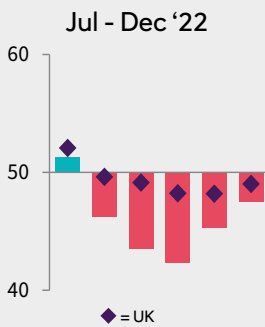


NatWest South West PMI®

Downturn in activity enters fifth month

South West Business Activity Index



Key findings

Contraction in activity softens amid weaker decline in new orders

Employment falls for first time in three months

Business expectations strengthen to six-month high

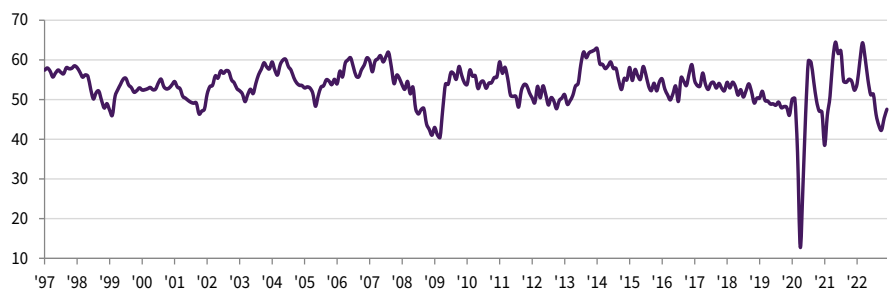
Latest survey data indicated a contraction in activity across the South West private sector in December. The headline NatWest South West PMI® Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – printed 47.5 in December, up from 45.3 in November. The latest reading indicated the slowest rate of decrease in the current five-month sequence of contraction, amid a softer reduction in new orders. That said, the downturn in business activity registered across the South West was the third-fastest across the 12 UK regions.

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

"The year ended with a continued reduction in business activity across the South West during December. Albeit the pace of decrease was softest in the five-month period of decrease, it signalled the ongoing worsening of the private sector as incoming new business fell for the sixth consecutive month, with firms also cutting back on staffing levels for the first time since September. The overall declining health of the sector reflected the fallback in demand as recession fears, inflation and the cost of living crisis dominated the economic environment for most part of the second-half of the year. The outlook for 2023 suggests ongoing challenging conditions across the private sector, but perhaps less so than previously expected, with the month on month improvement in business confidence giving at least one sign of slightly more optimism."

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

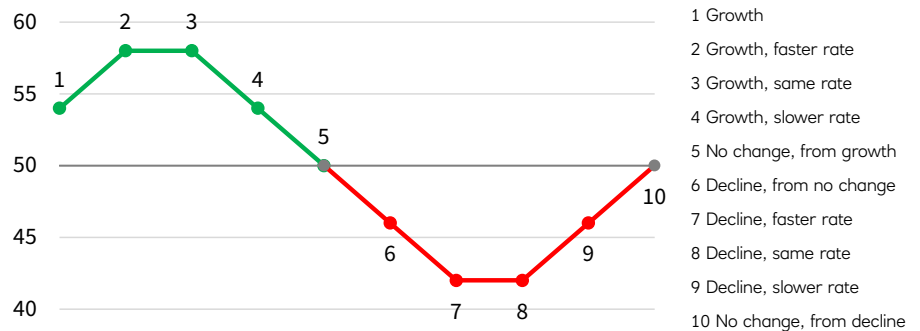
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

Solid fall in new business received during December

Private sector companies across the South West reported a fall in new business received for the sixth month running in December. While the rate of contraction eased for the second consecutive month from October's 21-month record, the drop in total new business was solid overall. Panellists reported a collapse in order intake amid a challenging economic environment, rising uncertainties and inflation.

At the UK level a contraction in incoming new business was also reported, but at a slightly weaker rate than that seen in the South West.

Business optimism strongest in six months

Following a second uptick in confidence, December data registered the strongest level of optimism among panellists since June. As per anecdotal evidence, plans for investment and hopes of a revival in demand underpinned growth expectations. Nonetheless, the degree of confidence across the South West printed weaker than the long-term and the UK-wide averages.

Exports

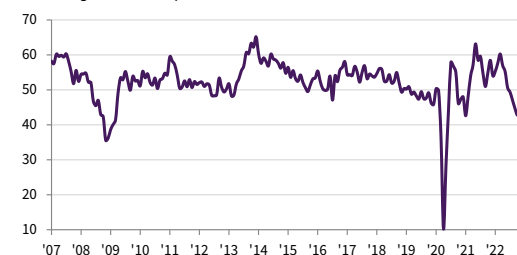
Export climate continues to deteriorate in December

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.

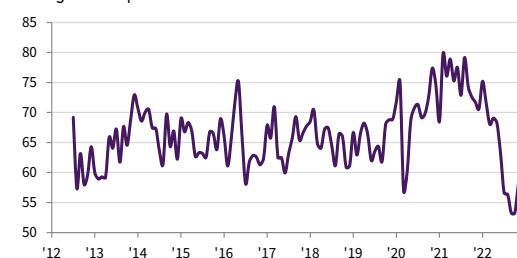
The Export Climate Index printed below the neutral 50.0 threshold for the third month running in December. At 49.0 in December, up from 48.8 in November, the uptick signalled a slightly softer contraction in output across export markets.

The top three export markets – the US, Germany and France – all registered lower output, led by the US. The next two-largest markets – the UAE and Ireland – both registered higher activity.

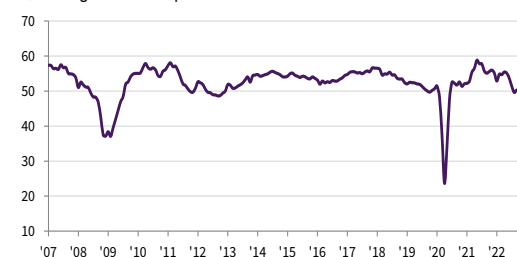
New Business Index
sa, >50 = growth since previous month
47.0
Dec '22



Future Activity Index
>50 = growth expected over next 12 months
61.9
Dec '22



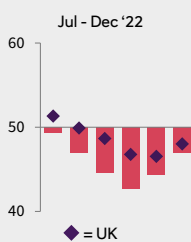
Export Climate Index
sa, >50 = growth since previous month
49.0
Dec '22



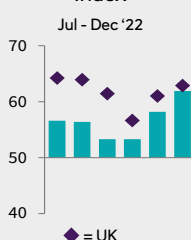
Top export markets, South West

Rank	Market	Weight	Output Index, Dec '22
1	USA	20%	45.0
2	Germany	11%	49.0
3	France	9%	49.1
4	UAE	4%	58.8
5	Ireland	4%	50.5

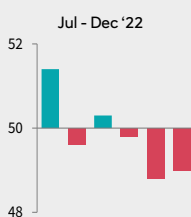
New Business Index
Jul - Dec '22



Future Activity Index
Jul - Dec '22

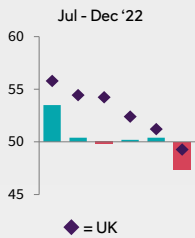


Export Climate Index
Jul - Dec '22



Business capacity

Employment Index



Headcounts fall solidly

Following two months of meagre expansions in employment, private sector firms pared back staffing levels in December. The rate of job shedding was the fastest since January 2021. Competition for labour amid skills and candidate shortages, and companies reluctant to replace any leavers due to economic uncertainty and falling demand, were partly blamed for the latest drop in employment.

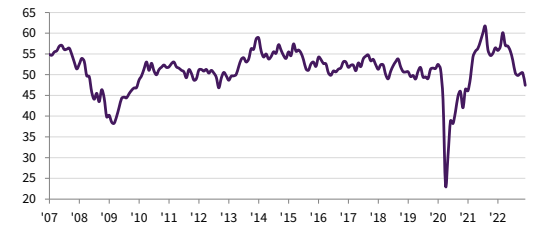
At the UK level employment also fell, and for the first time in 22 months, albeit at a softer pace than that seen across the South West.

Employment Index

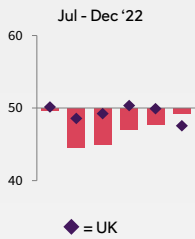
sa, >50 = growth since previous month

47.4

Dec '22



Outstanding Business Index



Outstanding work declines softly in December

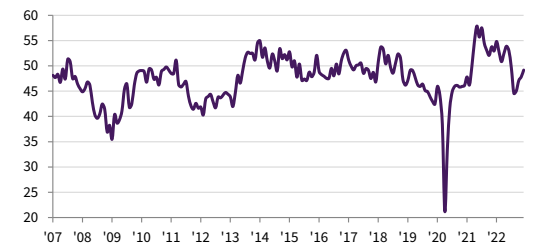
Outstanding levels of business contracted across the South West during December, thereby extending the run of decrease to six months. Lower levels of work allowed firms to work through existing orders. That said, the rate of backlog depletion was the weakest in the aforementioned sequence, and much slower than that seen at the UK level.

Outstanding Business Index

sa, >50 = growth since previous month

49.2

Dec '22



Prices

Input price inflation moderates to a 20-month low

December data revealed yet another rapid rise in input prices during December. While the pace of input price inflation moderated on the month to signal the weakest increase in expenses in 20 months, it remained historically elevated. Rise in wages, the cost of living crisis and inflation were largely attributed to the latest incline.

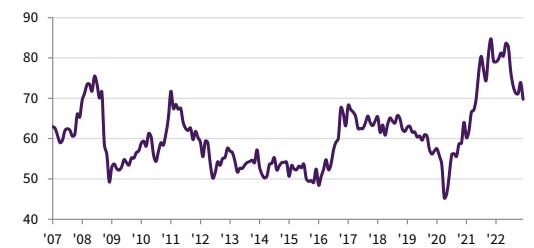
Despite registering a rapid increase in average cost burdens across the South West, it remained weaker than that seen at the UK level.

Input Prices Index

sa, >50 = inflation since previous month

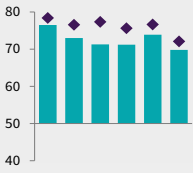
69.8

Dec '22



Input Prices Index

Jul - Dec '22



◆ = UK

Selling price rises at a faster pace in December

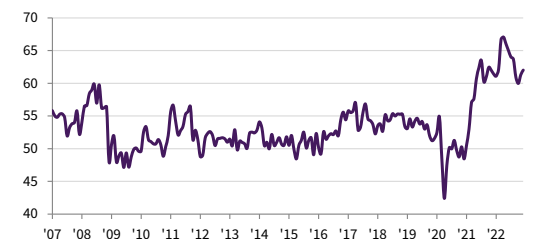
Latest survey data pointed to a rise in charges for the provision of goods and services across the South West in December, thereby extending the current run of charge inflation to two years. Adjusted for seasonality, the Prices Charged Index ticked-up for the second month running, with the latest reading highest in four months and above the survey-average. Firms attributed the rise in charges to higher costs linked to wages and rent. Some firms also revealed an updated price list for goods and services for the coming year.

Prices Charged Index

sa, >50 = inflation since previous month

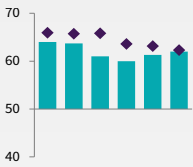
62.0

Dec '22



Prices Charged Index

Jul - Dec '22



◆ = UK



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, Dec'22*
1	Transport	1.50	50
2	Electrical & Optical	1.45	48
3	Other Manufacturing	1.02	48
4	Mechanical Engineering	0.99	52
5	Basic Metals	0.90	48
6	Timber & Paper	0.86	40
7	Food & Drink	0.83	52
8	Textiles & Clothing	0.78	48
9	Chemicals & Plastics	0.67	48

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '22*
1	Hotels, Restaurants & Catering	1.42	48
2	Business-to-business Services	1.09	48
3	Personal & Community Services	0.98	48
4	Transport & Communication	0.88	48
5	Financial Intermediation	0.86	48
6	Computing & IT Services	0.69	52

UK sector focus

Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

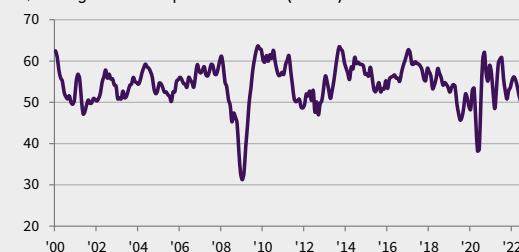
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

Employment

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

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

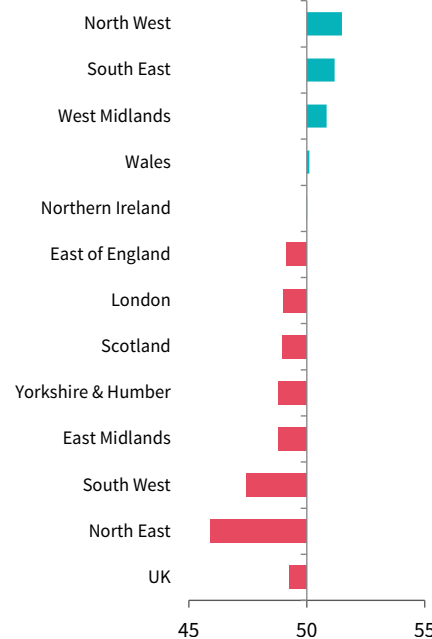
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Dec '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
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
Sep '22	43.5	44.6	50.3	53.3	49.8	45.0	71.3	61.0
Oct '22	42.3	42.7	49.8	53.3	50.2	47.1	71.2	60.0
Nov '22	45.3	44.3	48.8	58.2	50.4	47.8	73.9	61.3
Dec '22	47.5	47.0	49.0	61.9	47.4	49.2	69.8	62.0

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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.

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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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