

NatWest East Midlands PMI®

Business activity growth eases to slowest since July 2016

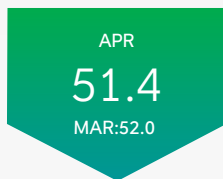
Key Findings

Marginal rises in output and new business

Inflationary pressures remain elevated

Business confidence picks up

East Midlands Business Activity Index



Last six months EM v UK



According to the NatWest East Midlands PMI®, output growth across the region eased in April. The rate of expansion was the softest since the referendum, but still posted above the UK average. Similarly, new business rose at a slower rate. The slowdown in client demand allowed firms to clear their backlogs and had the knock-on effect of reducing workforce numbers further. Meanwhile, inflationary pressures remained elevated, with the rate of output charge inflation accelerating to a 13-month high.

Survey respondents also registered the strongest degree of confidence since last November.

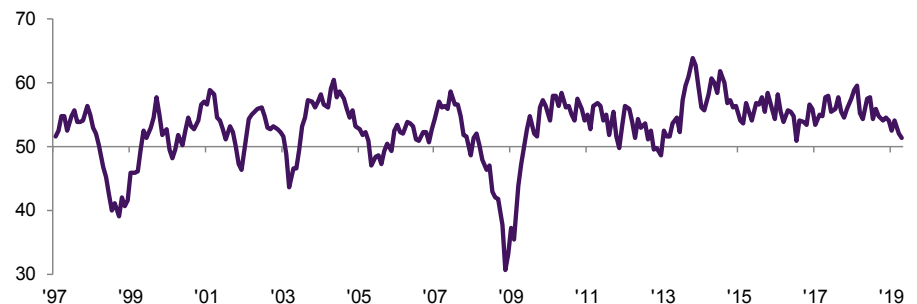
The headline East Midlands Business Activity Index – a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors – posted 51.4 in April, down slightly from 52.0 in March. The marginal expansion was the softest since July 2016 but was stronger than the UK average. Anecdotal evidence suggested the sustained rise in output was linked to continued stockpiling efforts among clients.

Demand

New business across the East Midlands private sector continued to increase in April. The upturn softened to a three-month low, but was in contrast to the slight contraction seen across the UK as a whole. The increase was linked to pre-Brexit stockpiling among domestic and foreign clients.

East Midlands Business Activity Index

sa, >50 = growth since previous month regionals



Prices

Price pressures across the East Midlands remained elevated in April. Input costs rose at a marked pace, despite the rate of inflation easing to a four-month low. Higher cost burdens were linked to increased wages and greater supplier prices.

Average output charges increased at a faster pace in April. The rate of inflation picked up to a 13-month high as firms sought to pass on higher cost burdens to clients. The pace of increase was the quickest of the 12 monitored UK regions.

Capacity

A lack of strain on capacity was reflected in a renewed fall in backlogs. The level of outstanding business declined fractionally as slower new business growth allowed firms to clear unfinished work.

At the same time, private sector firms cut staffing levels for the fourth month running in April. The fall was linked to redundancies and voluntary leavers not being replaced. The decline was faster than the UK average, albeit modest overall.

Outlook

Finally, business expectations towards the year ahead rose to a five-month high in April. Hopes of a swift resolution to Brexit and new product development drove greater confidence.

New Business Index

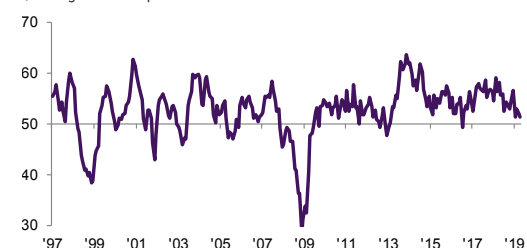


New business growth eases to 3-month low

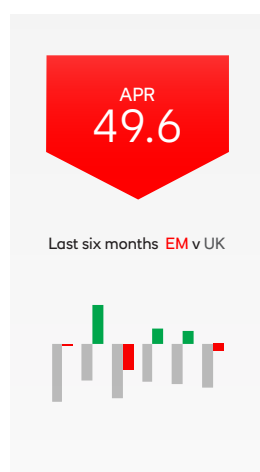
Private sector firms across the East Midlands signalled a further rise in new business in April. Manufacturing and service sector firms alike noted an expansion in new orders, with many continuing to link this to stockpiling at domestic and foreign clients. That said, the pace of the upturn was only marginal overall and softened to the slowest since February.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index

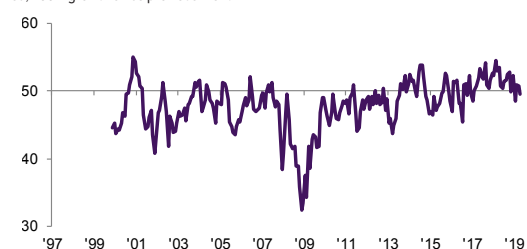


Backlogs of work contract in April

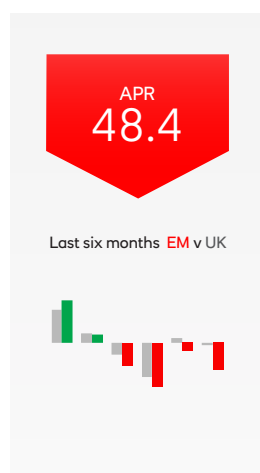
The level of outstanding business at firms operating in the East Midlands fell in April following back-to-back increases in February and March. The decrease was the joint-weakest of the 12 monitored UK regions. Although only marginal, panellists suggested that a slowdown in new order growth had allowed firms to clear backlogs.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

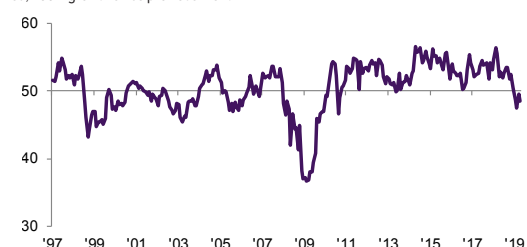


Workforce numbers continue to fall in April

Employment across the East Midlands contracted for the fourth successive month in April. Anecdotal evidence suggested the fall in staffing levels was due to more efficient business processes and slower new business growth which have led to redundancies and the non-replacement of voluntary leavers. The decrease in workforce numbers in the region was in contrast to broadly unchanged employment across the UK as a whole.

Employment Index

sa, >50 = growth since previous month



Input Prices Index

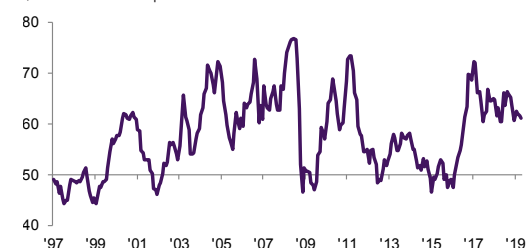


Input price inflation eases in April

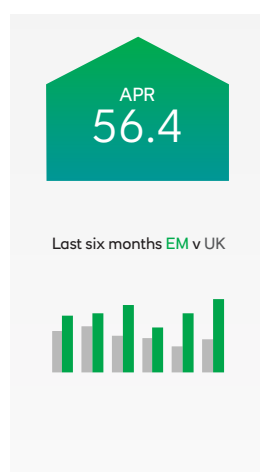
Average input prices paid by firms in the East Midlands continued to increase at a marked pace in April. The rate of inflation eased to the slowest in the year-to-date, but remained above the long-run series and UK averages. Panellists attributed the rise to higher wage costs and increased supplier prices.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index

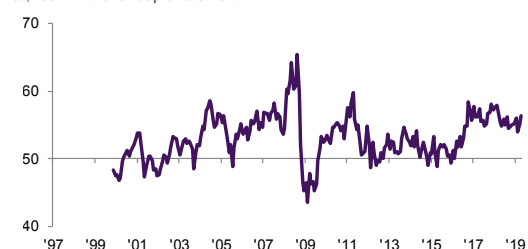


Output prices rise at sharp pace

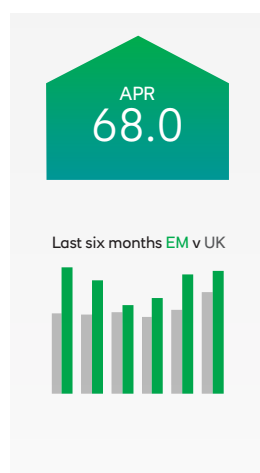
Private sector firms in the East Midlands registered a steep increase in selling prices in April. The pace of inflation picked up to the fastest for over a year, and was commonly linked to the pass-through of higher cost burdens to clients. Moreover, the rate of increase was the quickest of the 12 monitored UK regions.

Prices Charged Index

sa, >50 = inflation since previous month



Future Business Activity Index



Business expectations pick up to five-month high

Manufacturing and service sector firms across the East Midlands signalled a robust degree of confidence towards the outlook for output over the coming 12 months. The level of optimism increased to the highest since last November amid hopes for a swift resolution to Brexit uncertainty, increased marketing and new product development.

Future Business Activity Index

>50 = growth expected over next 12 months



East Midlands Export Climate Index

Note: Export markets are defined as non-UK.

APR
51.9

Last six months



Export conditions improve marginally in April

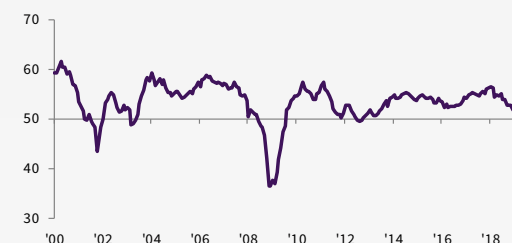
The East Midlands Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the East Midlands. This produces an indicator for the economic health of the region's export markets.

The East Midlands Export Climate Index posted 51.9 in April, unchanged from that seen in March, and signalled a slight improvement in export conditions. The marginal expansion was among the slowest since mid-2013, however.

All five key export markets indicated an upturn in activity. Germany and Singapore registered faster increases, with France signalling a renewed rise in output. Slower expansions in the US and Ireland, however, weighed on the overall improvement.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, East Midlands

Rank	Market	Weight	Output Index, Apr-19
1	Germany	14.9%	52.2
2	US	14.2%	53.0
3	France	10.9%	50.1
4	Singapore	7.5%	55.1
5	Ireland	7.5%	53.4

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, Apr-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	

45 50 55 60 65

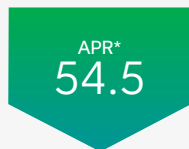
Services specialisation: East Midlands

Rank	Sector	LQ	UK Business Activity Index, Apr-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: Electronics & Electrical Equipment

Output Index



Last six months*



*3mma

PMI hints at potential slowdown in UK tech equipment sector in Q2

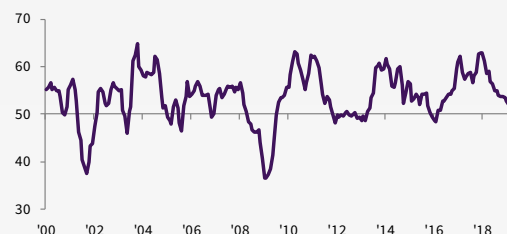
Latest PMI data highlighted the risk of a potential slowdown in the UK's electronics & electrical equipment sector after a solid opening quarter of the year.

Production in the sector continued to rise at a healthy rate in the three months to April, in part reflecting recent efforts by firms to stockpile goods in advance of the UK's expected exit from the EU. However, this masked a weaker underlying trend in demand, with inflows of new work falling for the first time in over three years amid a deepening decline in export sales that stretches back to last autumn.

With backlogs being depleted, firms reported the lowest optimism towards future output for six-and-a-half years. They also displayed an increasing reluctance to take on new staff, with the sector seeing its first net job losses since late-2009.

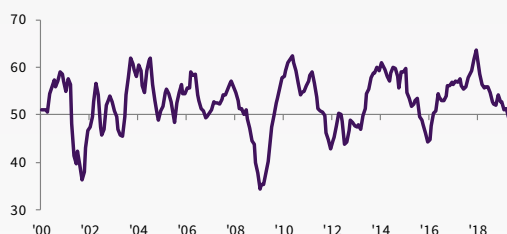
Output Index

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



New Orders Index

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



UK Regional Rankings


Business Activity

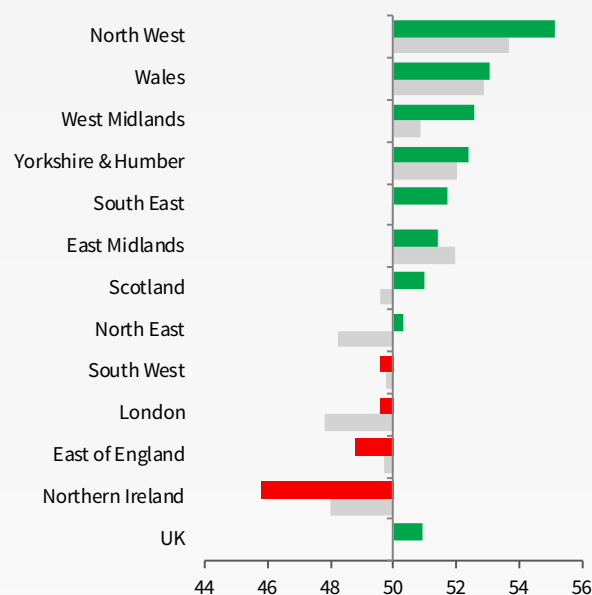
The North West continued to lead growth in business activity in April, with the region seeing its strongest pace of expansion for seven months. There were also faster increases in output in Wales, the West Midlands and Yorkshire & Humber, ranked second, third and fourth respectively, while the South East returned to growth after stagnating in March. The East Midlands, Scotland and the North East each saw modest rises in business activity, the latter ending a seven-month sequence of contraction. April saw marginal decreases in output across the South West and London. In the East of England and Northern Ireland, rates of contraction accelerated to the quickest since 2012.

Employment

The West Midlands topped the rankings for job creation in April, ahead of Scotland. The North West, Yorkshire & Humber and the South East meanwhile saw only modest increases in employment, and Wales broadly no change. Workforce numbers fell in all remaining areas, with Northern Ireland recording the steepest decline – its sharpest in six-and-a-half years.

Output Index by region

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



Contact

NatWest

Jonathan Rennie
Regional PR Manager
07769 932 102
jonathan.ennie@rbs.co.uk

IHS Markit

Siân Jones
Economist
+44 1491 461 017
sian.jones@ihsmarkit.com

Joanna Vickers
Corporate Communications
+44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

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.

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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.

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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