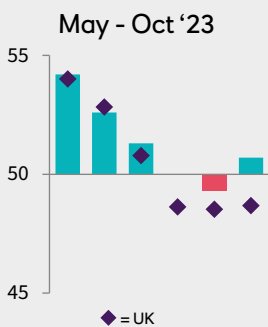




NatWest West Midlands PMI[®]

Growth of West Midlands output reinstated in October

West Midlands Business Activity Index



Key findings

Business activity rises for first time in three months

Firms welcome uptick in sales with job creation

Slowest increase in cost burdens in over three years

Supported by an uptick in new business, West Midlands output expanded in October, according to the NatWest PMI[®] data. Signs of improving demand conditions induced job creation, while firms made further inroads into their backlogs. Another positive from the latest results was evidence of fading cost pressures. Input prices still rose, but the rate of inflation eased to the weakest since September 2020.

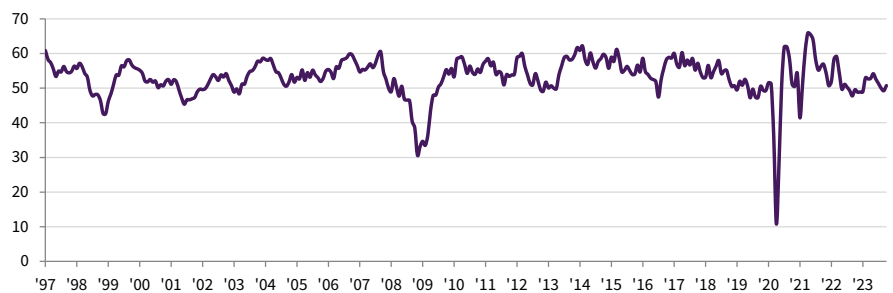
The headline Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – posted 50.7 in October (September: 49.3), above the neutral level of 50.0 for the first time in three months and indicative of a slight pace of growth. New product releases and demand resilience spurred the rise, anecdotal evidence showed.

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

"The West Midlands fared better than most of its regional peers in October, posting the second-best trends for output, new orders and employment at the start of the final quarter of 2023. Despite a downward revision to growth prospects, local firms were more upbeat towards the year-ahead outlook for business activity than anywhere else in the UK. Output charge inflation steadied at a joint 34-month low, with another retreat in cost pressures suggesting that there could be slower increases in prices charged for goods and services in the coming months."

West Midlands Business Activity Index

sa, >50 = growth since previous month



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About the West Midlands PMI® report

The NatWest West Midlands PMI® 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

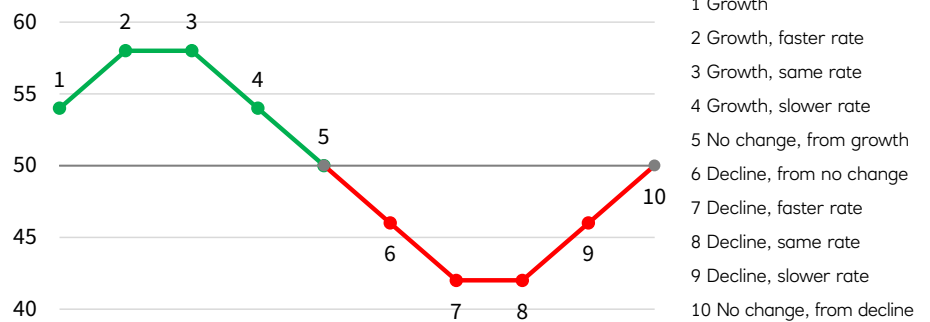
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

October sees recovery in new orders

After broadly stagnating in September, new business received by West Midlands companies rose at the start of the fourth quarter. According to monitored firms, the uptick stemmed from expanded clientele and improved demand conditions. That said, the overall pace of growth was slight and below its long-run average. High interest rates and subdued market confidence reportedly restricted new work intakes.

The West Midlands came second in the regional rankings for sales, behind London.

Business confidence slips to ten-month low

Amid reports of a challenging economic landscape, companies downgraded their projections for output growth. Positive sentiment was maintained, however, as several panellists expect demand conditions to improve and support business activity in the year ahead. Expansion plans, new client onboarding, product diversification and planned investment were also cited as reasons to be optimistic.

West Midlands firms were the most upbeat regionally.

Exports

Fastest deterioration export opportunities in year-to-date

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.

The ECI slipped further beneath the neutral level of 50.0 in October, indicating a quicker deterioration in export prospects. Down from 49.3 in September to 48.6, the latest figure was the worst registered in 2023 so far.

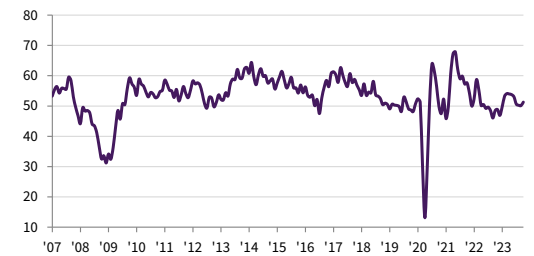
The US was the only nation to see economic growth when looking at the top five export markets for the West Midlands. Reductions in activity across France, Germany and Ireland compared with stagnation in China.

New Business Index

sa, >50 = growth since previous month

51.3

Oct '23

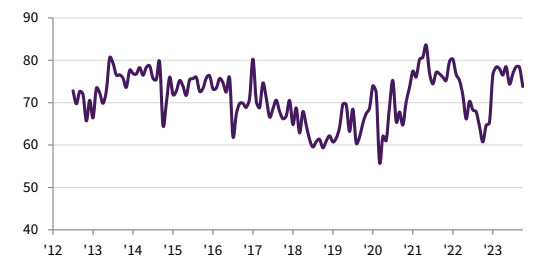


Future Activity Index

>50 = growth expected over next 12 months

73.8

Oct '23

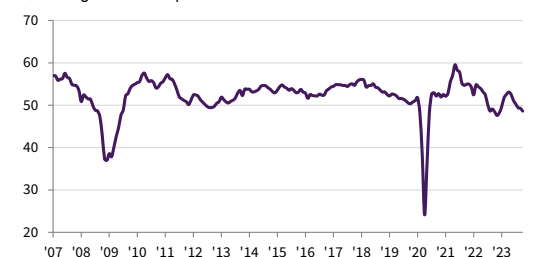


Export Climate Index

sa, >50 = growth since previous month

48.6

Oct '23

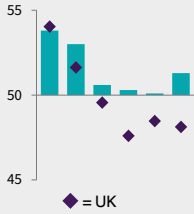


Top export markets, West Midlands

Rank	Market	Weight	Output Index, Oct '23
1	USA	24.3%	50.7
2	Germany	11.9%	45.9
3	China	8.5%	50.0
4	France	7.7%	44.6
5	Ireland	7.2%	49.7

New Business Index

May - Oct '23



◆ = UK

Future Activity Index

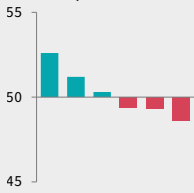
May - Oct '23



◆ = UK

Export Climate Index

May - Oct '23



Business capacity

Job creation reinstated in October

There was a renewed increase in private sector employment across the West Midlands during October, following declines in August and September. Some firms linked recruitment to the filling of existing vacancies, while others mentioned being understaffed in recent months. There were also reports of apprentices being taken on. Although moderate, the rate of job creation was the strongest since May.

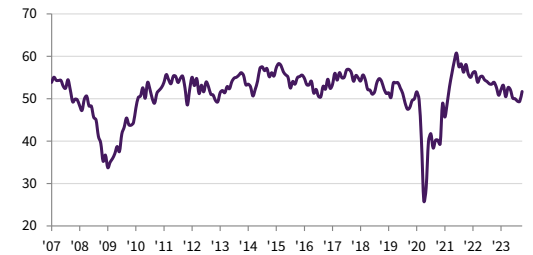
Regionally, only Scotland recorded a faster expansion in payroll numbers than the West Midlands.

Work on pending projects progresses further

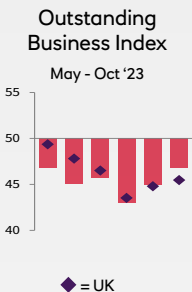
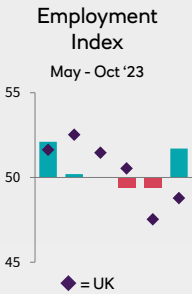
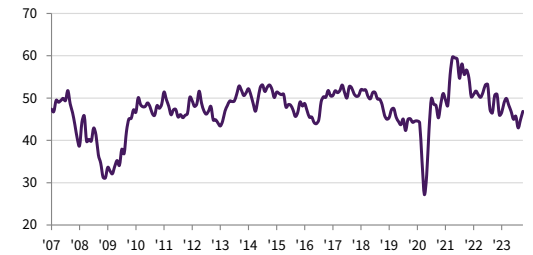
As has been the case on a monthly basis for just under a year, private sector companies in the West Midlands signalled a fall in outstanding business volumes during October. The rate of depletion was solid, despite easing to the slowest since May. Survey participants suggested that weak gains in new business and a concerted effort to push orders out of the door underpinned the latest decline.

The local contraction in outstanding business was slower than the UK average.

Employment Index
sa, >50 = growth since previous month
51.7
Oct '23



Outstanding Business Index
sa, >50 = growth since previous month
46.8
Oct '23



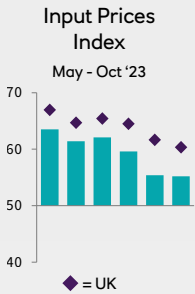
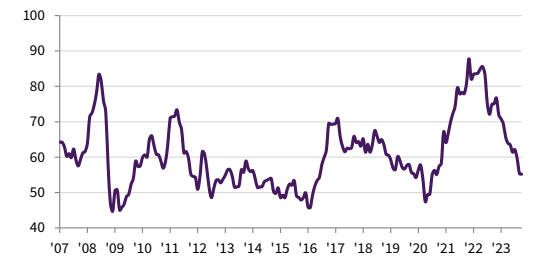
Prices

Slowest increase in input costs in over three years

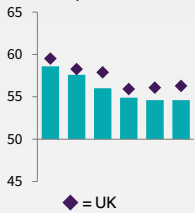
October data signalled a third successive slowdown in cost inflation. Input prices still rose markedly, but the rate of increase eased to the weakest since September 2020. Elevated interest rates as well as higher material, transportation and wage costs fuelled the upturn in overall expenses, according to panel members. Subdued input demand and lower energy costs curbed the rise.

Out of the 12 monitored parts of the UK, the West Midlands recorded the slowest rate of cost inflation.

Input Prices Index
sa, >50 = inflation since previous month
55.2
Oct '23



Prices Charged Index
May - Oct '23

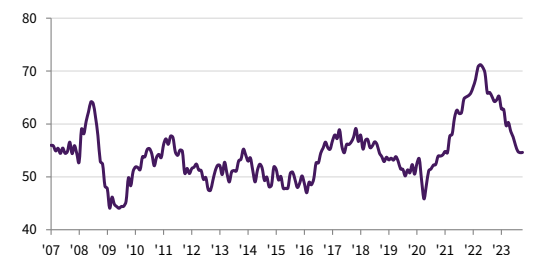


Rate of selling price inflation steadies

Prices charged for West Midlands goods and services increased further at the start of the final quarter of 2023. The rate of inflation was equal to that seen in September, therefore remaining above its long-run average. Where fees had been adjusted upwards, monitored firms cited the pass-through of rising cost burdens.

Charge inflation in the West Midlands remained below that seen at the UK level.

Prices Charged Index
sa, >50 = inflation since previous month
54.6
Oct '23



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, Oct' 23 ⁺
1	Transport	2.35	55
2	Basic Metals	1.44	50
3	Mechanical Engineering	1.17	50
4	Other Manufacturing	0.89	45
5	Timber & Paper	0.61	40
6	Electrical & Optical	0.59	45
7	Textiles & Clothing	0.57	45
8	Food & Drink	0.51	55
9	Chemicals & Plastics	0.47	45

West Midlands specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct' 23 ⁺
1	Transport & Communication	1.19	50
2	Hotels, Restaurants & Catering	1.16	50
3	Personal & Community Services	1.08	50
4	Computing & IT Services	0.98	55
5	Business-to-business Services	0.97	50
6	Financial Intermediation	0.74	50



UK sector focus

Mechanical Engineering

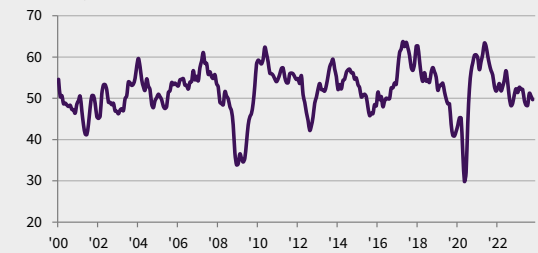
The trend in production across the UK's Mechanical Engineering sector was one of broad stagnation in the three months to October. This was closely aligned with the sector's performance throughout the year so far, which has seen only marginal growth on average.

Output has in fact been largely supported by the clearing of backlogs of work as the supply of inputs has improved, with inflows of new work having been in decline for more than a year. Nevertheless, firms were optimistic about the 12-month outlook and maintained a trend of job creation that stretches back to the start of 2021.

Turning to prices, latest data showed only modest rises in both input costs and factory gate charges across the sector in the three months to October. Cost inflation was in fact at its joint-lowest since mid-2016, having surged throughout 2021 and 2022.

Output Index

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



⁺3-month moving average

UK Regional PMI overview

Business Activity

London remained the UK's top-performing region for activity growth in October. It was one of just three areas (out of 12 monitored) where output rose during the month, alongside the West Midlands and South West. Firms in the North East recorded the most marked decline in business activity, followed by those in Wales.

Employment

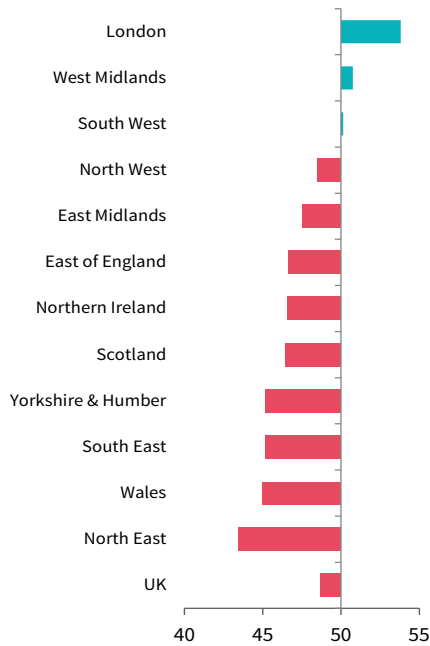
Seven out of the 12 monitored regions and nations posted lower employment in October. However, this was down from ten in September, and where workforce numbers fell, rates of job shedding often eased. Scotland topped the rankings with a modest rise in staffing levels, with the West Midlands, Northern Ireland*, North West and East of England also seeing increases.

Future Activity

Confidence towards future activity weakened across the vast majority of areas in October, with only the South West and Wales going against the trend. Nevertheless, expectations were optimistic across the board, and nowhere more so than in the West Midlands, which topped the rankings for a fourth straight month ahead of the South East.

Business Activity Index

sa, >50 = growth since previous month, Oct '23



Employment Index

sa, >50 = growth since previous month, Oct '23



Future Activity Index

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



* 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
May '23	54.2	53.8	52.6	78.5	52.1	46.8	63.5	58.6
Jun '23	52.6	53.0	51.2	74.4	50.2	45.0	61.4	57.6
Jul '23	51.3	50.6	50.3	76.8	50.0	45.7	62.1	56.0
Aug '23	50.0	50.3	49.4	78.5	49.4	43.0	59.6	54.9
Sep '23	49.3	50.1	49.3	78.4	49.4	44.9	55.4	54.6
Oct '23	50.7	51.3	48.6	73.8	51.7	46.8	55.2	54.6

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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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