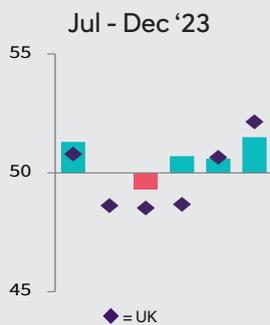


NatWest West Midlands PMI[®]

West Midlands economy ends 2023 with regained growth momentum

West Midlands Business Activity Index



Key findings

Business activity and sales expand at quickest rates in six months

Optimism regarding output prospects strengthens

Inflationary pressures intensify

The last NatWest PMI[®] results for 2023 pointed to a combination of strengthening growth and rising price pressures across the West Midlands. With sales prospects coming to fruition and demand conditions remaining resilient, new orders rose at the quickest pace in six months. Subsequently, there was a faster uptick in output and an improvement in business confidence. On the price front, input costs and output charges increased at stronger rates.

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 – rose from 50.6 in November to a six-month high of 51.5 in December, indicating a quicker rate of expansion that was the third-best of the 12 monitored UK regions and nations. New contract wins and better demand conditions spurred growth, anecdotal evidence showed.

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

"The West Midlands private sector economy ended 2023 in a much better way than it started, sustaining growth of demand for goods and services alongside a further uptick in output. On both fronts, the expansions were among the best seen across the 12 monitored UK regions and nations. Confidence in the outlook for 2024 strengthened, while rates of input cost and output charge inflation remained among the lowest seen in at least three years despite ticking higher."

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

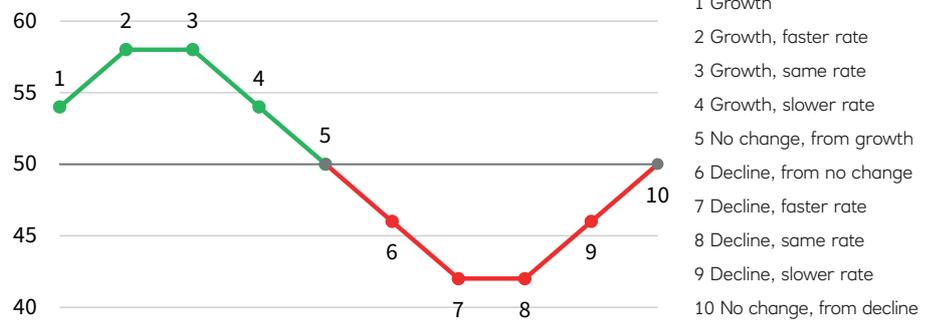
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The West Midlands Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Growth of new orders strengthens at year end

New business intakes at private sector companies in the West Midlands continued to increase in December, therefore stretching the current sequence of expansion to 11 months. Although modest, the rate of growth picked up to the quickest since June. Firms that reported gains cited greater customer numbers, demand resilience and the materialisation of sales prospects.

Out of the 12 monitored UK regions and nations, only London saw a faster rise in new orders.

Confidence in the outlook improves in December

West Midlands companies became more upbeat regarding the prospects for output in 2024. The overall level of positive sentiment rose to a three-month high and was above its long-run average. Optimism was often attributed by panellists to expected increases in new business, demand strength, marketing, investment and innovative sustainable approaches.

Local firms were more upbeat than their counterparts anywhere else in the UK.

Exports

Trade prospects broadly unchanged since November

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.

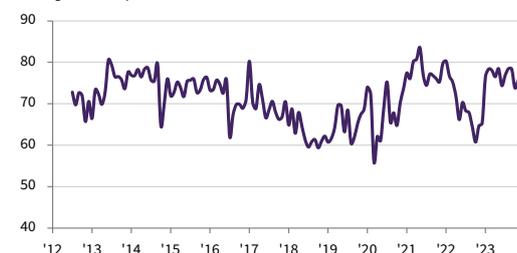
The ECI posted 49.5 in December, little-changed from 49.6 in November and close to the 50.0 threshold, thus signalling only a fractional deterioration in export opportunities facing local companies.

Of the top five export markets for the West Midlands, economic growth was registered in China, Ireland and the US. Contractions in France and Germany entered their seventh and sixth successive month respectively.

New Business Index
sa, >50 = growth since previous month
51.5
Dec '23



Future Activity Index
>50 = growth expected over next 12 months
77.2
Dec '23



Export Climate Index
sa, >50 = growth since previous month
49.5
Dec '23



Top export markets, West Midlands

| Rank | Market | Weight | Output Index, Dec '23 |
|------|---------|--------|-----------------------|
| 1 | USA | 24.3% | 50.9 |
| 2 | Germany | 11.9% | 47.4 |
| 3 | China | 8.5% | 52.6 |
| 4 | France | 7.7% | 44.8 |
| 5 | Ireland | 7.2% | 51.5 |



Business capacity

Private sector employment broadly stagnant

After increasing in the previous two months, payroll numbers at West Midlands companies were broadly unchanged in December. This was signalled by the respective seasonally adjusted index posting only fractionally below the 50.0 no-change mark. Some firms reportedly took on additional staff amid higher sales, while others shed jobs due to cost considerations, resignations and redundancies.

London, Northern Ireland and Scotland recorded job creation at the end of 2023.

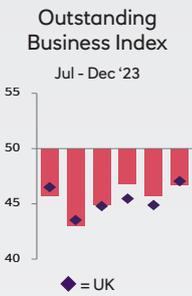
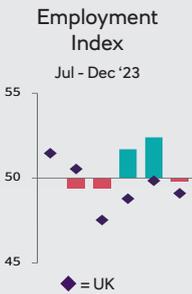
Outstanding business volumes fall further

For the thirteenth month in a row, private sector firms in the West Midlands signalled a decline in unfinished business levels during December. Despite slowing since November, the pace of depletion was solid and broadly aligned with the long-run series trend. Around three times as many survey participants (30%) reported lower backlogs as those that signalled accumulation (just under 11%).

Employment Index
sa, >50 = growth since previous month
49.8
Dec '23



Outstanding Business Index
sa, >50 = growth since previous month
46.7
Dec '23



Prices

Firms experience a further sharp rise in expenses

As has been the case on a monthly basis for three-and-a-half years, input prices at West Midlands firms rose in December. Although considerably lower than most of those seen over that period, the rate of inflation was sharp and hit a four-month high. The upturn was reportedly fuelled by wage increases amid the higher cost of living and greater prices for freight, insurance, rent and utilities.

Nevertheless, the local rate of input cost inflation was the lowest of the 12 monitored UK regions and nations.

Selling prices increase at fastest rate in six months

In line with the trend for input costs, there was a quicker upturn in prices charged for West Midlands goods and services during December. The rate of inflation was sharp, the fastest since June and above the long-run series average. Anecdotal evidence suggested that additional cost burdens had been shared with customers.

The local rate of charge inflation was below the national average.

Input Prices Index

sa, >50 = inflation since previous month

58.1

Dec '23



Prices Charged Index

sa, >50 = inflation since previous month

56.2

Dec '23



Input Prices Index

Jul - Dec '23



Prices Charged Index

Jul - Dec '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, Dec' 23 ⁺ |
|------|------------------------|------|---------------------------------------|
| 1 | Transport | 2.35 | 55 |
| 2 | Basic Metals | 1.44 | 48 |
| 3 | Mechanical Engineering | 1.17 | 50 |
| 4 | Other Manufacturing | 0.89 | 42 |
| 5 | Timber & Paper | 0.61 | 45 |
| 6 | Electrical & Optical | 0.59 | 48 |
| 7 | Textiles & Clothing | 0.57 | 52 |
| 8 | Food & Drink | 0.51 | 55 |
| 9 | Chemicals & Plastics | 0.47 | 48 |

West Midlands specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Dec' 23 ⁺ |
|------|--------------------------------|------|--|
| 1 | Transport & Communication | 1.19 | 48 |
| 2 | Hotels, Restaurants & Catering | 1.16 | 52 |
| 3 | Personal & Community Services | 1.08 | 48 |
| 4 | Computing & IT Services | 0.98 | 55 |
| 5 | Business-to-business Services | 0.97 | 50 |
| 6 | Financial Intermediation | 0.74 | 52 |

UK sector focus

Textiles & Clothing

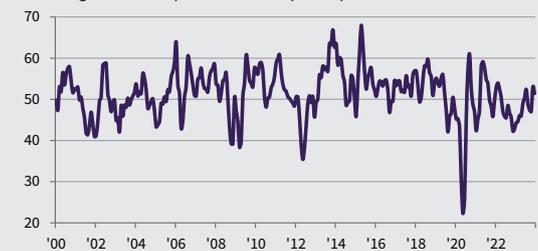
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by London, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

Employment

Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Dec '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| 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 |
| Nov '23 | 50.6 | 50.4 | 49.6 | 75.7 | 52.4 | 45.7 | 57.1 | 55.9 |
| Dec '23 | 51.5 | 51.5 | 49.5 | 77.2 | 49.8 | 46.7 | 58.1 | 56.2 |

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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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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.

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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.

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