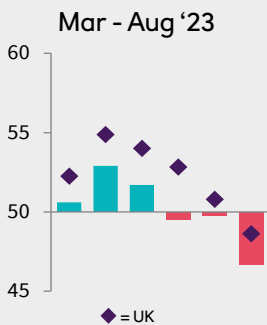


# NatWest South West PMI<sup>®</sup>

## Business conditions deteriorate at quicker pace in August

### South West Business Activity Index



### Key findings

Business activity and new orders both fall at steeper rates

Input cost inflation picks up to six-month high

Employment expands at softer pace

The headline NatWest South West PMI<sup>®</sup> 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 49.8 in July to 46.7 in August. This signalled a decline in business activity across the region for the third straight month, with the latest reduction the steepest recorded since last November. Business activity also fell across the UK as a whole during August, though the rate of contraction was only modest.

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

*"August PMI data pointed to a notable weakening of business conditions across the South West. Output and new orders both fell at the steepest rates for nine months, with firms often commenting that lingering economic uncertainty and increased borrowing costs had led to more cautious spending decisions among clients. At the same time, inflationary pressures remained stubbornly high, with the latest survey showing input costs rising at the quickest rate since February."*

*"On a more positive note, confidence around the 12-month outlook improved to its highest since March, with firms often hoping that the cost of living crisis will subside and that confidence and spending will recover. Furthermore, firms still added to their headcounts in August in anticipation of better times ahead."*

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

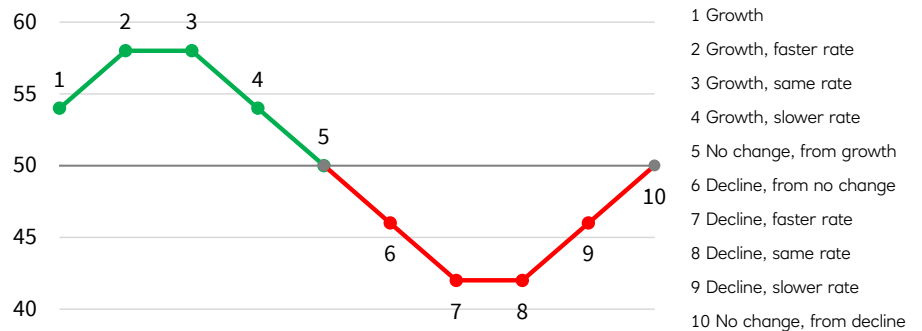
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Downturn in new orders gathers pace in August

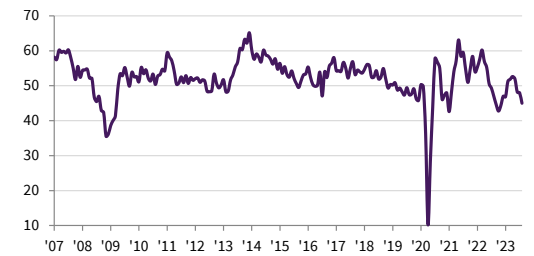
The amount of new work received by South West private sector companies declined for the third straight month in August. Notably, the rate of contraction was the steepest recorded since last November. Weaker economic conditions and higher interest rates reportedly led clients to adopt a more cautious approach to spending, according to panellists.

The South West saw the most pronounced drop in sales of all 12 monitored UK regions during August.

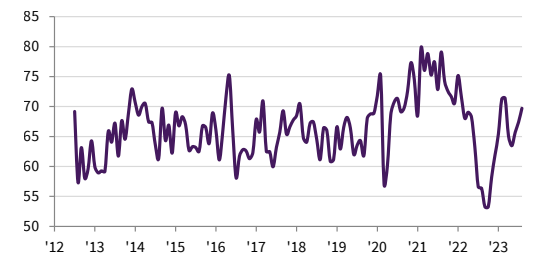
### Business confidence improves to five-month high

When assessing the 12-month outlook for business activity, South West private sector firms remained optimistic in August. Notably, the degree of positive sentiment improved to the highest in five months and exceeded the UK-wide average. Companies that anticipate output to increase generally linked this to hopes that economic conditions and consumer confidence will strengthen. There were also reports of new marketing strategies and investment in new projects.

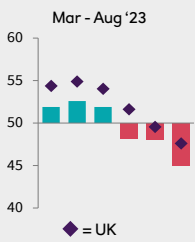
New Business Index  
sa, >50 = growth since previous month  
45.0  
Aug '23



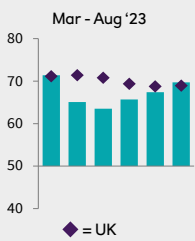
Future Activity Index  
>50 = growth expected over next 12 months  
69.7  
Aug '23



New Business Index



Future Activity Index



## Business capacity

### Employment Index



### Employment growth slows

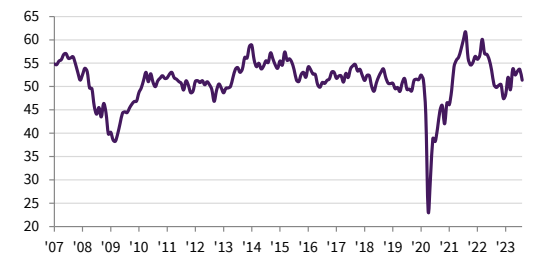
August survey data revealed a further increase in employment across the South West private sector. However, the rate of expansion eased to a modest pace that was the slowest seen over the current five-month sequence of job creation. Where higher headcounts were reported, firms often linked this to new projects and efforts to gear up for future growth.

Across the UK as a whole, staffing levels also expanded at a softer pace and one that remained weaker than that seen in the South West.

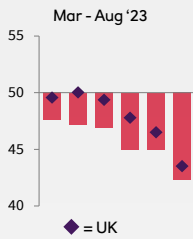
### Employment Index

sa, >50 = growth since previous month

51.4  
Aug '23



### Outstanding Business Index



### Backlogs of work fall at sharpest rate since June 2020

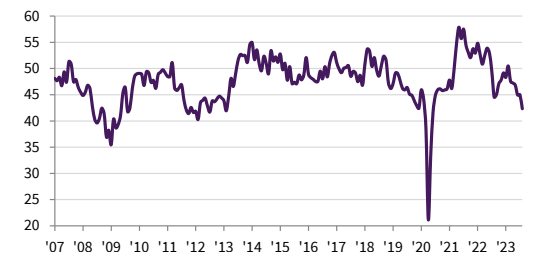
Outstanding workloads at private sector companies based in the South West declined again in August, thereby stretching the current period of reduction to six months. Notably, the rate of depletion quickened to a rapid pace that was the most pronounced since June 2020. Firms often commented that fewer new orders had underpinned the latest drop in backlogs.

At the national level, unfinished work also fell at an accelerated rate in August. However, the rate of depletion remained softer than that recorded in the South West.

### Outstanding Business Index

sa, >50 = growth since previous month

42.3  
Aug '23

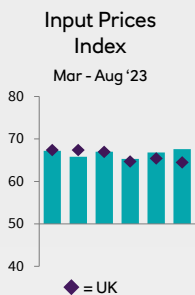
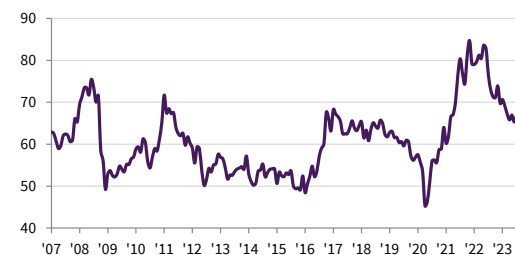


## Prices

### Input cost inflation inches up to six-month high

Adjusted for seasonal factors, the Input Prices Index posted above the neutral 50.0 level to signal a sustained increase in cost burdens faced by South West private sector firms in August. Furthermore, the rate of inflation edged up to the sharpest since February and was quicker than the UK-wide trend. Panellists often commented that a generally strong inflationary environment had pushed up costs, especially for staff.

Input Prices Index 67.6  
 sa, >50 = inflation since previous month Aug '23

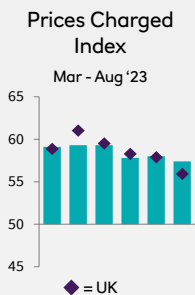
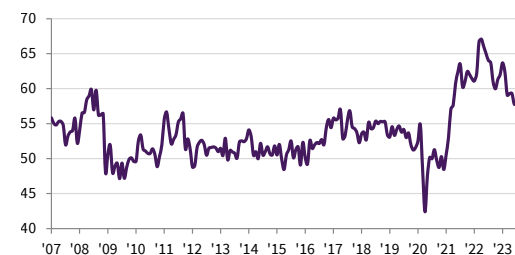


### Output charges increase at softest pace for 29 months

Higher costs were partly passed on to clients in the form of higher selling prices across the South West during August. While sharp and above the series average, the rate of output charge inflation was the softest seen in nearly two-and-a-half years.

Private sector companies in the South West increased their selling prices at a quicker pace than seen on average across the UK as a whole.

Prices Charged Index 57.4  
 sa, >50 = inflation since previous month Aug '23



## 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 '23* |
|------|------------------------|------|---------------------------|
| 1    | Transport              | 1.50 | 50                        |
| 2    | Electrical & Optical   | 1.45 | 45                        |
| 3    | Other Manufacturing    | 1.02 | 50                        |
| 4    | Mechanical Engineering | 0.99 | 50                        |
| 5    | Basic Metals           | 0.90 | 50                        |
| 6    | Timber & Paper         | 0.86 | 50                        |
| 7    | Food & Drink           | 0.83 | 50                        |
| 8    | Textiles & Clothing    | 0.78 | 50                        |
| 9    | Chemicals & Plastics   | 0.67 | 50                        |

#### South West specialisation: Services

| Rank | Sector                         | LQ   | UK Business Activity Index, Aug '23* |
|------|--------------------------------|------|--------------------------------------|
| 1    | Hotels, Restaurants & Catering | 1.42 | 45                                   |
| 2    | Business-to-business Services  | 1.09 | 50                                   |
| 3    | Personal & Community Services  | 0.98 | 50                                   |
| 4    | Transport & Communication      | 0.88 | 50                                   |
| 5    | Financial Intermediation       | 0.86 | 50                                   |
| 6    | Computing & IT Services        | 0.69 | 50                                   |

### UK sector focus

#### Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

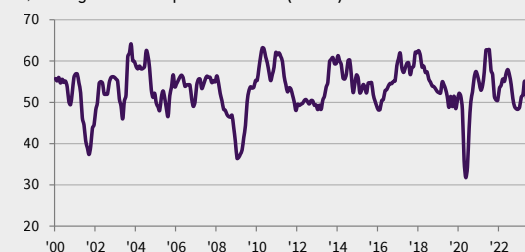
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland\*, followed by the South West.

### Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

### Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

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

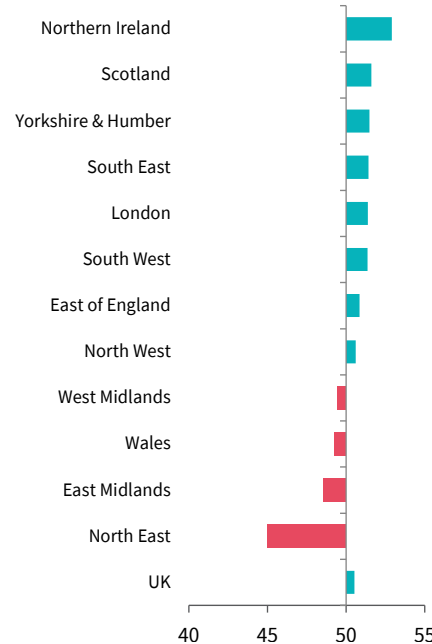
#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Aug '23



## 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 '23 | 50.6              | 51.9         | 53.2           | 71.4             | 49.3       | 47.6                 | 67.2         | 59.1           |
| Apr '23 | 52.9              | 52.6         | 53.8           | 65.1             | 53.8       | 47.2                 | 65.8         | 59.3           |
| May '23 | 51.7              | 51.9         | 53.4           | 63.5             | 52.5       | 46.9                 | 67.0         | 59.3           |
| Jun '23 | 49.5              | 48.2         | 52.0           | 65.7             | 53.3       | 45.0                 | 65.3         | 57.8           |
| Jul '23 | 49.8              | 48.0         | 51.3           | 67.4             | 53.7       | 45.0                 | 66.8         | 58.0           |
| Aug '23 | 46.7              | 45.0         | 50.2           | 69.7             | 51.4       | 42.3                 | 67.6         | 57.4           |

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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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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.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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