



# NatWest East Midlands PMI®

## Output expansion eases to slowest since July 2016

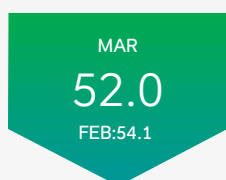
### Key Findings

Rates of business activity and new order growth soften

Fastest rise in output prices across 12 monitored UK regions

Expectations strengthen, but remain historically muted

### East Midlands Business Activity Index



Last six months EM v UK



According to the NatWest East Midlands PMI®, business activity continued to increase in March, albeit at the slowest pace since July 2016. The rate of new business growth also eased to a moderate pace amid Brexit uncertainty. Nonetheless, there was still evidence of pressure on capacity as backlogs increased for the second month running and the rate of job shedding was only fractional. Business confidence, meanwhile, strengthened in March. Input price inflation remained marked and output charges increased at an accelerated pace.

The headline East Midlands Business Activity Index – a seasonally adjusted index that measures the combined output of the region’s manufacturing and service sectors – posted 52.0 in March, down from 54.1 in February, signalling a moderate expansion in output. Firms linked the rise to stronger client demand and stockpiling activity in the lead up to Brexit. The East Midlands registered one of the fastest expansions over the last three months across the 12 monitored UK regions. That said, the latest increase was the slowest since July 2016.

#### Demand

New business received by private sector firms rose modestly in March. The pace of growth eased from that seen in February and was the second-slowest since July 2016. The upturn in new orders was largely linked to stockpiling activity among clients, but Brexit uncertainty reportedly weighed on overall

demand. Nevertheless, the East Midlands was one of only four regions to register a rise in new business (alongside Wales, the West Midlands and the South East).

#### Prices

On the price front, input costs continued to rise at a marked rate, despite inflation easing to a three-month low. The increase in input prices was attributed to higher raw material and wage costs. The rise in cost burdens was faster than the UK average.

In contrast to a slower rise in input costs, the rate of output charge inflation picked up in March. The strong rise in output prices was commonly linked to the pass-through of higher cost burdens and was the sharpest seen across the UK.

#### Capacity

Despite a slower rise in new business, private sector firms in the East Midlands registered a further increase in outstanding business.

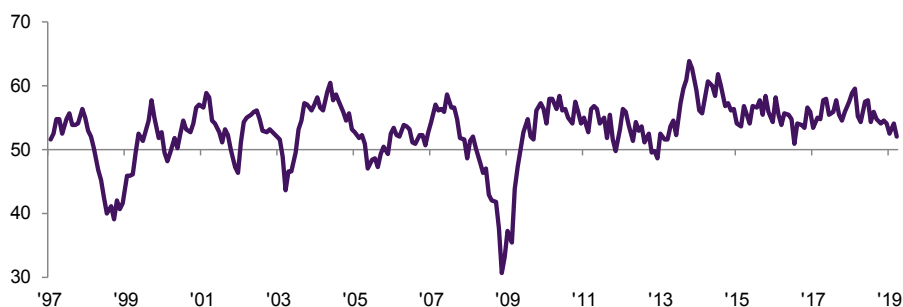
That said, companies noted another monthly decrease in employment in March. The fall was only fractional overall.

#### Outlook

Output expectations across the East Midlands strengthened in March, despite being historically muted. Moreover, the degree of optimism was the strongest of the 12 monitored UK regions.

East Midlands Business Activity Index

sa, >50 = growth since previous month regionals



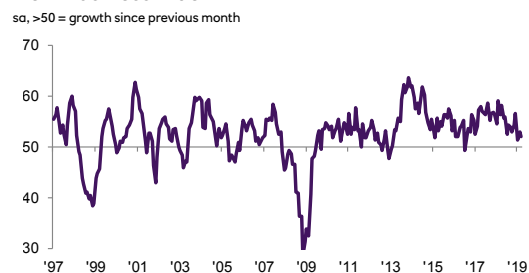
## New Business Index



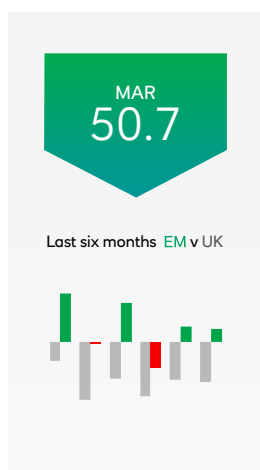
### Moderate rise in new business

New business received by manufacturers and service providers based in the East Midlands continued to increase in March, albeit at a softer pace. The region was one of only four to register an upturn in new orders (including Wales, the West Midlands and South East), with the UK as a whole signalling a contraction in client demand. The rise was the second-slowest since July 2016 and only modest overall, however.

### New Business Index



## Outstanding Business Index



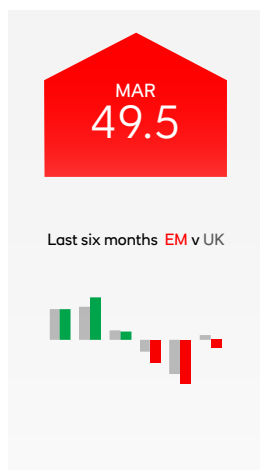
### Marginal rise in work-in-hand in March

Backlogs of work rose for the second successive month in March, albeit only marginally. The rate of accumulation of backlogs softened from that seen in February, but the seasonally adjusted index posted above its long-run series average. In contrast to the trend seen across the UK as a whole, firms in the East Midlands stated that outstanding business rose due to the acquisition of new clients and pressure on capacity.

### Outstanding Business Index



## Employment Index



### Fractional fall in employment

Private sector firms across the East Midlands registered a third consecutive monthly decline in employment in March. The decrease in workforce numbers was only fractional, however, and the slowest in the aforementioned sequence. Where a fall was reported, panellists linked this to cost-cutting measures and Brexit-related uncertainty.

### Employment Index



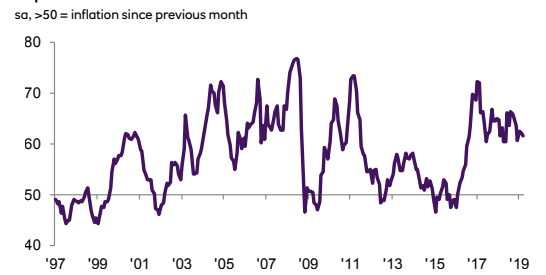
## Input Prices Index



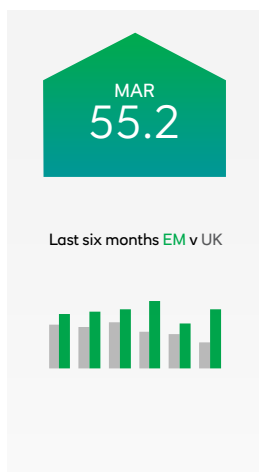
### Further marked rise in input prices in March

Average input costs continued to increase at a marked pace in March. The rise in input prices was the softest for three months, but was above the long-run series average. Panellists linked the upturn to higher raw material prices and a rise in wage costs. Moreover, firms in the East Midlands indicated a faster increase in cost burdens than was seen across the UK as a whole.

### Input Prices Index



## Prices Charged Index



### Strong increase in output charges in March

Private sector firms operating across the East Midlands signalled a strong rise in output prices in March. The increase in charges was faster than that seen in February and was widely attributed to the pass-through of higher input costs to clients. The rise was quicker than the series trend and was the fastest of the 12 monitored UK regions.

### Prices Charged Index



## Future Business Activity Index



### Output expectations pick up in March, but remain subdued

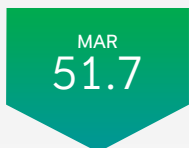
The level of business confidence across the East Midlands rose to a four-month high in March. Optimism was linked to increased marketing activity, hopes of a resolution to Brexit uncertainty and the launch of new products. Moreover, output expectations were the strongest of the UK regions monitored. Nonetheless, the degree of positive sentiment was muted in the context of the series history.

### Future Business Activity Index



## East Midlands Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



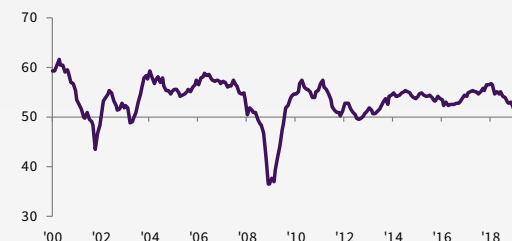
### Export conditions continue to improve in March

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 East Midlands Export Climate Index indicated a slightly slower improvement in export conditions for firms operating in the East Midlands. The seasonally adjusted index posted 51.7 in March, down slightly from 51.9 in February. Export conditions eased following softer output expansions among key export partners such as; Germany, the USA and Ireland. France, however, registered a renewed contraction in business activity. Singapore was the only key export market to register a faster rise in output.

### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, East Midlands

| Rank | Market    | Weight | Output Index, Mar-19 |
|------|-----------|--------|----------------------|
| 1    | France    | 14.3%  | 48.9                 |
| 2    | Germany   | 11.1%  | 51.4                 |
| 3    | USA       | 9.8%   | 54.6                 |
| 4    | Singapore | 6.0%   | 52.3                 |
| 5    | Ireland   | 5.6%   | 54.1                 |

## East Midlands Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to 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 sub-sectors. The UK Output Index for each sub-sector is also displayed.

### Manufacturing specialisation: East Midlands

| Rank | Sector                       | LQ   | UK Output Index, Mar-19 (3mma) |
|------|------------------------------|------|--------------------------------|
| 1    | Textiles & Clothing          | 1.98 |                                |
| 2    | Food & Drink                 | 1.43 |                                |
| 3    | Other Manufacturing          | 1.22 |                                |
| 4    | Machinery & Equipment        | 1.15 |                                |
| 5    | Wood & Paper                 | 1.08 |                                |
| 6    | Transport Equipment          | 0.88 |                                |
| 7    | Metals & Metal Products      | 0.86 |                                |
| 8    | Electrical & Electronic      | 0.69 |                                |
| 9    | Chemicals, Rubber & Plastics | 0.60 |                                |

40 45 50 55 60

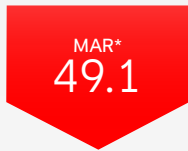
### Services specialisation: East Midlands

| Rank | Sector                             | LQ   | UK Business Activity Index, Mar-19 (3mma) |
|------|------------------------------------|------|---|
| 1    | Other personal/consumer Services   | 1.17 |   |
| 2    | Hotels, Restaurants & Catering     | 1.17 |   |
| 3    | Transport & Communication Services | 1.15 |   |
| 4    | Business-to-business Services      | 1.06 |   |
| 5    | Computing & IT Services            | 0.88 |   |
| 6    | Financial Intermediation           | 0.49 |   |

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## UK Sector Focus: Hotels, Restaurants & Catering

### Output Index



### Last six months\*



\*3mma

### Hotels, restaurants & catering sector sees fall in output and sharp squeeze on margins in first quarter

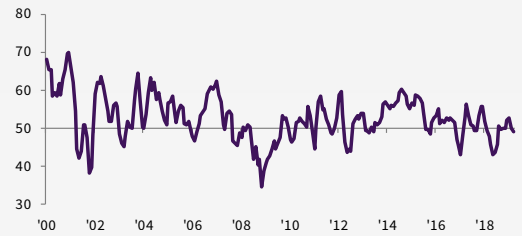
The UK's hotels, restaurants & catering sector struggled during the opening quarter of the year, as Brexit uncertainty weighed on demand and operating costs rose sharply.

Following a brief period of growth around the turn of the year, activity in the sector fell back into contraction in the three months to March, in turn leading to further job losses. Firms' appetite for new hires was further suppressed by a gloomy outlook for activity, with future expectations running at close to the lowest in almost a decade.

Meanwhile, hotels, restaurants & catering saw the sharpest rise in costs of all services sub-sectors monitored by PMI data, linked in part to wage pressures and increases in energy and food prices. However, output changes barely rose as firms struggled to pass higher costs onto customers, pointing to a sharp squeeze on operating margins.

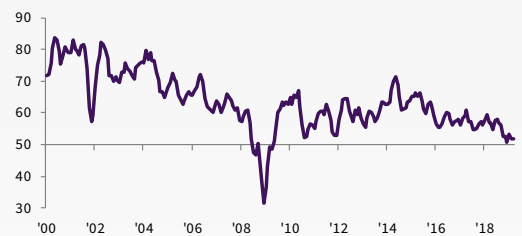
### Output Index

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



### Future Business Activity Index

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



## UK Regional Rankings

### Business Activity

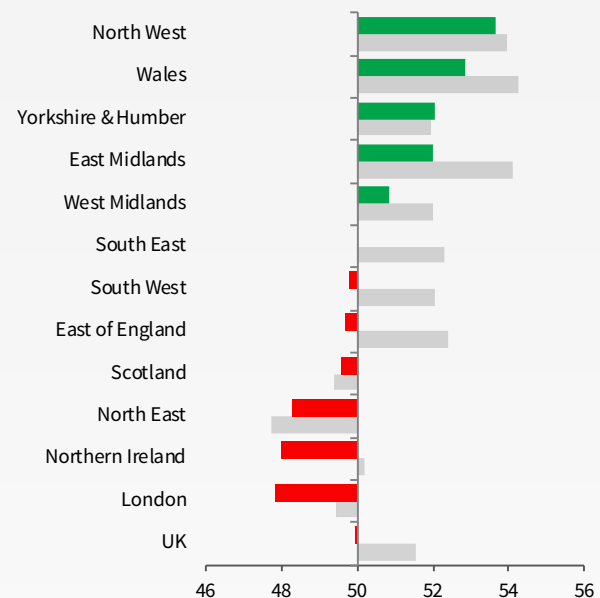
The North West was the UK's fastest-growing area for business activity in March, followed by Wales. However, both recorded slower rates of expansion, as was the case in the East and West Midlands – ranked fourth and fifth respectively. Yorkshire & Humber was ranked third overall, but registered a modest rate of growth that was unchanged since February. Output stagnated in the South East and fell in all remaining areas. London recorded the steepest overall decline – its most marked since July 2016.

### Employment

Employment growth in March was jointly led by the North West and West Midlands, ahead of Yorkshire & Humber and the South East. Of the remaining areas, only Wales and Scotland record an increase in workforce numbers during the month. London, the South West, East of England, East Midlands, Northern Ireland and North East all saw reductions in employment, with the latter seeing a decline for the ninth month in a row.

### Output Index by region

sa, >50 = growth since previous month, Mar-19 (Feb-19)



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### Methodology

The NatWest East Midlands PMI® is compiled by IHS Markit from responses to questionnaires sent to East Midlands companies that participate in IHS Markit'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).

### 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. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers 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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

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