

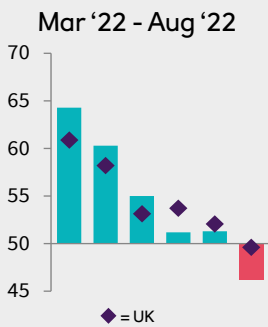


NatWest

# NatWest South West PMI®

## Business activity declines for first time in 18 months

### South West Business Activity Index



### Key findings

Output falls solidly amid steeper reduction in new orders

Employment expands at slowest rate for a year-and-a-half

Inflationary pressures cool, but remain marked overall

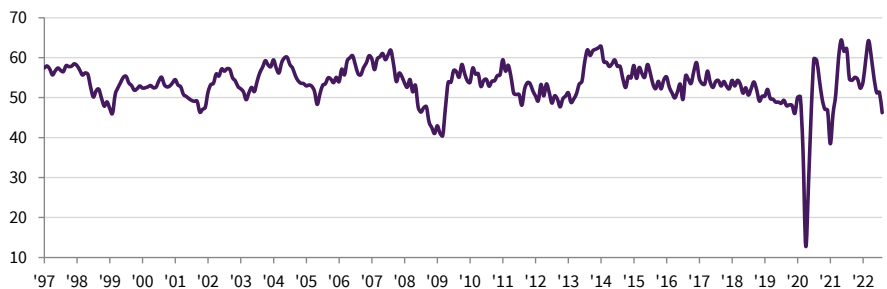
At 46.2 in August, the headline NatWest South West PMI® Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – fell from 51.3 in July and below the crucial 50.0 no-change threshold. The index reading signalled the first drop in business activity across the region for a year-and-a-half and one that was solid overall. A renewed fall in output was also seen at the national level, though the rate of decline was only marginal.

Paul Edwards, Chair, NatWest South West Regional Board, commented:

“South West private sector firms registered a renewed fall in business activity during August as sales dropped for the second month in a row. Firms often blamed the weaker business environment on sharply rising costs and fears that the economy is sliding into a recession, which has led clients to cut back on spending. As a result, employment growth near-stalled in August amid signs of spare capacity, while confidence around the outlook fell to its lowest on record. On a more positive note, weaker demand conditions are helping to ease overall inflationary pressures, with input costs rising at the slowest pace for 15 months and selling price inflation edging down to a six-month low. Underlying inflationary pressure reduced in August, but with energy prices continuing to rise this is a continued and growing source of concern for most businesses.”

South West Business Activity Index

sa, >50 = growth since previous month



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## About the South West PMI® report

The NatWest South West PMI® is compiled by S&P Global from responses to questionnaires sent to South West 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

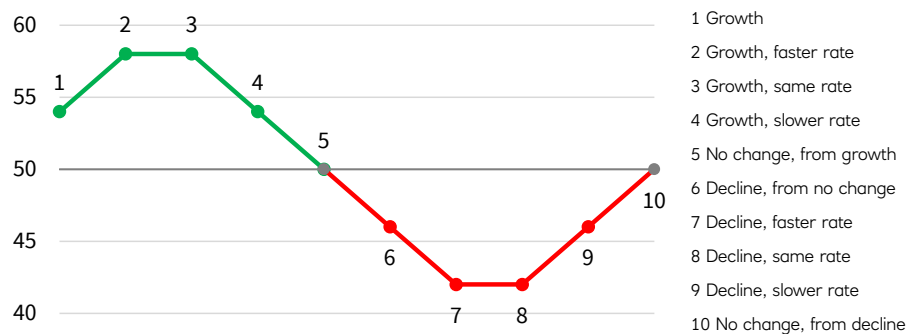
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New orders decline at quickest rate since January 2021

Private sector firms operating in the South West signalled a second successive monthly reduction in overall new work during August. Companies that registered lower sales often linked this to uncertainty around the economic outlook and subsequent cuts to client spending. The rate of decline was the quickest since January 2021 and solid. This contrasted with only a fractional drop in new business across the UK as a whole.

### Optimism towards the 12-month outlook slips to fresh record low

The Future Activity Index indicated that South West private sector firms were generally upbeat about the 12-month outlook for output in August. That said, the degree of positive sentiment slipped for the fourth month in a row and was the lowest seen since the series began ten years ago. Optimism also remained notably weaker than the UK-wide trend. While ongoing company expansion plans, increased investment and forecasts of rising customer demand were expected to support growth over the coming year, there were concerns that an economic slowdown and rising costs could dampen prospects.

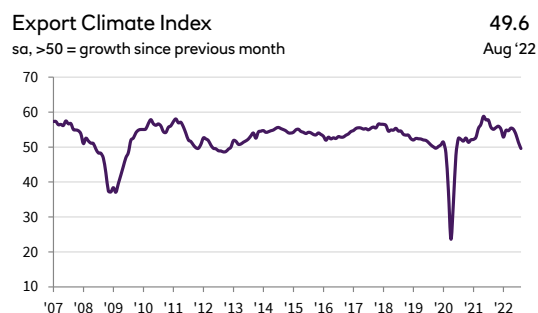
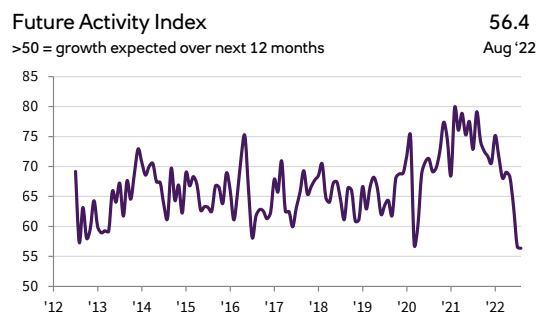
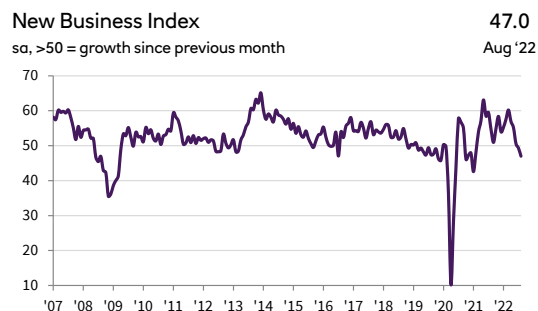
## Exports

### Export conditions deteriorate for first time in over two years

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

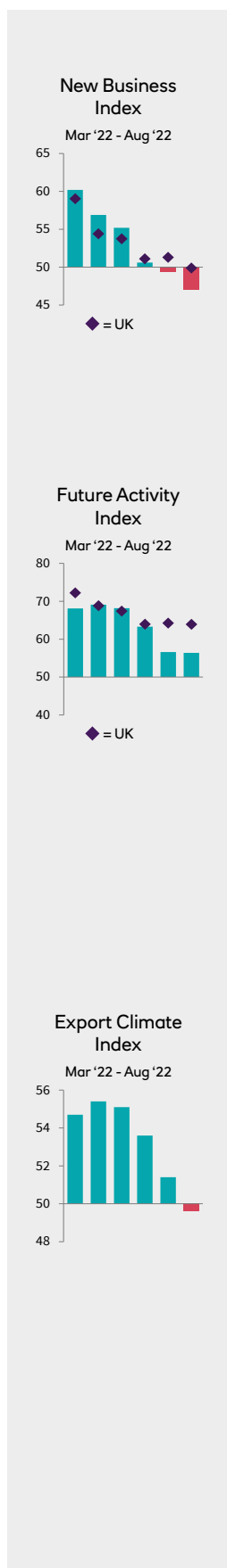
At 49.6 in August, the Export Climate Index fell from 51.4 in July to signal a renewed deterioration in export market conditions in August. Although only slight, it marked the first decline since June 2020.

The headline figure was partly dampened by steeper falls in business activity across the region's top two export markets; the US and Germany. At the same time, output growth weakened in France and Ireland. In contrast, activity continued to rise sharply in the UAE.



Top export markets, South West

Rank	Market	Weight	Output Index, Aug '22
1	USA	20%	44.6
2	Germany	11%	46.9
3	France	9%	50.4
4	UAE	4%	64.5
5	Ireland	4%	51.0

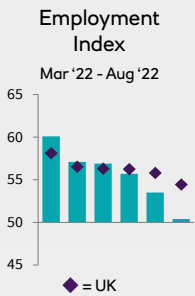
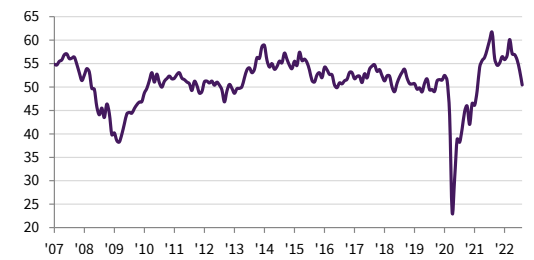


## Business capacity

### Staffing levels rise only slightly

Adjusted for seasonal variation, the Employment Index pointed to a notable slowdown in the rate of job creation across the South West private sector in August. Furthermore, employment rose at a marginal pace that was the weakest seen since the current period of expansion began 18 months ago. While some firms took on extra workers to help expand capacity, others mentioned difficulties replacing voluntary leavers and efforts to contain costs. Of the 12 monitored UK regions, only the North East registered a weaker performance in August, with a decline in headcounts.

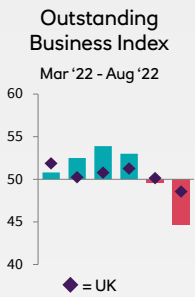
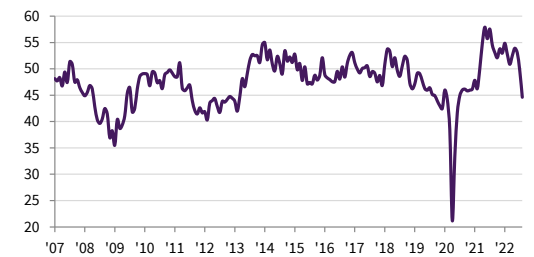
Employment Index 50.4  
 sa, >50 = growth since previous month Aug '22



### Sharpest decline in backlogs of work since June 2020

Latest survey data signalled a sharp and accelerated fall in outstanding business at South West private sector firms in August. Notably, the rate of backlog depletion was the quickest recorded since June 2020 and the second-steepest of all 12 UK regions (after the North East). Companies that registered lower amounts of unfinished work often attributed this to weaker inflows of new orders.

Outstanding Business Index 44.6  
 sa, >50 = growth since previous month Aug '22



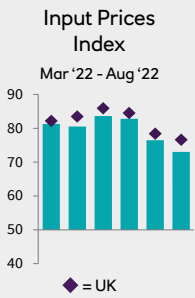
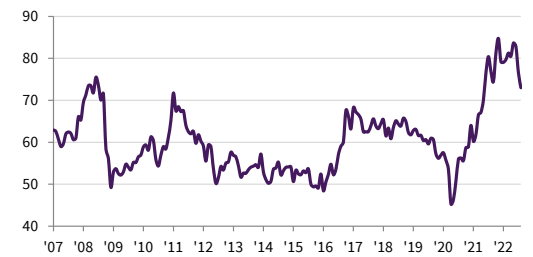


## Prices

### Input costs increase at slowest pace for 15 months

Average operating expenses faced by private sector companies in the South West rose for the twenty-seventh month running in August. Though rapid overall, the rate of inflation edged down to a 15-month low and was not quite as sharp as that seen at the national level. Higher costs for fuel, energy, wages and raw materials were all cited by panellists in the latest survey period.

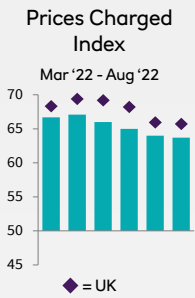
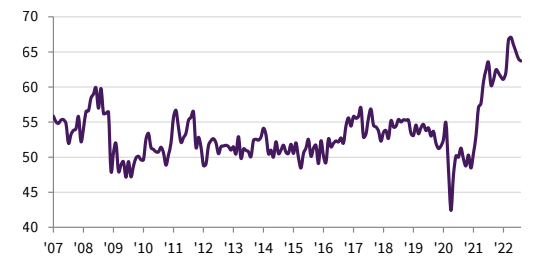
Input Prices Index  
sa, >50 = inflation since previous month  
73.0  
Aug '22



### Output price inflation edges down to six-month low

As has been the case since January 2021, South West private sector companies increased their output charges in August. The rate of inflation edged down to a six-month low, but was nevertheless among the quickest seen in the series history. Reports from panel members frequently mentioned partly passing on additional cost burdens to clients in the form of higher selling prices. Output charges also rose sharply across the UK as a whole, with the pace of inflation quicker than that seen in the South West.

Prices Charged Index  
sa, >50 = inflation since previous month  
63.7  
Aug '22



## UK Sector PMI

### Sector specialisation: South West

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

#### South West specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Aug '22*
1	Transport	1.50	50
2	Electrical & Optical	1.45	55
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	50
5	Basic Metals	0.90	50
6	Timber & Paper	0.86	45
7	Food & Drink	0.83	45
8	Textiles & Clothing	0.78	50
9	Chemicals & Plastics	0.67	45

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '22*
1	Hotels, Restaurants & Catering	1.42	50
2	Business-to-business Services	1.09	50
3	Personal & Community Services	0.98	55
4	Transport & Communication	0.88	50
5	Financial Intermediation	0.86	50
6	Computing & IT Services	0.69	60

## UK sector focus

### Timber & Paper

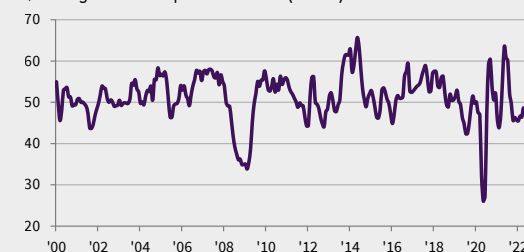
Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

### Employment

Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

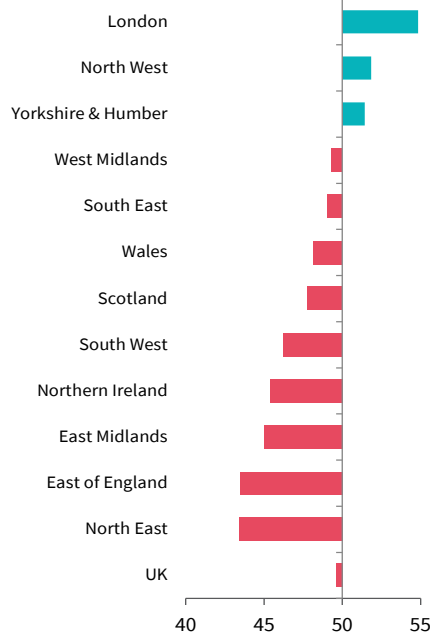
### Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland\* grew more pessimistic.

\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.

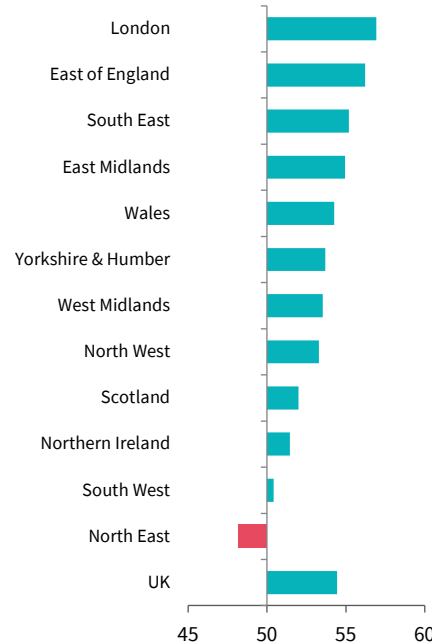
#### Business Activity Index

sa, >50 = growth since previous month, Aug '22



#### Employment Index

sa, >50 = growth since previous month, Aug '22



#### Future Activity Index

>50 = growth expected over next 12 months, Aug '22



## Index summary

### South West

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
Mar '22	64.3	60.2	54.7	68.1	60.1	50.8	81.3	66.7
Apr '22	60.3	56.9	55.4	69.1	57.1	52.5	80.5	67.1
May '22	55.0	55.2	55.1	68.2	56.9	53.9	83.6	66.0
Jun '22	51.2	50.6	53.6	63.3	55.7	53.0	82.8	65.0
Jul '22	51.3	49.3	51.4	56.6	53.5	49.6	76.5	64.0
Aug '22	46.2	47.0	49.6	56.4	50.4	44.6	73.0	63.7

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### About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, 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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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.

### 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.

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