



NatWest West Midlands PMI®

Growth subdued at end of Q1

Key Findings

Modest increases in output and new orders

Sharpest rise in employment since last October

Business confidence picks up

West Midlands Business Activity Index



Last six months WM v UK



According to the latest NatWest PMI® report, business conditions in the West Midlands private sector remained subdued in March, in line with the picture seen across the first quarter of the year. Uncertainty around Brexit reportedly led to some hesitancy among clients to commit to orders, although business confidence data improved amid hopes that the picture will become clearer soon. One key positive from the latest survey was a pick-up in the rate of job creation to a five-month high.

The headline West Midlands Business Activity Index – a seasonally adjusted index that measures changes in the combined output of the region’s manufacturing and service sectors – posted 50.9 in March, down from 52.0 in February and signalling only a slight monthly rise in business activity. This represented a more positive picture than was seen across the UK as a whole, however, where output was unchanged in March.

Some panellists linked higher activity to new order growth, while others reported stockpiling ahead of Brexit. There were contrasting trends at the sector level, with manufacturers seeing production increase while service providers recorded a drop in activity.

Demand

Similar to the trend in business activity, new orders rose at a modest and reduced pace in March. Customer stockpiling supported growth in some cases, but other respondents indicated that Brexit uncertainty had led to a

reduction in new work.

Capacity

West Midlands companies increased their staffing levels at a solid rate that was the fastest in five months at the end of the first quarter. In fact, the pace of job creation was the joint-fastest of the 12 monitored UK regions, equal with the North West.

Increased operating capacity combined with relatively modest new order growth meant that firms were able to work through outstanding business again in March. Backlogs of work have now decreased in each of the past eight months.

Outlook

Having been relatively muted in recent months, business confidence showed signs of picking up. Although Brexit uncertainty continued to weigh on sentiment, predictions of a more certain position in coming months and new order growth helped see optimism reach a ten-month high.

Prices

The rate of input cost inflation softened for the sixth consecutive month in March and was the weakest since June 2016. The pace of increase in output prices also eased, but remained solid and broadly in line with those seen throughout the rest of the first quarter of the year. West Midlands companies raised charges at a faster pace than the UK average.

West Midlands Business Activity Index

sa, >50 = growth since previous month



New Business Index



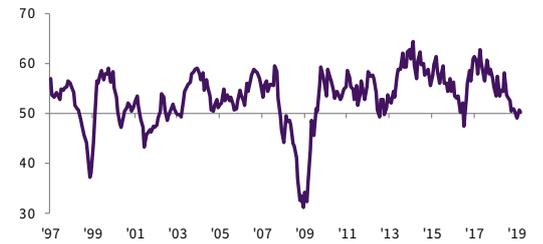
New orders rise only marginally in March

As was the case in the previous month, new orders rose marginally in the West Midlands private sector during March. In some cases, growth of new work reflected customers stockpiling ahead of Brexit. On the other hand, Brexit uncertainty was also listed as a factor leading new business to fall at some companies amid hesitancy among clients.

Modest new order growth was seen across both the manufacturing and service sectors.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Rate of backlog depletion softens

As has been the case in each of the past eight months, backlogs of work decreased in the West Midlands during March. That said, the latest fall in outstanding business was the weakest since last October.

Some panellists signalled increasing capacity pressures amid stockpiling by customers, but these were outweighed by those companies that were able to work through outstanding business due to weak new order growth.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



Rate of job creation at five-month high

West Midlands companies increased their staffing levels at a solid pace at the end of the first quarter of the year, with the rate of job creation the fastest since last October.

Some panellists reported a greater need for staff due to current workloads, while others hired additional workers to contribute to new projects and in anticipation of improving demand in future months.

Employment Index

sa, >50 = growth since previous month



Input Prices Index

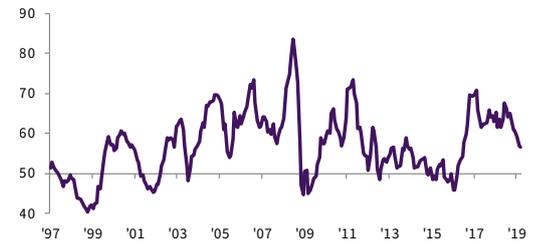


Slower rise in input costs

The rate of input price inflation continued to soften in March, slowing for the sixth successive month to the weakest since June 2016. Where input costs rose, panellists linked this to higher raw material prices and sterling weakness. The increase in cost burdens in the West Midlands was weaker than the UK average.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Output prices continue to rise solidly

As has been the case in each of the past 34 months, West Midlands companies increased their prices charged in March. The rate of inflation was solid and eased only marginally from that seen in February. In contrast to the picture for input costs, output prices in the region rose at a faster pace than the UK average.

Prices Charged Index

sa, >50 = inflation since previous month



Future Business Activity Index



Business confidence at ten-month high

Although remaining relatively subdued, optimism at West Midlands companies strengthened in March and was the highest in ten months. Confidence regarding the 12-month outlook for output in the region was also stronger than the UK average.

While Brexit continued to weigh on sentiment, some panellists based optimism on hopes that uncertainty will start to reduce, while there were some predictions of new order growth.

Future Business Activity Index

>50 = growth expected over next 12 months



West Midlands Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Modest improvement in export climate in March

The West Midlands Export Climate Index 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 West Midlands Export Climate Index posted 52.4 in March, broadly in line with the previous month's reading of 52.3 and signalling a further modest increase in demand in the region's export markets.

The US – the single largest destination for West Midlands exports – continued to see activity rise solidly, albeit to a lesser extent than in February. Meanwhile, Germany and Ireland also posted weaker growth, while French activity decreased. On a more positive note, China registered the fastest rise in output since June 2018.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, West Midlands

Rank	Market	Weight	Output Index, Mar-19
1	USA	17.7%	54.6
2	China	11.9%	52.9
3	Germany	10.7%	51.4
4	France	6.9%	48.9
5	Ireland	4.4%	54.1

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

Manufacturing specialisation: West Midlands

Rank	Sector	LQ	UK Output Index, Mar-19 (3mma)
1	Transport Equipment	2.33	50
2	Metals & Metal Products	1.50	50
3	Machinery & Equipment	1.22	50
4	Other Manufacturing	0.90	50
5	Electrical & Electronic	0.62	50
6	Textiles & Clothing	0.59	50
7	Wood & Paper	0.57	50
8	Food & Drink	0.50	50
9	Chemicals, Rubber & Plastics	0.47	50

Services specialisation: West Midlands

Rank	Sector	LQ	UK Business Activity Index, Mar-19 (3mma)
1	Hotels, Restaurants & Catering	1.22	50
2	Transport & Communication Services	1.18	50
3	Other personal/consumer Services	1.10	50
4	Business-to-business Services	0.97	50
5	Computing & IT Services	0.95	50
6	Financial Intermediation	0.73	50



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

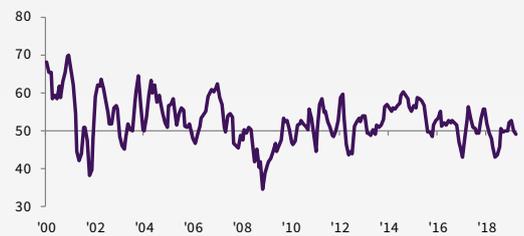
The UK's hotels, restaurants & catering sector struggled during the opening quarter of the year, as Brexit uncertainty weighed on demand and operating costs rose sharply.

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 charges 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

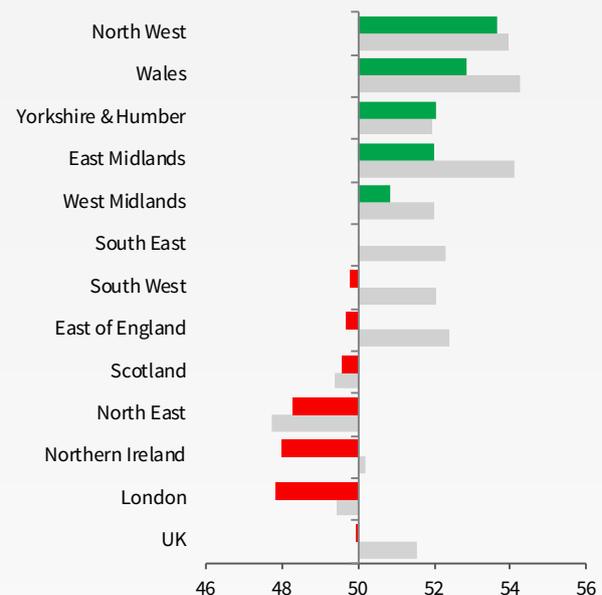
The North West was the UK's fastest-growing area for business activity in March, followed by Wales. However, both recorded slower rates of expansion, as was the case in the East and West Midlands – ranked fourth and fifth respectively. Yorkshire & Humber was ranked third overall, but registered a modest 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 West Midlands PMI® is compiled by IHS Markit from responses to questionnaires sent to West 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 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.

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.

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.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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