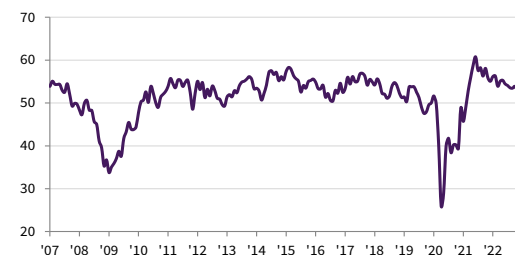
Yet, the trend for jobs in the West Midlands was the third-best seen regionally, behind the South East and North West.

### Employment Index

sa, >50 = growth since previous month

50.8

Dec '22



### Outstanding Business Index

Jul - Dec '22



### Fastest fall in backlogs for 26 months

Outstanding business volumes decreased for the first time in three months during December. Moreover, the rate of depletion was marked and the quickest since October 2020. Anecdotal evidence indicated that lower inflows of new business enabled the clearing of unfinished work.

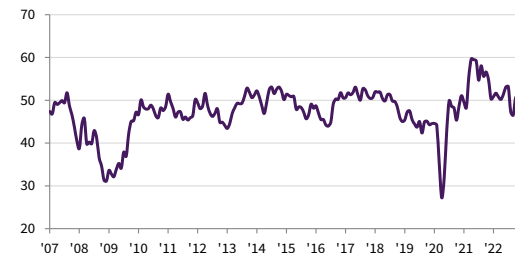
Backlogs also fell in the other 11 UK regions, with only Northern Ireland and the East Midlands recording sharper reductions than that seen in the West Midlands.

### Outstanding Business Index

sa, >50 = growth since previous month

46.0

Dec '22





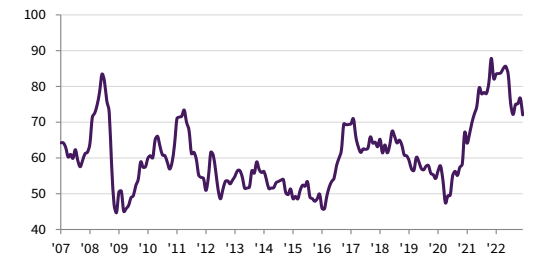
## Prices

### Input cost inflation retreats to 21-month low

The average input costs of West Midlands companies continued to increase sharply at the end of the final quarter of 2022. That said, the rate of inflation softened to the weakest since March 2021. Monitored companies noted higher energy, food, labour, material and overhead costs. The upturn was reportedly curbed by contained fuel prices and fee reductions for some critical items.

The local rate of input cost inflation was broadly in line with the national average.

Input Prices Index 72.0  
sa, >50 = inflation since previous month Dec '22

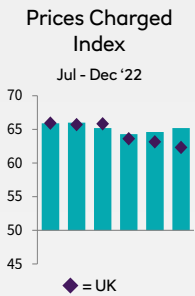
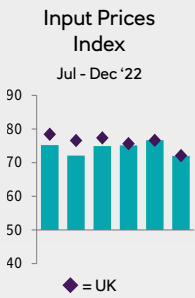
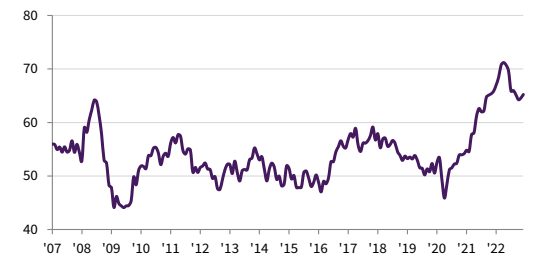


### Output prices rise at quicker pace

As has been the case on a monthly basis for over two-and-a-half years, prices charged for goods and services in the West Midlands rose in December. The rate of inflation was sharp, above its long-run average and the quickest in three months. The pass-through of rising expenses to clients was cited by survey participants as the main reason for the latest upturn in selling prices.

The West Midlands topped the regional rankings for output charge inflation at the end of the year.

Prices Charged Index 65.2  
sa, >50 = inflation since previous month Dec '22



## UK Sector PMI

### Sector specialisation: West 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 West Midlands, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

#### West Midlands specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Dec' 22 <sup>+</sup>
1	Transport	2.35	48
2	Basic Metals	1.44	48
3	Mechanical Engineering	1.17	52
4	Other Manufacturing	0.89	48
5	Timber & Paper	0.61	38
6	Electrical & Optical	0.59	48
7	Textiles & Clothing	0.57	48
8	Food & Drink	0.51	52
9	Chemicals & Plastics	0.47	48

#### West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec' 22 <sup>+</sup>
1	Transport & Communication	1.19	48
2	Hotels, Restaurants & Catering	1.16	48
3	Personal & Community Services	1.08	48
4	Computing & IT Services	0.98	52
5	Business-to-business Services	0.97	48
6	Financial Intermediation	0.74	48

## 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.

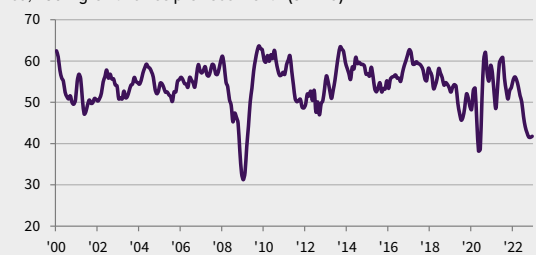
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

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

### West 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	50.3	49.6	50.1	68.3	54.1	53.2	75.2	65.9
Aug '22	49.3	48.5	48.5	67.8	53.5	47.3	72.1	66.0
Sep '22	47.8	46.0	49.1	64.4	53.4	46.5	74.9	65.2
Oct '22	49.6	48.5	48.2	60.7	53.9	50.6	75.1	64.3
Nov '22	48.8	48.8	47.5	64.7	52.7	50.8	76.7	64.6
Dec '22	48.9	46.9	48.0	65.3	50.8	46.0	72.0	65.2

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### About NatWest

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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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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